Li Ning Company Limited
（李 寧 有 限 公 司）
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2331)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

2008 ANNUAL RESULTS HIGHLIGHTS

- Revenue rose by 53.8% to RMB6,690.1 million
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 57.0% to RMB1,070.5 million
- Profit attributable to equity holders grew by 52.3% to RMB721.3 million
- Margin of profit attributable to equity holders was 10.8%
- Basic earnings per share increased by 51.9% to RMB69.63 cents
- Proposed a final dividend of RMB11.14 cents per ordinary share
- Number of LI-NING brand retail stores reached 6,245, a net increase of 1,012 stores

ANNUAL RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2008, together with the comparative figures for 2007, as follows:

CONSOLIDATED BALANCE SHEET
As at 31 December 2008

	Note	**2008**	2007
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**629,305**	340,036
Land use rights		**324,764**	25,008
Intangible assets		**329,035**	87,834
Prepayments for acquisition of subsidiaries		–	66,588
Deferred income tax assets		**69,441**	29,601
Other non-current assets		**166,440**	57,985
Total non-current assets		**1,518,985**	607,052
Current assets			
Inventories		**650,715**	513,947
Trade receivables	*4*	**1,090,576**	684,727
Other receivables and prepayments		**182,938**	114,071
Restricted bank deposits		**105,675**	–
Fixed deposits held at banks		–	11,167
Cash and cash equivalents		**788,040**	849,887
Total current assets		**2,817,944**	2,173,799
Total assets		**4,336,929**	2,780,851

	Note	2008	2007
		RMB'000	*RMB'000*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**110,323**	110,023
Share premium		**200,758**	352,830
Shares held for Restricted Share Award Scheme		**(84,118)**	(44,089)
Other reserves		**257,610**	211,889
Retained profits			
– Proposed final dividend/final and special dividends	*11*	**115,941**	176,915
– Others		**1,295,899**	937,033
		1,896,413	1,744,601
Minority interests in equity		**192,535**	–
Total equity		**2,088,948**	1,744,601
LIABILITIES			
Non-current liabilities			
License fees payable		**81,997**	57,604
Deferred income tax liabilities		**79,141**	1,217
Total non-current liabilities		**161,138**	58,821
Current liabilities			
Trade payables	*5*	**863,470**	490,417
Other payables and accruals		**541,865**	340,577
License fees payable - current portion		**28,747**	13,234
Current income tax liabilities		**45,281**	33,201
Borrowings		**607,480**	100,000
Total current liabilities		**2,086,843**	977,429
Total liabilities		**2,247,981**	1,036,250
Total equity and liabilities		**4,336,929**	2,780,851
Net current assets		**731,101**	1,196,370
Total assets less current liabilities		**2,250,086**	1,803,422

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2008

	Note	**2008** *RMB'000*	2007 *RMB'000*
Revenue	*3*	**6,690,073**	4,348,747
Cost of sales	*7*	**(3,469,699)**	(2,265,901)
Gross profit		**3,220,374**	2,082,846
Distribution costs	*7*	**(1,883,206)**	(1,221,619)
Administrative expenses	*7*	**(441,842)**	(282,357)
Other income	*6*	**64,887**	30,985
Operating profit		**960,213**	609,855
Finance income	*8*	**11,691**	13,901
Finance costs	*8*	**(42,666)**	(5,224)
Finance (costs)/income – net	*8*	**(30,975)**	8,677
Profit before income tax		**929,238**	618,532
Income tax expense	*9*	**(201,938)**	(144,535)
Profit for the year		**727,300**	473,997
Attributable to:			
Equity holders of the Company		**721,267**	473,606
Minority interests		**6,033**	391
		727,300	473,997
Earnings per share for profit attributable to equity holders of the Company *(RMB cents)*			
– basic	*10*	**69.63**	45.83
– diluted	*10*	**68.64**	45.09
Interim dividend, special dividend and proposed final dividend	*11*	**516,743**	236,403

Notes:

1. General information

Li Ning Company Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in brand development, design, manufacturing, sale and distribution of sport-related footwear, apparel, equipment and accessories in the People's Republic of China (the "PRC"). During the year, the Company acquired a 57.5% equity interest in Shanghai Double Happiness Co., Ltd. ("Double Happiness"), a company incorporated in the PRC, which, together with its subsidiaries, are principally engaged in the manufacturing, research and development, marketing and sale of sports equipment in 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 Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the board of directors of the Company (the "Board") on 18 March 2009.

