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 2011

2011 INTERIM RESULTS HIGHLIGHTS

- Revenue was RMB4,289 million, decreased by 4.8%
- Earnings before interest, tax, depreciation and amortisation (EBITDA) was RMB568 million, decreased by 37.8%
- Profit attributable to equity holders was RMB294 million, decreased by 49.5%
- Basic earnings per share was RMB27.94 cents, decreased by 49.7%
- Declared an interim dividend of RMB11.13 cents per ordinary share
- Number of LI-NING brand retail stores reached 8,163, a net increase of 248 stores
- Continued driving proactive reforms and pressed ahead with important measures such as brand revitalisation and distribution channel reforms for LI-NING brand

INTERIM RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2011, together with comparative figures, as follows:

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2011** *RMB'000*	Audited As at 31 December 2010 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**740,423**	720,578
Land use rights		**376,045**	380,550
Intangible assets		**777,182**	814,080
Deferred income tax assets		**342,205**	297,860
Available-for-sale financial assets		**46,930**	46,930
Other receivables and prepayments		**111,508**	108,207
Total non-current assets		**2,394,293**	2,368,205
Current assets			
Inventories		**991,554**	805,598
Trade receivables	*4*	**1,352,961**	1,612,690
Other receivables and prepayments – current portion		**328,448**	302,819
Restricted bank deposits		**1,398**	2,045
Cash and cash equivalents		**1,647,975**	1,470,435
Total current assets		**4,322,336**	4,193,587
Total assets		**6,716,629**	6,561,792

	Note	Unaudited As at 30 June 2011 *RMB'000*	Audited As at 31 December 2010 *RMB'000*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**111,594**	111,364
Share premium		**311,027**	293,988
Shares held for the Restricted Share Award Scheme		**(64,456)**	(64,508)
Other reserves		**363,177**	346,647
Retained profits			
– Dividend declared/proposed	*11*	**117,496**	213,827
– Others		**2,648,983**	2,467,984
		3,487,821	3,369,302
Non-controlling interests in equity		**206,020**	190,080
Total equity		**3,693,841**	3,559,382
LIABILITIES			
Non-current liabilities			
License fees payable		**476,158**	482,936
Deferred income tax liabilities		**83,317**	85,508
Deferred income		**61,677**	62,324
Total non-current liabilities		**621,152**	630,768
Current liabilities			
Trade payables	*5*	**1,260,601**	1,190,960
Other payables and accruals		**544,202**	646,024
License fees payable – current portion		**88,069**	70,666
Current income tax liabilities		**36,624**	151,744
Borrowings		**472,140**	312,248
Total current liabilities		**2,401,636**	2,371,642
Total liabilities		**3,022,788**	3,002,410
Total equity and liabilities		**6,716,629**	6,561,792
Net current assets		**1,920,700**	1,821,945
Total assets less current liabilities		**4,314,993**	4,190,150

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June 2011 RMB'000	2010 RMB'000
Revenue	3	**4,289,303**	4,504,565
Cost of sales	6	**(2,260,168)**	(2,346,125)
Gross profit		**2,029,135**	2,158,440
Distribution costs	6	**(1,323,873)**	(1,107,963)
Administrative expenses	6	**(336,605)**	(324,508)
Other income – net	7	**73,629**	87,288
Operating profit		**442,286**	813,257
Finance income	8	**7,948**	4,042
Finance costs	8	**(38,371)**	(26,518)
Finance costs – net	8	**(30,423)**	(22,476)
Profit before income tax		**411,863**	790,781
Income tax expense	9	**(102,183)**	(197,700)
Profit for the period		**309,680**	593,081
Attributable to:			
Equity holders of the Company		**293,740**	581,566
Non-controlling interests		**15,940**	11,515
		309,680	593,081
Earnings per share for profit attributable to equity holders of the Company *(RMB cents)*			
– basic	10	**27.94**	55.58
– diluted	10	**27.79**	54.68
Dividends	11	**117,496**	232,626

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Profit for the period	**309,680**	593,081
Other comprehensive income:		
Currency translation differences	**1,707**	331
Total comprehensive income for the period	**311,387**	593,412
Attributable to:		
Equity holders of the Company	**295,447**	581,897
Non-controlling interests	**15,940**	11,515
	311,387	593,412

NOTES TO 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, manufacture, sale and distribution of sport-related footwear, apparel, equipment 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 Companies 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 Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated, and was approved for issue by the Board on 24 August 2011.

2. Basis of preparation and significant accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The following revised standards, amendments to standards and interpretation are mandatory for the first time for the financial year beginning 1 January 2011:

IFRS 1 (Amendment)	Limited exemption from comparative IFRS 7 disclosures for first-time adopters
IAS 24 (Revised)	Related Party Disclosures
IAS 32 (Amendment)	Classification of Rights Issue
IAS 34 (Amendment)	Interim financial reporting
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

In addition, the International Accounting Standards Board also issued a number of amendments to existing standards/interpretations of IAS 1, IAS 27, IFRS 1, IFRS 3, IFRS 7 and IFRIC 13 effective 1 January 2011 under its annual improvement projects.

The adoption of the above does not have any impact to the results and financial position of the Group for the six months ended 30 June 2011.

3. Revenue and segment information

Management reviews the Group's internal reports periodically in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

Management considers the business from a brand perspective. The Group has four reportable segments as follows, LI-NING brand, Double Happiness brand, Lotto brand and all other brands segments. Management assesses the performance of the operating segments based on operating profit. Segment information provided to management for decision making is measured in a manner consistent with that in the financial statements.

Revenue consists of sales from LI-NING brand, Double Happiness brand, Lotto brand and all other brands, which are RMB3,895,453,000, RMB259,779,000, RMB53,995,000 and RMB80,076,000 for the six months ended 30 June 2011 respectively and RMB4,133,855,000, RMB236,202,000, RMB47,336,000 and RMB87,172,000 for the six months ended 30 June 2010 respectively.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to management is measured in a manner consistent with that in the consolidated income statement.

The segment information provided to the management for the reportable segments for the six months ended 30 June 2011 and 2010 is as follows:

	LI-NING brand *RMB'000*	Double Happiness brand *RMB'000*	Lotto brand *RMB'000*	All other brands *RMB'000*	Total *RMB'000*
Six months ended 30 June 2011					
Total revenue	**3,895,453**	**262,196**	**76,112**	**97,110**	**4,330,871**
Inter-segment revenue	**–**	**(2,417)**	**(22,117)**	**(17,034)**	**(41,568)**
Revenue from external customers	**3,895,453**	**259,779**	**53,995**	**80,076**	**4,289,303**
Operating profit/(loss)	**470,284**	**47,629**	**(60,163)**	**(15,464)**	**442,286**
Distribution costs and administrative expenses	**1,468,972**	**61,235**	**77,335**	**52,936**	**1,660,478**
Depreciation and amortisation	**102,630**	**8,885**	**10,235**	**3,977**	**125,727**
Six months ended 30 June 2010					
Total revenue	4,133,855	236,474	83,112	103,911	4,557,352
Inter-segment revenue	–	(272)	(35,776)	(16,739)	(52,787)
Revenue from external customers	4,133,855	236,202	47,336	87,172	4,504,565
Operating profit/(loss)	833,092	35,757	(52,719)	(2,873)	813,257
Distribution costs and administrative expenses	1,269,857	55,654	73,379	33,581	1,432,471
Depreciation and amortisation	73,880	11,813	10,051	3,603	99,347

A reconciliation of operating profit to profit before income tax is provided as follows:

	Unaudited Six months ended 30 June	
	2011 *RMB'000*	2010 *RMB'000*
Operating profit	**442,286**	813,257
Finance income	**7,948**	4,042
Finance costs	**(38,371)**	(26,518)
Profit before income tax	**411,863**	790,781

Geographical information of revenue

	Unaudited Six months ended 30 June	
	2011 *RMB'000*	2010 *RMB'000*
The PRC (including the Hong Kong Special Administrative Region)	**4,198,004**	4,433,096
Other regions	**91,299**	71,469
Total	**4,289,303**	4,504,565

Revenue by geographical location is determined on the basis of destination of shipment/delivery.

The Group has a large number of customers. For the six months ended 30 June 2011 and 2010, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. **Trade receivables**

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
Accounts receivable	**1,332,331**	1,613,155
Notes receivable	**25,239**	917
	1,357,570	1,614,072
Less: provision for impairment of receivables	**(4,609)**	(1,382)
	1,352,961	1,612,690

Customers are normally granted credit terms within 90 days. As at 30 June 2011, trade receivables that were neither past due nor impaired amounted to RMB1,200,356,000 (31 December 2010: RMB1,455,532,000). Trade receivables that were past due but not impaired amounted to RMB152,605,000 (31 December 2010: RMB157,158,000) which relate to a number of independent customers for whom there is no recent history of default and with outstanding receivables aged from 91 to 180 days as at 30 June 2011.

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

	Unaudited 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
0 – 30 days	**586,566**	813,082
31 – 60 days	**291,762**	344,873
61 – 90 days	**322,028**	297,577
91 – 180 days	**152,605**	157,158
181 – 365 days	**4,575**	387
Over 365 days	**34**	995
	1,357,570	1,614,072

As at 30 June 2011, trade receivables of RMB4,609,000 (31 December 2010: RMB1,382,000) were impaired on 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.