2. Basis of preparation

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards under the historical cost convention.

3. Revenue and segment information

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

Primary reporting format – business segment

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

Secondary reporting format – geographical segment

The Group's assets, liabilities, capital expenditure and operations during the two years ended 31 December 2007 and 2008 were primarily located in the PRC. No geographical segments analysis is presented as less than 5% of the Group's turnover and contribution to operating profit is attributable to markets outside the PRC.

4. Trade receivables

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Accounts receivable	**1,055,171**	639,604
Notes receivable	**40,710**	49,932
	1,095,881	689,536
Less: provision for impairment of receivables	**(5,305)**	(4,809)
	1,090,576	684,727

Customers are normally granted credit terms within 90 days. Ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
0 – 30 days	**382,364**	378,180
31 – 60 days	**301,836**	115,471
61 – 90 days	**257,281**	108,315
91 – 180 days	**149,095**	82,761
181 – 365 days	**2,708**	2,365
Over 365 days	**2,597**	2,444
	1,095,881	689,536

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:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
0 – 30 days	**652,739**	424,189
31 – 60 days	**175,007**	52,489
61 – 90 days	**27,587**	6,624
91 – 180 days	**1,506**	5,362
181 – 365 days	**3,618**	1,209
Over 365 days	**3,013**	544
	863,470	490,417

6. Other income

	2008 *RMB'000*	2007 *RMB'000*
Government grants *(Note a)*	**64,887**	30,822
Others	**–**	163
	64,887	30,985

Note:

(a) The Group received subsidies from various local governments in the PRC amounting to RMB64,887,000 for the year ended 31 December 2008 (2007: RMB30,822,000). Approximately RMB8,977,000 (2007: Nil) of these government grants represented a tax refund received by the Group in respect of the Group's re-investment of profits generated by a PRC subsidiary.

7. Expenses by nature

	2008 *RMB'000*	2007 *RMB'000*
Cost of inventories recognised as expenses included in cost of sales	**3,274,036**	2,109,676
Depreciation on property, plant and equipment	**77,482**	52,041
Amortisation of land use rights and intangible assets	**32,821**	19,868
Advertising and marketing expenses	**1,171,175**	695,559
Director and employee benefit expenses	**472,415**	325,947
Operating lease rentals in respect of land and buildings	**212,760**	125,747
Research and product development expenses	**177,444**	138,501
Transportation and logistics expenses	**109,879**	73,827
Provision for impairment charge of trade receivables	**1,477**	2,874
Write-down of inventories to net realisable value	**16,447**	24,618
Auditor's remuneration	**4,150**	3,700
Management consulting expenses	**50,999**	36,280
Travelling and entertainment expenses	**105,019**	73,290
Other expenses	**88,643**	87,949
Total of cost of sales, distribution costs and administrative expenses	**5,794,747**	3,769,877

8. Finance income and costs

	2008	2007
	RMB'000	*RMB'000*
Interest income on bank balances and deposits	**11,691**	11,147
Net foreign currency exchange gain	**–**	2,754
Finance income	**11,691**	13,901
Amortisation of discount – license fees payable	**(5,339)**	(4,897)
Interest expense on bank borrowings	**(33,921)**	(327)
Net foreign currency exchange loss	**(3,406)**	–
Finance costs	**(42,666)**	(5,224)
Finance (costs)/income – net	**(30,975)**	8,677

9. Income taxes

	2008	2007
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax *(Note b)*	**773**	1,808
– The PRC corporate income tax *(Note c)*	**240,272**	158,656
	241,045	160,464
Deferred income tax	**(39,107)**	(15,929)
	201,938	144,535

Notes:

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

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2008 (2007: 17.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2007: 33%) on the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 18% under the relevant PRC tax rules and regulations.

10. Earnings per share

Basic

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

	2008	2007
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**721,267**	473,606
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,035,916**	1,033,343
Basic earnings per share *(RMB cents)*	**69.63**	45.83

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under its share option schemes and shares held for Restricted Share Award Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) 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 share, of which details are as follows:

	2008	2007
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**721,267**	473,606
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,035,916**	1,033,343
Adjustment for share options and awarded shares *(in thousands)*	**14,876**	16,974
Weighted average number of ordinary shares for diluted earnings per share *(in thousands)*	**1,050,792**	1,050,317
Diluted earnings per share *(RMB cents)*	**68.64**	45.09

11. Dividends

	2008	2007
	RMB'000	*RMB'000*
Interim dividend paid of RMB9.63 cents (2007: RMB5.76 cents) per ordinary share	**99,733**	59,488
Special dividend paid of RMB28.9 cents (2007: RMB9.13 cents) per ordinary share	**301,069**	94,513
Proposed final dividend of RMB11.14 cents (2007: RMB7.96 cents) per ordinary share	**115,941**	82,402
	516,743	236,403

On 18 March 2008, the Board proposed a final dividend of RMB7.96 cents and a special dividend of RMB9.13 cents per ordinary share for the year ended 31 December 2007.

On 27 November 2008, the Board declared a special dividend of RMB28.9 cents per ordinary share.

On 18 March 2009, the Board proposed a final dividend of RMB11.14 cents per ordinary share totalling RMB115,941,000 for the year ended 31 December 2008. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 December 2009.

12. Business combination

On 21 July 2008, the Group completed its acquisition of a 57.5% equity interest in Double Happiness for a total consideration of RMB361,455,000. Double Happiness and its subsidiaries, being companies incorporated in the PRC, are principally engaged in the manufacturing, research and development, marketing and sale of sports equipment. In August 2008, the Group received a dividend of approximately RMB20,204,000 from Double Happiness in relation to the pre-acquisition profit of Double Happiness. The total purchase consideration for the 57.5% equity interest in Double Happiness, including the direct cost relating to the acquisition, amounting to approximately RMB341,251,000.

The acquired business contributed revenue of RMB205,140,000 and net profit of RMB12,616,000 to the Group for the period from 21 July 2008 to 31 December 2008. If the acquisition had occurred on 1 January 2008, Group revenue would have been RMB6,902,040,000, and profit before allocations would have been RMB763,693,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2008, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Total purchase consideration	**341,251**
Fair value of net identifiable assets acquired	**(234,412)**
Goodwill	**106,839**

The above goodwill is attributable to Double Happiness's strong position and profitability in the market for sports equipment.

13. Event after the balance sheet date

On 19 January 2009, options to purchase 6,363,200 and 7,749,000 ordinary shares of the Company at an exercise price of HK$11.37 per share were granted to the directors of the Company and other eligible participants of the Group respectively under the Post-IPO Option Scheme of the Company.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB11.14 cents per ordinary share for the year ended 31 December 2008. The proposed dividend payment is subject to approval by the shareholders of the Company at the annual general meeting ("AGM") to be held on 15 May 2009 and is payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 15 May 2009. Upon shareholders' approval, the proposed final dividend will be paid on or about 25 May 2009 to shareholders whose names shall appear on the register of members of the Company on 15 May 2009.