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 30 June 2011 *RMB'000*	Audited 31 December 2010 *RMB'000*
0 – 30 days	**593,651**	892,826
31 – 60 days	**513,476**	275,566
61 – 90 days	**127,087**	11,282
91 – 180 days	**16,553**	5,215
181 – 365 days	**4,480**	3,347
Over 365 days	**5,354**	2,724
	1,260,601	1,190,960

6. **Expenses by nature**

	Unaudited Six months ended 30 June 2011 RMB'000	2010 RMB'000
Cost of inventories recognised as expenses included in cost of sales	**2,128,115**	2,213,226
Depreciation on property, plant and equipment *(Note a)*	**76,064**	49,861
Amortisation of land use rights and intangible assets	**49,663**	49,486
Advertising and marketing expenses	**683,802**	595,394
Director and employee benefit expenses	**373,691**	344,957
Operating lease rentals in respect of land and buildings	**259,071**	163,248
Research and product development expenses *(Note a)*	**112,609**	111,353
Transportation and logistics expenses	**79,495**	76,595
Provision for impairment charge of trade receivables	**3,227**	4,266
Write-down of inventories to net realisable value	**41,311**	43,463
Auditor's remuneration	**2,205**	2,205
Management consulting expenses	**26,925**	32,360
Travelling and entertainment expenses	**62,102**	59,504

Note:

(a) Research and product development expenses include depreciation on property, plant and equipment in the Research & Development Department, which are also included in depreciation expense as disclosed above.

7. **Other income – net**

	Unaudited Six months ended 30 June 2011 RMB'000	2010 RMB'000
Government grants	**77,984**	87,288
License fee income	**2,013**	–
Others	**(6,368)**	–
	73,629	87,288

8. **Finance income and costs**

	Unaudited Six months ended 30 June 2011 RMB'000	2010 RMB'000
Interest income on bank balances and deposits	**2,678**	4,042
Net foreign currency exchange gain	**5,270**	–
Finance income	**7,948**	4,042
Amortisation of discount – license fees payable	**(20,105)**	(20,558)
Interest expense on bank borrowings	**(13,365)**	(1,727)
Net foreign currency exchange loss	**–**	(1,579)
Others	**(4,901)**	(2,654)
Finance costs	**(38,371)**	(26,518)
Finance costs – net	**(30,423)**	(22,476)

9. Income taxes

	Unaudited Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax	**2,309**	850
– The PRC corporate income tax	**137,310**	173,964
– Withholding income tax on dividends distributed from subsidiaries in PRC	**9,100**	2,000
	148,719	176,814
Deferred income tax		
– Withholding income tax on undistributed profits from subsidiaries in PRC	**–**	5,270
– Origination and reversal of other temporary difference	**(46,536)**	15,616
	(46,536)	20,886
	102,183	197,700

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 the Restricted Share Award Scheme during the period.

	Unaudited Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**293,740**	581,566
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme *(in thousands)*	**1,051,224**	1,046,364
Basic earnings per share *(RMB cents)*	**27.94**	55.58

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 the 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	
	2011	2010
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**293,740**	581,566
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,051,224**	1,046,364
Adjustment for share options and awarded shares *(in thousands)*	**5,791**	17,236
Weighted average number of ordinary shares for diluted earnings per share *(in thousands)*	**1,057,015**	1,063,600
Diluted earnings per share *(RMB cents)*	**27.79**	54.68

11. Dividends

The final dividend for the year ended 31 December 2010 amounting to RMB209,072,000 (31 December 2009: RMB235,895,000) was paid in May 2011.

In addition, an interim dividend of RMB11.13 cents per ordinary share for the six months ended 30 June 2011 (30 June 2010: RMB22.15 cents) was declared by the Board on 24 August 2011. It is payable on or around 23 September 2011 to shareholders whose names appear on the Company's register of members on 16 September 2011. This interim dividend, amounting to RMB117,496,000 (30 June 2010: RMB232,626,000), 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 2011.

12. Subsequent events

On 15 July 2011, the Board (a) granted options to directors of the Company and senior management staff of the Group to subscribe for a total of 6,699,190 ordinary shares of the Company at an exercise price of HK$9.896 per share pursuant to the Share Option Scheme; and (b) awarded 1,647,140 shares to managerial staff of the Group under the Restricted Share Award Scheme.

Both these options and awarded shares are subject to a vesting scale in tranches of one-third each on 1 July 2012, 1 July 2013 and 1 July 2014 respectively with their respective fair values charged to the consolidated income statement over the above vesting period.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB11.13 cents per ordinary share for the six months ended 30 June 2011 (2010: RMB22.15 cents). The interim dividend will be paid in Hong Kong Dollars based on the rate of HK$1.00 = RMB0.81953, being the middle exchange rate of Hong Kong Dollars against Renminbi as quoted by the People's Bank of China as at the date of this announcement. The dividend will be paid on or around 23 September 2011 to shareholders whose names appear on the register of members of the Company on 16 September 2011.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the interim dividend, the register of members of the Company will be closed from Thursday, 15 September 2011 to Friday, 16 September 2011 (both days inclusive), during which no transfer of shares of the Company 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, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 14 September 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

China's economy continued to record stable growth in the first half of 2011, albeit at a slower rate than the same period last year. The role of investment in driving the country's GDP abated somewhat as macroeconomic policies such as measures to cool the property market were launched, but it yet remained a key driver for the economic growth. As recovery of the global economy was slow, the growth of China's export saw steady deceleration as compared to earlier in the year. Consumer Price Index reached a record high, while the actual social consumption saw slower growth than the same period of 2010.

The sporting goods industry in China continued to show double-digit growth, however, it has also experienced changes that are marked by consumers' increasing awareness towards branding and sports functionality. At the same time, rising costs have inflicted far-reaching impacts on the overall structure of the industry and have had a profound influence on different segments of the industry value chain. On the other hand, competition within the industry continues to intensify and the overall competitive landscape is shifting. The Group believes that the industry will undergo transformation in the next two to three years.

The Group has always adhered to its core strategy and mission – focussing on branding and product innovation and competing on differentiation. Through our focus on the essence of sports, we inspire people's desire and power to make breakthroughs. In view of the industry environment, the Group continued reviewing external changes against its development strategies and adjusting the implementation of its strategies. The Group has proactively introduced key measures, including brand revitalisation as well as distribution channel reforms, so that it would be in a position to better adapt to the industry development trend while fulfilling the Group's growth objectives at different stages.

The Group is currently in the early stages of this reform process. Change cannot be achieved within a short period of time and we have anticipated that there will be short-term pain during the reform process in the next two to three years. Consistent with its constant communications with investors since January this year, the management has envisaged that, in the near term future, the Group's operating performance and financial indicators will both be affected. More importantly, throughout the reform process, the management has been analysing and reviewing the situation on an ongoing basis in order to adjust and improve on its execution plan, which will lead the Group into a healthier development track.

FINANCIAL REVIEW

Performance of the key operating and financial indicators of the Group for the six months ended 30 June 2011 are set out below:

	Unaudited Six months ended 30 June **2011**	2010	Change (%)
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**4,289,303**	4,504,565	**(4.8)**
Gross profit	**2,029,135**	2,158,440	**(6.0)**
Operating profit	**442,286**	813,257	**(45.6)**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 1)*	**568,013**	912,604	**(37.8)**
Profit attributable to equity holders	**293,740**	581,566	**(49.5)**
Basic earnings per share *(RMB cents) (Note 2)*	**27.94**	55.58	**(49.7)**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**47.3**	47.9	
Operating profit margin *(%)*	**10.3**	18.1	
Effective tax rate *(%)*	**24.8**	25.0	
Margin of profit attributable to equity holders *(%)*	**6.8**	12.9	
Return on equity holders' equity *(%)*	**8.6**	20.3	
Expenses as a % of revenue			
Director and employee benefits expenses *(%)*	**8.7**	7.7	
Advertising and marketing expenses *(%)*	**15.9**	13.2	
Research and product development expenses *(%)*	**2.6**	2.5	
Asset efficiency			
Average inventory turnover *(days) (Note 3)*	**72**	48	
Average trade receivables turnover *(days) (Note 4)*	**63**	48	
Average trade payables turnover *(days) (Note 5)*	**91**	70	

	Unaudited 30 June 2011	Audited 31 December 2010
Asset ratios		
Debt-to-equity ratio *(%) (Note 6)*	**86.7**	89.1
Interest-bearing debt-to-equity ratio *(%) (Note 7)*	**13.5**	9.3
Net asset value per share *(RMB cents)*	**350.92**	339.04

Notes:

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the total sum of net profit, income tax, finance costs, depreciation of property, plant and equipment, and amortisation of intangible assets and land use rights.

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

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

4. 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 period.

5. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables divided by total purchases and multiplied by the number of days in the period.

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

7. The calculation of interest-bearing debt-to-equity ratio is based on total interest-bearing bank borrowings divided by the share capital and reserves attributable to equity holders of the Company at the end of the period.

* *The aforesaid indicators provided by the Group may not necessarily be the same in terms of calculation methods as those provided by other issuers.*

Revenue

The Group's revenue for the six months ended 30 June 2011 amounted to RMB4,289,303,000, representing a decrease of 4.8% as compared to the corresponding period last year.

Revenue breakdown by brand and product category

	Six months ended 30 June				
	2011		2010		**Revenue**
		% of total		% of total	**change**
	RMB'000	**revenue**	*RMB'000*	revenue	**(%)**
LI-NING brand					
Footwear	**1,648,975**	**38.4**	1,843,504	40.9	**(10.6)**
Apparel	**1,991,130**	**46.4**	2,036,036	45.3	**(2.2)**
Equipment/accessories	**255,348**	**6.0**	254,315	5.6	**0.4**
Total	**3,895,453**	**90.8**	4,133,855	91.8	**(5.8)**
Double Happiness brand					
Total	**259,779**	**6.0**	236,202	5.2	**10.0**
Lotto brand					
Total	**53,995**	**1.3**	47,336	1.1	**14.1**
Other brands*					
Total	**80,076**	**1.9**	87,172	1.9	**(8.1)**
Total	**4,289,303**	**100.0**	4,504,565	100.0	**(4.8)**

* *Including AIGLE, Z-DO and Kason.*

The Group's core brand, the LI-NING brand, generated revenue of RMB3,895,453,000, which accounted for 90.8% of the Group's total revenue, representing a decrease of 5.8% as compared to the corresponding period last year. Among the different product categories, revenue from equipment products generally remained flat while that from other product categories recorded declines. The current environment of the China sporting goods industry is highly competitive with increasing costs for labour and rentals. The profit margin shrink experienced in the retail end has exerted greater operating pressure on the distributors. In the first half of 2011, forward orders of LI-NING brand remained flat due to the competition in the retail market and the distribution channel reform strategy initiated by the Group. In order to give effective support to the distributors, the Group raised the discount rates to the distributors as well as further improved the retail efficiency management of the distribution market in order to ensure the profitability and the continuing operating ability of the distributors. Moreover, in the first half of 2011, the Group bought back a portion of outdated stock from distributors in order to speed up the clearance of stock at the retail level.

Among the various brands under the Group, Double Happiness brand remained a steady growth rate of 10.0%. With the increasing brand recognition, revenue of Lotto brand increased by 14.1% as compared to the same period last year. As for other brands, AIGLE brand products have gradually exemplified their value advantage, resulting in a significant increase in revenue as compared to the same period last year. Z-DO brand products, however, recorded a relatively large decline in revenue, resulting in an overall decrease in revenue generated from other brands. The Group is adjusting the product line of Z-DO brand so as to better suit the needs of consumers in the hypermarkets.

Percentage of revenue of LI-NING brand by sales channel

	Six months ended 30 June		
	2011	2010	
	% of revenue LI-NING brand	% of revenue LI-NING brand	**Change (%)**
LI-NING brand			
PRC market			
Sales to franchised distributors	**79.2**	85.2	**(6.0)**
Sales by directly-operated retail stores	**19.1**	13.7	**5.4**
International markets	**1.7**	1.1	**0.6**
Total	**100.0**	100.0	

With the decrease in revenue generated from sales to franchised distributors and increase in revenue generated from directly-operated retail stores, revenue generated from sales to franchised distributors of LI-NING brand as a percentage to total revenue dropped.

Revenue breakdown of LI-NING brand by geographical location

		Six months ended 30 June				
		2011		2010		
			% of revenue of LI-NING		% of revenue of LI-NING	**Revenue change**
	Note	***RMB'000***	**brand**	*RMB'000*	brand	**(%)**
LI-NING brand						
PRC market						
Eastern region	*1*	**1,358,200**	**34.9**	1,545,160	37.4	**(12.1)**
Northern region	*2*	**1,698,846**	**43.6**	1,808,186	43.7	**(6.0)**
Southern region	*3*	**772,893**	**19.8**	733,671	17.7	**5.3**
International markets		**65,514**	**1.7**	46,838	1.2	**39.9**
Total		**3,895,453**	**100.0**	4,133,855	100.0	**(5.8)**

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, Hong Kong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

The sales growth in the southern region of the PRC was mainly due to the early implementation of distribution channel reform that some progress has been seen. The Group is in the process of further implementing the structural reform of the sales regions and enhancing the regional product life cycle management in order to boost sales growth in different regions.

During the period, the Group continued to explore new channels in international markets such as Southeast Asia, resulting in a comparatively large increase in revenue from LI-NING brand in the international markets as compared to the same period last year.

Cost of Sales and Gross Profit

For the six months ended 30 June 2011, overall cost of sales for the Group amounted to RMB2,260,168,000 (2010: RMB2,346,125,000), and overall gross profit margin was 47.3% (2010: 47.9%). The decrease in overall gross profit margin as compared to the corresponding period in 2010 was mainly due to the increase in the overall discount rates to distributors and the acceleration of old product inventory clearance during the period.

Cost of sales of LI-NING brand amounted to RMB2,029,826,000 (2010: RMB2,117,886,000), and gross profit margin was 47.9% (2010: 48.8%). The decrease in gross profit margin of LI-NING brand for the period was attributable to the increase in overall discount rates to the distributors, the acceleration of discount clearance conducted on the old product inventories of LI-NING brand, as well as the continued rising costs for raw materials and labour of the upstream suppliers in the industry during the period.

Cost of sales of Double Happiness brand amounted to RMB150,915,000 (2010: RMB145,099,000), and gross profit margin was 41.9% (2010: 38.6%). The increase in gross profit margin of the Double Happiness brand as compared to the same period last year was mainly attributable to the continued realignment and optimisation of product structure together with more reasonable pricing which therefore offset the adverse effects caused by the rising labour and raw materials costs during the period.

Cost of sales of Lotto brand amounted to RMB36,823,000 (2010: RMB26,675,000), and the gross profit margin was 31.8% (2010: 43.6%). During the period, continued rising costs of raw materials and labour of the upstream suppliers in the industry, the increase in overall discount rates to the distributors, the speeding up efforts in inventory clearance and increase in retail sales discounts resulted in a decrease in gross profit margin.

Distribution Costs

For the six months ended 30 June 2011, the Group's overall distribution costs amounted to RMB1,323,873,000 (2010: RMB1,107,963,000), accounting for 30.9% of the Group's total revenue (2010: 24.6%).

Distribution costs of LI-NING brand amounted to RMB1,177,830,000 (2010: RMB978,713,000), which accounted for 30.2% of the LI-NING brand's revenue (2010: 23.7%). The distribution costs as a percentage to revenue during the period increased 6.5 percentage points as compared to the same period last year, mainly due to the increased proportion of advertising and marketing expenses and rental expense. Despite the decrease in sales revenue during the period, the Group continued to put efforts to brand promotion such that advertising and marketing expenses of LI-NING brand amounted to RMB621,491,000 (2010: RMB527,267,000), representing an increase of 17.9% as compared to the same period last year, and an increase of 3.2 percentage points in percentage to revenue of LI-NING brand as compared to the same period last year. During the first half year of 2010, due to the marketing campaign for the LI-NING brand revitalisation and marketing activities for events such as the Guangzhou Asian Games in the second half year, the Group strategically allocated the major resources of advertising and marketing expenses to the second half year, resulting in a relatively low advertising and marketing expenses in the corresponding period of last year. During the period, the relatively intensive advertising on the brand and product promotions led to a significant increase in advertising and sponsorship expenses as compared to the same period last year. In addition, the percentage of rental expenses to revenue of LI-NING brand increased 2.4 percentage points as compared to the same period last year, mainly due to the rise in unit rental cost and increase in the number of directly-operated stores which in turn resulted in increase in the number of sales staff in retail stores and therefore the percentage of salaries and benefits of sales staff to revenue of LI-NING brand also increased. Depreciation expenses, sundry expenses etc remained stable. As a result of all these factors, the overall percentage of distribution costs of LI-NING brand to revenue of LI-NING brand increased as compared to the same period in 2010.

Distribution costs of Double Happiness brand amounted to RMB31,855,000 (2010: RMB31,216,000), which accounted for 12.3% of Double Happiness brand's revenue and was 0.9 percentage points below the 13.2% recorded in the same period in 2010. With the growth in its revenue, the distribution costs of Double Happiness brand remained stable. Such economies of scale led to decrease in proportion of the distribution costs as a percentage of revenue.

Distribution costs of Lotto brand amounted to RMB72,480,000 (2010: RMB71,101,000), which included the amortisation fee of license rights of RMB9,845,000 (2010: RMB9,845,000) for the period in relation to the 20-year license relating to Lotto trademarks (the "Lotto License").

According to International Accounting Standards, the Lotto License carries a present value of RMB393,798,000 which was recognised as "Intangible assets – license rights" and amortised in each relevant period using straight-line method starting from 2009 and included in the distribution costs. As of 30 June 2011, the amortised balance of Lotto License was RMB344,573,000. In addition, the amortisable finance costs amounted to RMB555,102,000 was recognised and amortised in each relevant period using the effective interest rate method and included in the finance costs. During the period, the amortisation of license fees amounted to RMB9,845,000 and the amortisation of finance costs was RMB17,063,000. The combined effect of these two costs was a reduction of RMB26,908,000 on profit before tax for the period.

During the period, the Group continued to invest extensively in channel expansion and brand promotion for Lotto brand, resulting in a relatively higher level of marketing expenses for advertising, special promotions in shopping centres and channel establishment.

Administrative Expenses

For the six months ended 30 June 2011, the Group's overall administrative expenses amounted to RMB336,605,000 (2010: RMB324,508,000), which accounted for 7.8% of the Group's total revenue (2010: 7.2%).

Administrative expenses of LI-NING brand amounted to RMB291,142,000 (2010: RMB291,144,000), accounting for 7.5% of LI-NING brand's revenue, which was 0.5 percentage points above the 7.0% recorded in the same period in 2010. Such expenses mainly comprised directors' and staff costs, management consulting expenses, office rental, depreciation and amortisation charges, taxes and other sundry expenses. Given the decline in LI-NING brand's revenue, the Company has adopted more effective control on sundry expenses and management consulting expenses. Meanwhile, due to the decrease of amortisation of staff share option expenses, the directors' and staff costs also decreased. However, due to the increase in certain fixed costs such as depreciation of fixed assets and office rental, administrative expenses as a percentage of revenue of LI-NING brand increased.