Together with the interim dividend of RMB9.63 cents per ordinary share and the special dividend of RMB28.9 cents per ordinary share, the total dividend for the year ended 31 December 2008 will amount to RMB49.67 cents per ordinary share (2007: RMB22.85 cents).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the final dividend and to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 14 May 2009 to Friday, 15 May 2009 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend and be entitled to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 13 May 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

The year 2008 saw enormous macroeconomic changes. On one hand, the US subprime mortgage crisis has escalated into a global economic crisis which inevitably affected China's economy. There are rising uncertainties of those external factors affecting China's continuous economic growth. Meanwhile, consumers' confidence has suffered a blow caused by a number of factors, including the continuous rise in consumer price index, the downturn in the stock market, and a spate of massive natural disasters. On the other hand, China's per capita income continued to rise rapidly, and the sporting goods industry has been the beneficiary of a strong boost from the Beijing Olympics. Amid the volatile and complicated economic conditions, the Group has cautiously dealt with changes and challenges, striving to enhance its underlying strengths and core competitiveness, and seize the opportunities generated by the Beijing Olympics. As a result, the Group continued to deliver an excellent performance for the year 2008.

Financial Review

Key results and financial indicators of the Group for the year 2008 are set out below:

	Year ended 31 December		**Change**
	2008	2007	**(%)**
Items of income statement (audited)			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**6,690,073**	4,348,747	**53.8**
Gross profit	**3,220,374**	2,082,846	**54.6**
Operating profit	**960,213**	609,855	**57.4**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**1,070,516**	681,764	**57.0**
Profit attributable to equity holders	**721,267**	473,606	**52.3**
Basic earnings per share *(RMB cents) (Note 1)*	**69.63**	45.83	**51.9**

	Year ended 31 December	
	2008	2007
Key financial ratios (audited)		
Profitability ratios		
Gross profit margin (%)	**48.1**	47.9
Operating profit margin (%)	**14.4**	14.0
Effective tax rate (%)	**21.7**	23.4
Margin of profit attributable to equity holders (%)	**10.8**	10.9
Return on equity holders' equity (%)	**39.6**	30.1
Asset efficiency ratios		
Average inventory turnover (days) *(Note 2)*	**61**	70
Average trade receivables turnover (days) *(Note 3)*	**48**	53
Average trade payables turnover (days) *(Note 4)*	**69**	69

	31 December 2008	31 December 2007
Asset ratios		
Debt to equity ratio (%) *(Note 5)*	**118.5**	59.4
Net asset value per share *(RMB cents)*	**201.51**	168.53

Notes:

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

2. 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 365 days.

3. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables divided by revenue and multiplied by 365 days.

4. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables divided by total purchases and multiplied by 365 days.

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

Revenue

The Group's revenue for the year 2008 amounted to RMB6,690,073,000, representing a growth of 53.8% as compared to 2007. The sum included revenue from Double Happiness and Lotto brands, the two brands joining the Group's brand portfolio during the year.

Revenue breakdown by brand and product category

	Year ended 31 December				
	2008		2007		**Revenue**
		% of total		% of total	**growth**
	RMB'000	**revenue**	*RMB'000*	revenue	**(%)**
LI-NING brand					
Footwear	**2,917,788**	**43.6**	1,823,140	41.9	**60.0**
Apparel	**3,097,695**	**46.3**	2,151,557	49.5	**44.0**
Accessories	**338,755**	**5.1**	269,690	6.2	**25.6**
Total	**6,354,238**	**95.0**	4,244,387	97.6	**49.7**
Other brands*					
Footwear	**43,878**	**0.7**	35,928	0.8	**22.1**
Apparel	**81,809**	**1.2**	66,038	1.5	**23.9**
Accessories#	**210,148**	**3.1**	2,394	0.1	**8,678.1**
Total	**335,835**	**5.0**	104,360	2.4	**221.8**
Total					
Footwear	**2,961,666**	**44.3**	1,859,068	42.7	**59.3**
Apparel	**3,179,504**	**47.5**	2,217,595	51.0	**43.4**
Accessories#	**548,903**	**8.2**	272,084	6.3	**101.7**
Total	**6,690,073**	**100.0**	4,348,747	100.0	**53.8**