Administrative expenses of Double Happiness brand amounted to RMB29,380,000 (2010: RMB24,438,000), which accounted for 11.3% of Double Happiness brand's revenue (2010: 10.3%). Such expenses mainly comprised staff costs, depreciation and amortisation charges and other sundry expenses. While the sales growth of Double Happiness products remained steady, more investment was put in basic research and development, resulting in higher administrative expenses as a percentage of revenue as compared to corresponding period last year.

Administrative expenses of Lotto brand amounted to RMB4,855,000 (2010: RMB2,278,000), which accounted for 9.0% of Lotto brand's revenue (2010: 4.8%). Such expenses mainly comprised staff costs, basic research and development costs, depreciation and amortisation charges, provision for inventories and other sundry expenses. During the period, sundry expenses and staff costs remained relatively stable, but due to increase in inventories and changes in the aging structure of inventory, there was a relatively significant increase in loss on provision for inventories as compared to the corresponding period last year, and therefore the overall administrative expenses during the period increased as compared to the same period last year.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

For the six months ended 30 June 2011, the Group's EBITDA amounted to RMB568,013,000 (2010: RMB912,604,000), representing a decrease of 37.8% as compared to the corresponding period last year. Such decrease was mainly due to the decrease in sales revenue and gross profit, and the Group continued to invest extensively in advertising and marketing promotion, and rental cost and labour costs were either rising or remained stable, resulting in a decrease in EBITDA.

EBITDA of LI-NING brand amounted to RMB572,914,000 (2010: RMB906,972,000), representing a decrease of 36.8% as compared to the same period last year. This was mainly attributable to the decrease in gross profit and increase in expense ratio.

EBITDA of Double Happiness brand amounted to RMB56,514,000 (2010: RMB47,570,000), representing an increase of 18.8% as compared to the same period last year. This was mainly attributable to the adjustment of product structures and prices during the period, resulting in an increase in gross profit, while expense ratio remained stable.

EBITDA of Lotto brand amounted to a loss of RMB49,928,000 (2010: loss of RMB42,668,000), representing an increase of loss of 17.0% as compared to the same period last year. This was mainly attributable to the decrease in gross profit margin and increase in provision of inventory during the period. Meantime, Lotto brand still incurred relatively higher brand promotion expenses.

Finance Costs

For the six months ended 30 June 2011, the Group's net finance costs amounted to RMB30,423,000 (2010: RMB22,476,000), representing 0.7% of the Group's total revenue (2010: 0.5%), amongst which the interest expense charged in the period for the discounted license fee payable for the Lotto License using the effective interest rate method in accordance with International Accounting Standards was RMB17,063,000 (2010: RMB16,196,000). There were an increase in short-term borrowings and rising borrowing rates for the period, which resulted in an increase in finance costs.

Income Tax Expenses

For the six months ended 30 June 2011, income tax expenses of the Group amounted to RMB102,183,000 (2010: RMB197,700,000) and the effective tax rate was 24.8% (2010: 25.0%).

Overall Profitability Indicators

Due to the decrease in sales revenue and gross profit and the increase in expense ratio, the overall profitability indicators of the Group for the six months ended 30 June 2011 declined. For the six months ended 30 June 2011, the Group's profit attributable to equity holders amounted to RMB293,740,000 (2010: RMB581,566,000), representing a decrease of 49.5% as compared to the same period in 2010. Margin of profit attributable to equity holders for the period was 6.8% (2010: 12.9%), representing a decrease of 6.1 percentage points as compared to the same period in 2010. Return on equity was 8.6% (2010: 20.3%).

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2011 was the same as that in 2010. Inventories 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. The Group considers that the aforesaid policy ensures sufficient provision for inventories of the Group.

As at 30 June 2011, accumulated provision for inventories was RMB156,393,000 (31 December 2010: RMB115,082,000). Increase in the inventory balances as of the end of the period resulted in increase in the balances of provision for inventories.

Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for the first half of 2011 was the same as that in 2010.

As at 30 June 2011, the accumulated provision for doubtful debts was RMB4,609,000 (31 December 2010: RMB1,382,000).

Liquidity and Financial Resources

For the six months ended 30 June 2011, the Group's net cash inflow from operating activities amounted to RMB373,574,000 (2010: RMB529,033,000). As at 30 June 2011, cash and cash equivalents (including cash at banks and in hand, and fixed deposits with original maturity of no more than three months) amounted to RMB1,647,975,000, representing a net increase of RMB177,540,000 as compared with the position as at 31 December 2010. The increase was brought about by the following items:

Items	Six months ended 30 June 2011 *RMB'000*
Net cash inflow generated from operating activities	373,574
Net capital expenditure	(150,701)
Dividends paid to equity holders of the Company	(209,072)
Net proceeds from bank borrowings	166,068
Other net cash outflow	(2,329)
Net increase in cash and cash equivalents	177,540

The cash turnover rate of distributors decreased as affected by the retail market and the government's tightening of the monetary policy, which led to the increase in accounts receivable turnover days and the overall cash turnover days, and the decrease in net cash inflow generated from operating activities for the first half of 2011.

The Group has sufficient standby bank credit facilities to cope with the funding needs arising from daily operations and future developments. As at 30 June 2011, the Group's available banking facilities amounted to RMB1,771,620,000, which included the outstanding bank borrowings of RMB472,140,000. The outstanding bank borrowings to equity holders' equity ratio (i.e. the gearing ratio) was 13.5% (31 December 2010: 9.3%).

During the period, the Group did not hedge its exposure to interest rate risks by way of interest-rate swap.

Foreign Exchange Risk

The operation of the Group is mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group has also established subsidiaries in Singapore and the United States for the expansion of its international business, and Singapore Dollars and United States Dollars are used as their respective functional currencies. As the Group continues to develop its international business, transactions settled in foreign currencies will increase gradually. A small portion of the Group's cash and bank deposits are denominated in Hong Kong Dollars, United States Dollars, Euros and Singapore Dollars. The Company also pays dividends in Hong Kong Dollars. In addition, the Group pays certain license fees and sponsorship fees in United States Dollars or Euros, and repays part of the bank borrowings in Hong Kong Dollars.

The Group did not hedge its exposure to risks arising from fluctuations in exchange rates during the period. Any significant exchange rate fluctuations of foreign currencies against Renminbi may have a financial impact on the Group.

Pledge of Assets

As at 30 June 2011, buildings with a net book value of RMB21,049,000 (31 December 2010: RMB24,239,000) and land use rights with a net book value of RMB15,104,000 (31 December 2010: RMB15,442,000) of the Group were pledged to secure certain bank borrowings of companies of the Group.

Contingent Liabilities

As at 30 June 2011, the Group had no significant contingent liabilities.

BUSINESS REVIEW

2011 marks a year when the Group is focussed on proactively driving reforms. During the first half of the year, the Group pressed ahead with important measures such as brand revitalisation and distribution channel reforms for the LI-NING brand. Despite the impact on its overall revenue, the Group continued to furnish sufficient financial resources to branding, product research and development and innovation as well as to motivating and attracting talent while strengthening the management of supply chain efficiency. In addition to focussing on our core business, the LI-NING brand, the Group also conducted ongoing reviews and adjustments to the business strategies for its other brands so as to be in line with the Group's overall adjustments in its strategy implementation. The following details the activities the Group conducted in support of the LI-NING brand in terms of brand marketing and promotion, sales channel expansion and management, product design, research and development and supply chain management, as well as the business review for the Group's other brands for the first half of 2011.

LI-NING Brand

Brand Marketing and Promotion

During the first half of 2011, the Group adhered to its core brand revitalisation strategy and stepped up the implementation of integrated marketing to consistently communicate with consumers on the brand positioning and to strengthen the brand equity through the integration of key sports tournaments, functionality of new products and our unique brand personality. Set out below are the major brand marketing and promotion activities in relation to the respective sports categories launched by the Group during the period.

Badminton

Badminton is one of the most popular and fastest growing sports categories in China. During the period, through integrated marketing activities that combined tournaments, products and retail sales, coupled with TV broadcast events at home and abroad, the Group effectively enhanced consumers' recognition of the LI-NING brand badminton products as well as the association of the LI-NING brand with badminton, resulting in an increase in market share. After 26 months of dedication, the Group has solidified the professional image of LI-NING brand badminton products in the hearts of China's consumers. With the Chinese National Badminton Team leading the trend by using LI-NING branded premium rackets, these rackets are now recognised as first-class products in the badminton market, priming the product line for further expansion.

Sudirman Cup – Hosted in May in Qingdao, China, the 2011 Sudirman Cup is one of the major tournaments in the badminton category. The LI-NING brand seized the opportunity to make an all-out push in promoting its badminton products. The theme of the campaign, "Speed Makes Champion and Legend" (勝戰在握 速造傳奇) epitomised the LI-NING brand's determination to help the Chinese National Badminton Team win the championship for the eighth time. Through an intensive media exercise that involved TV commercials, outdoor billboards and print, the campaign featured the Chinese National Badminton Team and successfully established a strong association of the LI-NING brand badminton products with the Chinese National Badminton Team and the Sudirman Cup. On the badminton court, in addition to the iconic Chinese National Badminton Team, the LI-NING brand also showcased its strong line-up of international sports sponsorship resources including Thailand's No.1 male badminton player, Boonsak Ponsana, the Singapore National Badminton Team as well as the Australia National Badminton Team, whose participation further enhanced the exposure of the LI-NING brand. Effective communication together with enormous exposure of LI-NING brand's sports sponsorship resources helped the LI-NING brand attract tremendous attention at the 2011 Sudirman Cup, second only to that of the Chinese National Badminton Team itself.