* *Including AIGLE, Z-DO, Double Happiness and Lotto.*

\# *Including sales revenue from equipment of Double Happiness brand.*

The Group's core brand, the LI-NING brand, generated RMB6,354,238,000 in revenue which accounted for 95.0% of the total revenue and represented an increase of 49.7% as compared to 2007. The 60.0% growth in sales of footwear products was particularly significant as compared to 2007. Apparel products recorded a 44.0% growth in sales while accessories were up 25.6%. The increase in revenue was attributable to (i) improvement in integrated marketing capability; (ii) continuing growth in store efficiency in all market tiers; (iii) further expansion of sales network coverage; (iv) product research and development and design that are more in line with market demand and consumer preference; and (v) enhancement in supply chain efficiency, encompassing aspects from integration of product planning and design to logistics efficiency. All of these initiatives, coupled with the increased consumption driven by the Beijing Olympics, helped to boost sales of all product categories.

During the year, sales revenue from AIGLE, Z-DO, Double Happiness and Lotto brands amounted to RMB335,835,000, representing 5.0% of the Group's total revenue. Shanghai Double Happiness Co., Ltd. ("Double Happiness") became a 57.5% owned subsidiary of the Company on 21 July 2008. The license agreement in relation to Lotto licensed products was entered into on 31 July 2008.

Percentage of revenue by sales channel

	Year ended 31 December	
	2008	2007
	% of total revenue	% of total revenue
LI-NING brand		
PRC market		
Sales to franchised distributors	**82.0**	80.0
Sales by directly-managed retail stores	**12.2**	16.8
International markets	**0.8**	0.8
Other brands*		
PRC market	**4.7**	2.4
International markets	**0.3**	–
Total	**100.0**	100.0

* *Including AIGLE, Z-DO, Double Happiness and Lotto.*

The Group's products are mainly sold through franchised distributors. LI-NING and other branded products are also distributed through directly-managed retail stores.

Revenue breakdown by geographical location

		Year ended 31 December				
		2008		2007		**Revenue**
			% of total		% of total	**growth**
	Note	***RMB'000***	**revenue**	*RMB'000*	revenue	**(%)**
LI-NING brand						
PRC market						
Eastern region	*1*	**2,556,346**	**38.2**	1,700,074	39.1	**50.4**
Northern region	*2*	**2,599,215**	**38.9**	1,613,568	37.1	**61.1**
Southern region	*3*	**1,146,181**	**17.1**	897,756	20.6	**27.7**
International markets		**52,496**	**0.8**	32,989	0.8	**59.1**
Other brands*						
PRC market		**314,405**	**4.7**	104,360	2.4	**201.3**
International markets		**21,430**	**0.3**	–	–	**N/A**
Total		**6,690,073**	**100.0**	4,348,747	100.0	**53.8**

* *Including AIGLE, Z-DO, Double Happiness and Lotto.*

Notes:

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

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

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

Market research shows that second- and third-tier cities have the greatest growth potential throughout China. During the year, the Group achieved considerable improvement in its network coverage and store efficiency in second- and third-tier cities, thus boosting the contribution of these markets to the Group's revenue.

Cost of Sales and Gross Profit

In 2008, the cost of sales of the Group amounted to RMB3,469,699,000 (2007: RMB2,265,901,000) and overall gross profit margin of the Group was 48.1% (2007: 47.9%). Amid rising commodity prices and keen market competition during the year, the Group managed to maintain the gross profit margin level through appropriate cost control and adoption of a reasonable pricing strategy by leveraging on the growing competitiveness of its brands.

Distribution Costs and Administrative Expenses

In 2008, the Group's distribution costs amounted to RMB1,883,206,000 (2007: RMB1,221,619,000), which accounted for 28.1% of total revenue (2007: 28.1%). Expenditures on advertising, sponsorship and marketing, shop renovation, transportation and logistics continued to increase due to active brand promotion, sales channel expansion and rise in transportation and logistics costs during the year. The opening of new flagship stores also drove up store rental costs. Nonetheless, the percentage of overall distribution costs to total revenue remained flat due to the Group's effective management of expenses, its efforts in managing increases in salaries and benefits of sales staff, as well as depreciation and other sundry expenses remained stable.