During the Sudirman Cup, the series of brand activities involving the Chinese National Badminton Team, and the rich and wide variety of events promoting badminton culture, helped capture media attention and drive coverage, as well as enabling participants to enjoy a memorable brand and product experience. Many participants actively shared the joy of the experience and the affinity of the brand via *Weibo* and other online social networks, hence further enhancing the influence of the activities. The badminton products launched during the tournament together with the related campaign achieved impressive sales results.

Singapore Open – The LI-NING brand was the title sponsor for the Singapore Open in June 2011 and the Group reinforced the publicity and promotion efforts for the tournament. The tournament was broadcast in 14 countries and the LI-NING brand's involvement helped further increase the influence of the tournament.

A number of brand activities were carried out on site, which helped maximise LI-NING brand's exposure while increasing product sales on site. The impressive organisation of the Singapore Open over the years has expanded the influence of LI-NING brand badminton products in Southeast Asia, bolstered brand awareness and affinity among consumers while strengthening the confidence among distributors in the region regarding the LI-NING brand products.

Running

New Generation of Ultralight Running Shoes Series – The Group launched a new generation of LI-NING ultralight running shoes (Ultralight 8th Generation), based on the Group's long established "Lightweight" brand asset platform, in the second quarter of 2011. Featuring 100m sprinter Asafa Powell as the spokesperson, the brand marketing campaign themed "Light Breath" (輕呼吸) combined athletes' stories with in-depth communication of the product's technology and features and consumers' product experiences. Working in parallel with the season's theme, the "Light Breath, Listen to Your Run" (輕呼吸 聽見跑) online interactive activity maximised the impact and market attention, while further enhancing the affinity of the brand among consumers and successfully enhancing the professional image of LI-NING brand running products. Sales performance was also encouraging.

New Generation of LI-NING Bow Anti-Shock Running Shoes Series – Extending the "Lightweight" concept in the second quarter, and backed by thorough market analysis, the Group acted contrary to communication norms by continuing to use running as the focus of its communications and launched another hero product, the new generation of LI-NING Bow Anti-Shock Running Shoes, in the third quarter. Using Andreas Thorkildsen, the dominant world's male javelin champion, as its face, the campaign brought out the season's theme "No Shock, No Interference" (跑無震 心無擾).

Leveraging on accurate insights and bold strategy in communications, the Group introduced, over two consecutive quarters, the brand new "Ultralight" and "Anti-Shock" series, the two core collections under the running shoes category, which not only strengthened the professional image, but also had a strong impact in the highly competitive running shoes market.

"LI-NING iRUN" – The Group's interactive platform for running in China, the "LI-NING iRUN" running club, has established running organisations in 10 cities in China, providing various running activities for running fans as well as encouraging its members to actively participate in local and international competitions. Encapsulating the essence of the running sports, the "iRun the World" (iRun 跑天下) event series held by "LI-NING iRUN" endeavours to inspire the inner joy of running enthusiasts while spreading the "Run for Joy" concept. In the first half of 2011, the "iRun the World" event series featured a 5-10km relay event, which provided a true and fun running experience for 4,000 running devotees in 10 China cities, and effectively promoted the featured products and the related product technology. In addition, "LI-NING iRUN" teamed up with Sina.com in the development of a multi-function online community (http://www.irun.cn) for running lovers, which provides professional knowledge on running, members' community and forum, running products introduction, entertainment and events, all of which helped it to become an integrated resource platform for the running category in terms of consumer communication and product development.

Beijing Marathon Sponsorship – In April 2011, the 10km marathon hosted in Beijing drew over 12,000 participants, including professional and amateur runners from China and overseas. The event effectively communicated LI-NING brand's product technology and information while creating a product experience for professional runners, hence further reinforcing the professional image of LI-NING brand running products.

Basketball

"The Stronger You Are, The Stronger I Become" (以強礪強) Basketball Promotion Campaign – The Group employed an optimal media mix and effective allocation of media resources and rolled out "The Stronger You Are, The Stronger I Become" (以強礪強) theme as the long-term promotion platform for the basketball category in the first quarter of 2011. The campaign called on basketball players and enthusiasts to respect and to learn from one's opponents so as to inspire one's own potential. In the first quarter, the Group featured NBA Draft Pick Evan Turner in an integrated marketing campaign that effectively promoted the sales of the "Defend" and "Conquer" product series.

National Basketball League (NBL) – The Group further deepened its top strategic official partnership with NBL, in which teams from 17 cities in China participated. Satellite TV broadcast was first introduced in 2011 which significantly broadened the influence of NBL in China as well as the exposure of the LI-NING brand.

LI-NING China Basketball Point-Guard Camp – During the period, the Group successfully organised the "LI-NING China Basketball Point-Guard Camp". Working together with Beijing Normal University and Beijing Sport University, the training camp was specifically designed to tailor to different positions and specifically aims to nurture rising basketball guard talents in China. The participation of youth players from overseas and members from the National Youth Team brought the standard of the camp to a top level and captured widespread attention and praise from the media.

Tennis

Peng Shuai (彭帥) the Group's sponsored tennis player, made a strong comeback in 2011. She performed impressively in the four grand slams under the Women's Tennis Association (WTA), ranking 16th in the Australian Open, 32nd in the French Open, and 16th at Wimbledon. As a result, Peng Shuai made her best singles ranking, i.e. No. 16, thus far in WTA.

In May 2011, the Group signed up one of China's most promising female tennis player Zheng Saisai (鄭賽賽), who was the gold medalist in doubles and silver medalist in singles at the First Youth Olympics in Singapore. She is a frequent champion in various junior tennis tournaments as well as champion in women's singles and women's doubles at National Junior Tennis Ranking Tournaments. Zheng Saisai has a lively, cheerful and straightforward personality. Her style is one of flexibility and vigour. Often recognised as one of the most promising tennis players after Li Na (李娜), Zheng Saisai is an iconic figure among the new generation of female tennis players in China.

On the male tennis front, the Group continued its collaboration with leading Croatian tennis player, Ivan Ljubicic and the young and renowned Marin Cilic, the Croatian tennis hopeful whom the Group signed up at the end of last year. Together with other LI-NING sponsored tennis players, the LI-NING branded professional tennis gear helped these players realise their dreams and create miracles.

Women's Fitness

"Inner Shine" Promotion Campaign – Continuing its "Inner Shine" women's fitness promotion platform, the Group launched a comprehensive marketing communication campaign using "Beauty Inside Out" (美麗由內及外) as the theme. Resonating with the graceful and subtle values of oriental women, the theme advocates women's every day efforts to create their uniqueness so as to let their "Inner Shine" show.

Collaboration with Leading Fitness Clubs – The Group continued to expand its partnership with leading fitness clubs such as Beijing Nirvana Yoga, CSI Bally, Lesmills China and Physical Club of Shenzhen. During the period, the Group rolled out the "LI-NING Women 30-Days Give It All Out Fitness Training Programme" (全麗以赴30天・李寧女子健身訓練月) which invited well-known fitness trainers to offer dedicated training to 160 female participants on healthy diet tips and make-up techniques. The event earned good reviews from participants and the clubs and aroused widespread attention online. This further enriched LI-NING brand women's fitness products as professional and stylish as well as a brand that truly understands the needs of oriental women.

Community Marketing Events

"LI-NING Hero Vans" *(李寧大篷車)* – Aiming at encouraging sports enthusiasts to participate in sports activities and to enjoy the pleasure of sports, the Group's meticulously-planned "LI-NING Hero Vans" entered into its fourth consecutive year. In the first half of 2011, "LI-NING Hero Vans" hosted activities in 32 cities covering 10 provinces and attracted 111,500 participants.

"LI-NING Sports Theme Park" *(李寧體育園)* – Already in its third consecutive year, the "LI-NING Sports Theme Park in Beijing Chaoyang Park" used multi-purpose urban sports stadiums as its platform, on which the Group continued to communicate with sports lovers through sports advertising, mini matches and brand stores.

One-Year Countdown of London 2012 Olympic Games

On 26 July 2011, the International Olympic Committee ("IOC") president Mr. Jacques Rogge, the Group's Chairman Mr. Li Ning, as well as the Group's contracted athletes, Asafa Powell, Elena Isinbayeva and Zhang Yining (張怡寧), all attended the brick unveiling ceremony of the IOC Olympic Museum held at Lausanne, Switzerland. On that special day, marking the one-year countdown to the London 2012 Olympic Games opening, they expressed their sincerest respect for the spirit of the Olympics, and jointly activated the London 2012 Olympic Games countdown timer.

As a professional sporting goods company, the Group has always been committed to popularising and promoting the spirit of the Olympics. In recognition of the Group's contribution, LI-NING's brand name and logo were engraved on the memorial wall, to be preserved forever at the IOC Olympic Museum.

Sales Channel Expansion and Management

Retail Stores

The distribution and retail network of LI-NING brand covers all market tiers in China. As at 30 June 2011, the total number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to 8,163 stores, representing a net increase of 248 stores as compared to the end of 2010. The progress of shop openings is in line with the Group's expectation. The number of distributors was 65, which was 25 distributors less as compared to the end of 2010. This was mainly due to the integration of certain small-scale distributors into some large-scale distributors during the period in order to improve management efficiency of the distribution channels.

The store breakdown by nature and geographical location is as follows:

Number of franchised and directly-operated retail stores

	30 June 2011	31 December 2010	**Change (%)**
LI-NING brand stores			
Franchised retail stores	**7,510**	7,333	**2.4**
Directly-operated retail stores	**653**	582	**12.2**
Total	**8,163**	7,915	**3.1**

Number of retail stores by geographical location

LI-NING brand stores	**30 June 2011**	31 December 2010	**Change (%)**
Eastern region *(Note 1)*	**3,347**	3,288	**1.8**
Northern region *(Note 2)*	**2,939**	2,820	**4.2**
Southern region *(Note 3)*	**1,877**	1,807	**3.9**
Total	**8,163**	7,915	**3.1**

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, Hong Kong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

The Group is of the view that the escalating costs of raw materials and labour and retail space rentals inflict substantial pressure on each of the segments of the industry chain. All segments of the market are gradually shifting from rapid, scale-driven growth to a more structured growth. The Group has adopted a pre-emptive approach to address these issues and challenges and implemented the following measures in sales channel expansion and management during the period:

- Accelerated the establishment of an inventory clearance channel supported mainly by factory outlets to optimise the retail stores channel structure that facilitates an orderly flow of products in different stages of product lifecycles. As at the end of June 2011, there were 191 LI-NING brand factory outlets (31 December 2010: 133 outlets);

- Pressed ahead with distribution channel reform in order to exercise more influence on the management capability and service quality of the sales channel, including distributors, sub-distributors and retail stores, with a view to enhancing store efficiency and retail market share. At the same time, the Group promoted the integration and acquisition of sub-distributors and distributors so as to reduce the number of sub-distributors operating single stores, and to enhance the sub-distributors' capability in operational risk management. As of the end of June 2011, the Group has completed the consolidation of 256 low-efficiency, single store sub-distributors. The progress is in line with the Group's expectation. It is expected that the Group will complete the consolidation of 400 low-efficiency sub-distributors by the end of 2011;

- Deepened the organisational reform in the sales division to establish an infrastructure consisting of three major sales regions, namely eastern, northern and southern, in order to further strengthen the Group's ability to respond quickly to the needs of customers as well as to raise the quality of management in different sales regions. Emphasis was placed on management of product lifecycles based on major sales regions and the establishment of integrated marketing systems to improve management efficiency;

- Placed emphasis on strengthening the development and management of sales channels in shopping malls and sports centres in metropolitan and first-tier cities, thereby reinforcing the LI-NING brand's leading position in these more competitive channels;

- Reinforced the LI-NING brand's image in second-tier cities and set up brand image stores to boost retail sales;

- Continued to expand the sales channel coverage, especially in second- and third-tier cities; and

- Continued to upgrade store image with the sixth-generation stores being tested and adjusted with more professional and stylish decor, highlighting the characteristics and value of the LI-NING brand and enhancing consumers' experiences. As of the end of June 2011, there were a total of 71 sixth-generation stores (31 December 2010: 58 stores). Renovations and new openings of the sixth-generation stores in metropolitan, first- and second-tier cities are scheduled for the second half of 2011 to effectively enhance consumers' experience of the new brand assets at the retail end.

Pressing ahead with the implementation of distribution channel reform will be the Group's priority in the second half of this year. At present, the progress of distribution channel reform is in line with the Group's strategic plan and certain regions have seen positive impacts with signs of being on the right course since the start of the reform implementation. Nevertheless, the Group remains cautious as the distribution channel reform is still at a crucial stage.

E-Commerce

With the increasing demand and popularity of online shopping, the Group seized the opportunity and actively expanded the online channel through the establishment of a comprehensive e-commerce distribution system which recorded significant results. The Group has won several industry awards including the "China's Most Investment Potential in E-commerce Gold Seed Award" (中國電子商務最具潛力投資價值金種子獎) in 2010 organised by APEC E-Commerce Business Alliance and "The Best E-commerce Customer Value Management" (傳統企業電子商務客戶價值管理最佳獎) awarded by Eguan Analysys International in 2011, demonstrating strong recognition from the industry.

Currently, the Group has set up an official online shop under the LI-NING brand (www.e-lining.com). Online flagship shops for the LI-NING brand have also been opened on reputable third-party e-commerce platforms in China such as *Taobao.com* and *Paipai.com*. Other well-known e-shops in China such as *Joyo Amazon, 360buy.com* and *S.CN* have also dedicated web pages for purchasing LI-NING brand products online. The Group also collaborated with various renowned mainland banks on bank-hosted virtual shopping malls.

The Group is also proactively promoting its new business model of cross channel, cross sales terminals and cross media. In the first half of 2011, consumers are able to experience the purchase of LI-NING brand products directly through computer terminals, TV terminals and mobile phones.

Apart from the LI-NING brand, Lotto, Double Happiness, Z-DO and Kason brands have all set foot in the online shopping market in China through the e-commerce distribution channels established by the Group.

Product Design, Research and Development

"Sportsmanship" remains fundamental to the LI-NING brand during the brand revitalisation. As a professional sporting goods brand, the Group has continued to advance its product designs and research innovation. In addition to achieving competitive differentiation through continuous enhancement in product functions and quality, the Group also strives to highlight the applications of its technology platforms, with a goal to create product offerings which are able to meet the needs of both general consumers and professionals.

Research and Design Centres

The Group has design, research and development centres in mainland China, Hong Kong and Portland, Oregon in the United States which are all equipped with world class top notch sports biomechanics and mechanical testing laboratories. These laboratories are staffed by leading international sports biomechanics research teams comprising a number of post-doctoral, doctoral and masters level professionals who strive to apply sports science to further enhance the research and innovation standard, while improving the comfort and functionality of the Group's footwear products. Following closely on global technological and sports science advances, the research and development centres are actively involved in expanding and participating sports biomechanics research, promoting international exchange and cooperation as well as working on an ongoing basis with a number of universities and professional bodies throughout China and around the world to conduct research and development in professional badminton shoes, jogging shoes, basketball shoes, as well as the friction of the sole, the durability and comfort of sports shoes, the standard foot shape and shoe last.

The apparel research and design centre established by the Group focuses on exploring and inventing new materials and structural design for apparel products, closely tracking the latest international technological advances in textile materials and craftsmanship, continuously innovating new types of comfort material for wicking sweat, protection and heat-retention. The Group also cooperates with Hong Kong Polytechnic University for a joint research project focussing on apparel comfort. The in-depth research uses comfort level indicators such as heat-resistance and moisture-resistance in order to study different materials and different structural design with a goal to creating professional and comfortable sports apparel for both professional athletes and general consumers.

Products for Professional Sponsorships

In addition to being a long-term sponsor of high-tech gear to the Chinese National Badminton Team, Chinese National Diving Team, Chinese National Shooting Team, Chinese National Table Tennis Team and the Chinese National Gymnastics Team, the Group is also dedicated to endorsing other top-notch domestic and international sports sponsorship resources with excellent products to assist the athletes to achieve outstanding performance in the sports arena, which helps maintain LI-NING's position as a leading brand in terms of professionalism and sports competitions in the industry.

- LI-NING brand badminton gear helped the Chinese National Badminton Team to secure its fourth consecutive championship title for the second time in the 2011 Sudirman Cup. With in-depth understanding of the latest trends and characteristics of badminton, the Group's research and development team has used special techniques to develop a comprehensive range of specialised professional products for the Chinese National Badminton Team. From the grip comfort to the attacking power of the racket, to the comfort and protection of footwear, to the fit and moisture-absorption ability of apparel products; the technical performance and user experience of LI-NING brand badminton gear fully satisfies the professional needs of the Chinese National Badminton Team.

- Products for professional sponsorships that are implemented with apparels research and development innovations included:

  ✓ Smart humidity-sensing and permeable material used in table tennis and badminton gear. The smart humidity-sensing and permeable material reacts to moisture and transforms by increasing ventilation, which expels heat and moisture more rapidly, allowing athletes to remain in good condition throughout the competition. Once dried, the fibres revert to their original form to impede excessive heat loss and prevent the athletes from becoming cold;

  ✓ Seamless garment technology was implemented in the Asafa Powell's sprint competition gear. This technology helps to greatly decrease stitching in the apparel, combined with skintight and flexible garment blocks, it effectively decreases air resistance and improves the athlete's performance; and

  ✓ Swimming suits for the US National Diving Team took reference from the particular techniques of the team and increased the amount of special Thermoplastic Polyurethanes (TPU) material coating used in their gear, thereby allowing greater strength and speed of the athletes.

- Specialising in the development of superior sports gear for professional athletes, the "Athletic Pro" series adopts the most cutting-edge sports motion theory. From product functionality, aesthetics, to customisation of personal needs, these attributes fully meet the needs of, and are recognised and praised by, the top world athletes sponsored by the Group, marking the international advanced level of the LI-NING brand in sports science. The top end "Athletic Pro" series covers many sports categories including track and field, football, basketball, tennis, badminton and others. The personalised products included:

  ✓ The "HERO" (貼地飛行) professional badminton shoes for the renowned men's badminton singles player, Lin Dan (林丹);

- ✓ The sports shoes and apparel for the world's No.1 pole vault athlete, Elena Isinbayeva;

- ✓ Professional LI-NING branded javelin shoes, apparel and accessories tailor-made for the "Prince of Javelin", Andreas Thorkildsen;

- ✓ The professional gear for Jamaican sprinter, Asafa Powell. At the Lausanne leg of the 2011 International Track and Field Diamond League, Powell, wearing the LI-NING Ultralight running spikes, finished at 9.78 seconds, which was a record for the men's 100m sprint this season, and was crowned champion at this competition for the third time in four years;

- ✓ The basketball shoes developed for NBA stars, such as "BD Defend" and "Conquer " for Baron Davis, "Big Sharmock" for Shaquille O'Neal, "YuShuai VI" (馭帥6) for Jose Calderon and "Conquer" and "Brass Monkey" for Evan Turner; and

- ✓ The professional tennis gear for Chinese tennis stars Peng Shuai (彭帥) and Yan Zi (晏紫) and international tennis star Marin Cilic. Wearing the professional gear provided by the Group, Peng Shuai became the top 16 players for the first time at Wimbledon 2011.

• Based on the professional and in-depth research products for top professional sponsorships, the research and development team makes constant breakthroughs and establishes a leading platform for professional products sponsorship, in particular:

- ✓ The footwear for track and field sports covers 13 categories, including sprint, middle-distance, long-distance, javelin, long jump, hurdles, marathon, shot put and high jump, etc. The successful sponsorship of competition gear for 12 provincial teams further establishes the leadership of the LI-NING brand among domestic brands in China while enhancing the professional image of LI-NING brand; and

- ✓ The platform for tennis has been established with products suitable for different types of tennis courts (hard, red clay, grass), the superior performance of which has attracted praise from international players and helped enhance the international recognition of LI-NING brand.

Footwear Products

In addition to developing products for professional athletes, the Group also offers a wide range of products for general sports enthusiasts. The Group is devoted to footwear innovation, focussing on enhancing comfort, shock-absorption, bounce, lightness, personalisation and fitness. Through its research and development initiatives, the Group has developed a series of new technologies applicable to footwear, including the "LI-NING Arc", clamshell technology, women's fitness footwear technology and "MIX" personalised shoes. In particular, the Group's research and development team continued to deepen the development of its core technology, the "LI-NING BOW", with reform and innovation, including developing "Entry Level BOW", "Unit BOW" and "X BOW" (including "Basic BOW", "X Bow Light" and "X BOW"), and also applied these technologies to different sports categories, including basketball, tennis and badminton, in order to develop various footwear products targeting at consumers with different purchasing power and sporting habits. In addition, the Group continues to dedicate its efforts toward the development of the "LI-NING Last" that better fits the foot shape of Chinese consumers. The technology is applied to a wide range of footwear products including running, basketball, women's fitness and badminton to improve the comfort and the overall experience for general sports lovers.

During the period, new footwear products launched under the LI-NING brand are as follows:

• New generation LI-NING BOW anti-shock running shoes: employed TPU and PU components to create visual structure of an X-shaped bow which provides not only great anti-shock protection, but also brings a stunning visual experience and a comfortable feel for the wearers;

- LI-NING 8th Generation Ultralight running shoes: the shoe body is constructed with MonoMesh and Sandwich Mesh, successfully achieving an ultralight and superb ventilating effect. The products provide a similar lightness and breathability as wearing a pair of socks, allowing "Light Breath" for the wearers even in the heat;

- "LI-NING YuShuai VI" basketball shoes: with a design based on the Chinese splashing ink style, the shoe face is created using the most advanced 3D lightweight print technology with Injection Phylon midsole combined with SAS for a synchronised system. "BounSe" anti-shock technology is incorporated in the heel, the shoe tongue is made with the special molding technology and the shoes come with a tailor-made insole. With innovative material selection, combined with the high tech design elements of the shoe face and the overall artistic design, "LI-NING YuShuai VI" inherits the classic elements of the "YuShuai" series while displaying a unique design style;

- Brand new LI-NING "MIX" lightweight sports shoes: incorporate China's special mortise and tenon structure into a modernised design concept, combining basic functions of sports shoes with themes of fashion and environmental-friendliness to lead the "MIX" trend; and

- "HERMAN" professional badminton shoes: the creativity behind the design is driven by "Understated luxury, All-round functionality". The design is avant-garde yet simple, and also employs "UFFTIP" technology inside the toe section, where shoes are easily weakened by friction, to enhance the product's lifespan.

In March this year, the Company received two awards, "2010 China 100 Most Valuable Footwear Brands" and "China Top 10 Sports Shoes Enterprises" in an event judged jointly by four authorities in the industry, namely, the National Leather and Footwear Industry Productivity Centre, the National Footwear Industry Information Center, the National Quality Supervision and Inspection Center of footwear and the National Product Quality Supervision and Inspection Center of Leather. The aim of these awards is to evaluate the value of footwear enterprises that have achieved success in China's leather footwear industry as well as to establish industry role models. The two awards once again reaffirm LI-NING brand's leading position in China's footwear products industry.

Apparel Products

During the period, the Group adopted the following research, development and design measures in the realm of apparel products:

- Continued to upgrade the LI-NING ATDry technology platform by applying special weaving and dyeing techniques to create double-coloured patterns in the fabric design and greatly improve the visual impact. In addition, ATDry's fabric's flexibility enables the wearers to sweat comfortably while allowing ease of stretching;

- Established standards of application for ATWarm comfortable and heat-retaining material, and developed versatile thermal products. The new style light-weight thermal material maintains the same heat-retention abilities, but is about 30% lighter in mass, to achieve light-weight comfort;

- Conducted experiments to test the functionality of apparel applying the ATCool technology to prove the high heat-dissipating ability of the functional apparel through equipment-based experimentation projects related to basketball, running, badminton, football and tennis. As a result, standards for application and a design guideline were created for the LI-NING brand's ATCool functional apparel. In April 2011, State Intellectual Property Office of The People's Republic of China granted a utility model patent for "Products of Functional Sports Wear Set, Tops and Bottoms" to the Group;

- Since the establishment of the apparel products research centre, the Group has dedicated efforts to researching the 3D human body data in basketball, running, badminton, football and tennis. Currently, the Group is applying for a utility model patent for functional inner pants for professional women's tennis and badminton competition skirts from the State Intellectual Property Office;

- To strengthen the connection between apparel product design and the brand's DNA, the Group is currently applying for an appearance patent from the State Intellectual Property Office for the logo of LI-NING brand's second generation "Lucky Line";

- Enhanced women's pants block using the latest information on Chinese body type for tailoring apparel products which are best suited for the Chinese physique, to fully optimise the women's pants block in fitness, sports and urban sports collections; and

- Apart from continuing to promote products made from organic cotton and the Eco-circle project, the Group's efforts in environmental protection also included driving forward with environmentally-conscious tailoring concepts by increasing usage ratio of fabric and reducing wastage through special product designs to advocate the lively, low-carbon, green apparel concept.

Supply Chain Management

The Group endeavours to establish a demand-driven, flexible and effective supply chain system to cope with its business growth effectively. During the period, the Group undertook the following measures in respect of LI-NING brand's supply chain management:

- In recent years, the supply markets have experienced uncertainties as a result of the impact of inflation and dramatic changes in labour supply in coastal cities. In 2011, the Group focussed on controlling and managing the stability of supplies with an aim to control the impact of all variations on product quality, delivery time and cost within a prescribed range.

- The Group foresaw the rapid escalation in labour costs and the fluctuation of labour supply in the traditional processing and manufacturing bases of coastal areas, hence it has proactively initiated a shift in its supplier base from the coast toward Central China and, in 2009, began construction on an all-in-one production and delivery base in Jingmen, Hubei Province. Through continuous development, this base reached certain scale in the first half of 2011. Local auxiliary support in the Hubei base is also gradually improving, and with the majority of outsourced processes and supporting materials being produced locally, the Hubei base has started forming into a production base of scale.

- Besides achieving a good level of production, the Hubei-based production facilities already possess a degree of professional product development and production capability with professional sponsorship category products and products of a higher degree of professional elements produced in 2011.

- Complementing the Hubei-based production facilities, the construction of the "LI-NING Logistics Centre" in Jingmen is now underway according to plan and trial runs are expected to be conducted in the first half of 2012. The Logistics Centre is a modern, fully-automated warehouse comprising the latest logistics concepts and technologies to support the Group's multiple-brand, diversified business model, embracing wholesale, retail, direct delivery, direct distribution and vendor-managed inventory (VMI), to establish an integrated supply chain.

- To continuously enhance efficiency of the supply chain and shorten warehouse time, the Group continuously emphasises the optimisation of supply chain planning through a much-enhanced and flexible goods receiving and delivery process, aimed at closer integration of production and retail sales while regulating output based on demand and purchases based on output. Through flexible production scheduling, the Group balances the supply and demand of the supply chain and streamlines the whole process to alleviate fluctuations in its operations.

- The Group's logistics system has been changed from an operation-based model to a service-based model oriented towards the needs of the distributors. This drives the flexibility of the logistics operation, and better establishes a support platform for logistics operations that combine wholesale and retail operations. Tailoring to the needs of different distributors, the Group enhanced its logistics capacity by providing a range of support services, including logistics network planning, logistics technology consultation, warehouse planning and construction, logistics training, logistics outsourcing and direct delivery. These enable the Group to provide better logistics services to its major distributor network and cope with the ever-increasing need for enhanced professional logistics capabilities as the business of its major distributor customers develops.

Double Happiness Brand

Double Happiness brand is owned by Shanghai Double Happiness Co., Ltd. and its subsidiaries (collectively, "Double Happiness"), in which the Group holds a 57.5% equity interest. It is principally engaged in the manufacture, research and development, marketing and sales of table tennis and other sports equipment. Through synergies in brand marketing, promotions, sports tournament sponsorship and distribution channel expansion, Double Happiness and LI-NING brands together strengthen the Group's position in China's table tennis market.

During the period, Double Happiness continued to adopt "sponsorship of sports stars and sports events" as its core marketing and promotion strategy. In 2011, Double Happiness maintained its endorsement of outstanding table tennis players in China, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞), as spokespersons for its table tennis equipment. Double Happiness also actively sponsored various professional tournaments in China and around the world. In the first half of 2011, the Group sponsored and provided professional equipment for events including ITTF Pro Tour – 16 Stops, the 51st Rotterdam World Table Tennis Championship, China VS World Table Tennis Challenge, Chinese Table Tennis Club Super League and World Youth Weightlifting Championships. In the first half of 2011, Double Happiness continued its relationship with the International Table Tennis Federation (ITTF) based on the 2009-2012 comprehensive cooperation plan and signed a cooperation agreement with ITTF for 2013-2016 in which the Group was granted the position of official equipment supplier for the 2016 Olympic Games. This comprehensive cooperation plan also gives Double Happiness the role of official equipment supplier for the World Table Tennis Championships from 2014 to 2016, the World Cup from 2013 to 2016, and the ITTF Pro Tour from 2013 to 2016.

Double Happiness possesses strong capabilities in product research, development and design. Up to 90% of China National Table Tennis Team members opt for the Double Happiness brand covering. Besides equipment for professional players, Double Happiness successfully rolled out more than 150 new products in the first half of 2011. Product innovation adopted includes high-rebound sponge technology applied in covering, fully integrated table tennis blade series categorised by athletes and playing methodology, and products catering for the supermarket channel, which improved the product lines of Double Happiness brand.

Double Happiness brand products are mainly distributed via wholesale and integrated sporting goods stores. It has adopted a wholesale model with a relatively stable clientele across 30 provinces and municipalities in China. In 2011, Double Happiness launched a license model for professional table tennis equipment and a distributor system for the supermarkets channel in order to fully tap into the supermarket channel opportunity. The move, in effect, enables multi-product, multi-channel policy and management which helps further integrate customer resources while strengthening customer relationship management.

Z-DO Brand and Double Happiness Branded Footwear and Apparel

Z-DO brand adopts hypermarkets as its distribution channel while overlaps with the LI-NING brand to a certain extent and benefits from economies of scale. Nevertheless, the brand's positioning and product features are not prominent. Going forward, Z-DO brand will further adjust its product mix and operation model to better suit the needs of consumers in hypermarkets.

In the meantime, the Group is planning to introduce Double Happiness branded footwear and apparel in early 2012 to develop into the hypermarket channel as well as the mid– to lower-end market through highlighting the concept of "Fitness for Everyone, Sports for All" (全民健身，大眾體育). In future, the product lines of Z-DO brand will focus on sports categories such as running, whereas indoor sports will be the core of Double Happiness branded footwear and apparel products. Double Happiness is a renowned Chinese sports brand that mainly sells equipment and enjoys high brand recognition. The Group believes that the development of a footwear and apparel line under Double Happiness brand is a great business opportunity. During the period, the Group had begun preparation for adding the product line, including conducting consumer research, creating a branding strategy for Double Happiness branded footwear and apparel and communicating with existing customers to ensure the smooth and effective introduction of Double Happiness branded footwear and apparel. The Group believes that by leveraging on the Double Happiness' high brand recognition, its new line of footwear and apparel products will have a firm base for development.

Lotto Brand

The Group is the licensee for the Italian sports fashion brand, Lotto. During the period, the Group made dedicated efforts on brand promotion and channel expansion in order to improve sales performance.

Adhering to the brand's core values, Lotto brand designed and executed a number of differentiated, integrated marketing exercises during the period. Through collaboration programmes with movies and pop stars, it aims to create a "Lotto, Lot to Feel" (玩味Lotto, Lot to Feel) product experience to raise the awareness of the Lotto brand. On the product front, staying close to Lotto's unique product design style, the Group collaborated with pop rock star, Avril Lavigne, and launched the "Avril x Lotto" collection for its "Feel" series which further establishes product differentiation.

In addition, the Group took steps to enhance the retail store performance and profitability of Lotto brand through integrating resources for the support of core stores in key markets while closing low-efficiency stores. Efforts were also made to clear inventory through establishing factory outlets and discount stores as well as via online e-commerce channels. Looking ahead to the second half of 2011, the Group will endeavour to achieve horizontal and vertical growth of the Lotto brand business while establishing a fast and responsive style-driven business model.

AIGLE Brand

AIGLE brand specialises in high-end outdoor sports and casual apparel and footwear products that target mostly the metropolitan and first-tier cities in China. AIGLE brand's unique competitive edge has gained growing recognition from consumers of its products. During the period, performance of new stores fared well while same-store sales showed continued growth, hence driving sales.

Major operational measures implemented for AIGLE brand are as follows:

- AIGLE brand's combination of functional fabric and French stylish design have already gained acceptance in the market. This unique positioning helps differentiate AIGLE from other outdoor casual product brands;

- On marketing and promotion, the Group enhanced the brand exposure and awareness through continuous placement in outdoor media and travel magazines as well as leveraging endorsement by celebrities;

- Gradually established AIGLE brand image stores in first-tier cities in addition to setting up points of sales in key shopping malls in major cities; and

- Continued to strengthen retail management to enhance single-store growth and drive sales performance.

Kason Brand

A well-known badminton equipment brand in China, Kason is an integral part of the Group's badminton business. Its sponsorships include the Chinese National Youth Badminton Team and various provincial badminton teams.

During the period, the Group continued to enhance Kason's brand positioning, product structure, research and development and sales channel. Fully utilising the mutual advantages in sports marketing resources of both brands, the Group combined the core competitive strength of LI-NING brand's badminton products with Kason brand's leading manufacturing techniques and research and development capabilities to increase the Group's market share in the badminton sector.

HUMAN RESOURCES

To cope with the adjustment in the Group's execution strategy, the Group has been adjusting and optimising its organisational structure, implementing improved management systems and enhancing its strategy execution with heightened focus on performance appraisal through establishment of a corporate culture that stresses objectives management and high efficiency. Changes in management are normal during this process. The Group has always placed strong emphasis on the integrity of its organisational structure to ensure the stability of its operations. In addition, the Group has a rich talent pool and a suitable organisational management structure to meet its development needs.

As at 30 June 2011, the Group had 3,946 employees (31 December 2010: 4,215 employees), of whom, 1,993 (31 December 2010: 2,100) were from the Group's headquarters and retail subsidiaries, and 1,953 (31 December 2010: 2,115) were from other subsidiaries.

The Group regards its workforce as an important asset for corporate development and has placed emphasis on the recruitment, training, motivation and retention of core management and professional staff. During the period, to cope with the strategic development needs, the Group focussed on streamlining the organisational structure and optimising its human resources in line with the business reforms, establishment of the talent supply chain system and growing the talent pool from within as well as outside the organisation, and the building of a culture of achieving excellence in performance. In addition, the Group optimised the share option incentive scheme to better meet the requirements as a result of the Group's business transformation, accelerated the pace in training and development of its staff and continued to strengthen the leadership and professional development system. The aim of these measures is to establish the core competence of the Group and to enhance the organisational capability in order to support the accomplishment of the Group's proactive reforms.

OUTLOOK

China's economy will continue to grow at a stable pace during the Twelfth Five-Year period. Meanwhile, it is expected that the average annual growth rate of personal disposable income of urban citizens and the net income of rural residents will exceed that of the gross domestic product in the next five years. This is the first time China makes synchronisation of citizens' income and economic development a policy objective. The transformation of China's economy from one led by investment to one led by consumption bodes well for the consumer sector in which the Group operates. Benefiting from the London 2012 Olympic Games, it is expected that the sporting goods industry in China will continue to have a double-digit growth in 2011. On the other hand, the ongoing intensification of competition in the sporting goods industry in China means that competition among various brands on sales channel, sports resources and media resources will heighten. In addition, each segment of the value chain of the industry will remain affected by cost escalations.

Looking at the results of the LI-NING Brand Trade Fairs for the full year of 2011, order value for new products grew by approximately 1% based on tagged retail prices, and declined more than 5% from 2010 based on sell-in prices. As disclosed in the Company's announcement dated 7 July 2011, in light of the anticipated significant year-on-year increase in raw material costs in the second half of 2011, the Group estimates that gross profit margin for the second half of 2011 will decrease as compared with the same period last year. As a result, margin of profit attributable to equity holders of the Company for the full year of 2011 is expected to decline by about 1-2 percentage points as compared with the first half of 2011.

In light of the challenging environment, the Group is taking proactive steps of reform to strengthen its implementation of new strategies in the distribution channel as well as branding and products in order to improve its business performance. Major measures include:

- Channel: Step up the pace in advancing the distribution channel reforms and measures to accelerate clearance of inventory at the retail level, exercise better management on distribution channels, raise retail efficiency and improve cash turnover, and continue to expand the sales channel coverage especially in second- and third-tier cities.

- Branding: Further refine the brand strategy and optimise the brand strategy management system. Leverage on the brand positioning to utilise the sports marketing resources effectively, continue to boost investment in branding, intensify on sports tournament promotions and ensure creativity is converted into effective communications that strengthen the connectivity between brand, products and consumers.

- Product: Strengthen product innovation and continue improving product design, research and development. Streamline product pricing strategy so as to offer better value for money and drive growth in sales volume.

The Group believes that the transformation of the industry, the shifts in the competitive landscape, and the adjustments the Group has made will become clearer in the next two to three years. These changes will lead to a more mature stage of development of the sporting goods industry in China. We believe that the reform measures which are currently carried out by the Group will help us better adapt to, and even lead the long term development of the sporting goods industry in China.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company had not redeemed any of its shares during the six months ended 30 June 2011. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE

During the period, the Company was awarded the "Recognition Award Class of 2011 The Best of Asia" again by *Corporate Governance Asia*, one of the most authoritative publications on corporate governance in Asia. This award is proof of the Group's continued efforts to ensure that its business is conducted in an ethical, transparent and responsible manner.

Throughout 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 2010.

The Audit Committee of the Company, consisting of three 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 2011.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2011 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 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, 24 August 2011

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Zhang Zhi Yong and Mr. Chong Yik Kay. The non-executive directors are Mr. Lim Meng Ann, 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 and Mr. Chan Chung Bun, Bunny.