Administrative expenses in 2008 amounted to RMB441,842,000 (2007: RMB282,357,000), which mainly comprised Directors' and staff costs, management consulting expenses, basic research and development expenses, office rental, provision for impairment of assets, depreciation and amortisation charges and other sundry expenses. Administrative expenses accounted for 6.6% of the Group's total revenue, representing an increase of 0.1 percentage points as compared to 6.5% in 2007. To cater for the Group's rapid growth and strategic needs, and in keeping with the intensifying research and development effort, the Group stepped up investment in human resources and management consultancy during the year. Office rental, stamp duty and other sundry expenses also increased due to the general surge in market prices.

Operating Profit

Operating profit of the Group for 2008 was RMB960,213,000, representing an increase of 57.4% as compared to RMB609,855,000 in 2007. The Group's operating profit margin improved by 0.4 percentage points from 14.0% in 2007 to 14.4% in 2008 due to a combination of stable gross profit margin and effective management of expenses.

Income Tax Expense

Income tax expense for 2008 was RMB201,938,000 (2007: RMB144,535,000). The effective tax rate was 21.7% (2007: 23.4%).

Provision for Inventories

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

As at 31 December 2008, accumulated provision for inventories was RMB68,151,000 (2007: RMB51,487,000).

Provision for Doubtful Debts

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

As at 31 December 2008, the accumulated provision for doubtful debts was RMB5,305,000 (2007: RMB4,809,000).

Liquidity and Financial Resources

The Group's net cash inflow from operating activities for the year 2008 amounted to RMB698,967,000 (2007: RMB392,924,000). As at 31 December 2008, cash and cash equivalents (including cash at banks and in hand, and fixed deposits held at banks with original maturity of no more than three months) amounted to RMB788,040,000, representing a net decrease of RMB61,847,000 as compared with the position as at 31 December 2007. The decrease was brought about by the following items:

Items	**Year ended 31 December 2008** *RMB'000*
Net cash inflow generated from operating activities	**698,967**
Net capital expenditure	**(249,519)**
Payment for acquisition of Double Happiness	**(175,102)**
Dividends paid	**(591,141)**
Net proceeds from bank borrowings	**425,380**
Other net cash outflow	**(170,432)**
Net decrease in cash and cash equivalents	**(61,847)**

The Group has always pursued a prudent treasury management policy and is in a strong liquidity position with sufficient standby banking facilities to cope with the funding needs arising from daily operations and future developments. As at 31 December 2008, the Group's available banking facilities amounted to RMB1,028,370,000. Under such facilities, the Group had outstanding bank borrowings of RMB607,480,000. The outstanding bank borrowings to equity holders' equity ratio was 32.0% (2007: 5.7%).

During the year, the Group did not hedge its exposure to interest rate risks.

Foreign Exchange Risk

The operation of the Group is mainly carried out in the PRC, with most transactions settled in Renminbi. A small amount of the Group's cash and bank deposits are denominated in Hong Kong Dollars, United States Dollars or Euros. The Company pays dividends in Hong Kong Dollars when dividends are declared. In addition, the Group pays certain license fees and sponsorship fees in United States Dollars or Euros, and part of bank borrowings in Hong Kong Dollars.

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

Pledge of Assets

As at 31 December 2008, buildings with net book value of RMB45,469,000 (2007: nil) and lands with net book value of RMB79,525,000 (2007: nil) of the Group were pledged to secure bank borrowings.

Contingent Liabilities

In 2008, the Group provided a financial guarantee for the benefit of an affiliated company in respect of a banking facility of RMB5,400,000 in principal. As at 31 December 2008, the exposure of this guarantee amounted to RMB5,400,000. The Group had no other significant contingent liabilities.

Operation Review

The year 2008 was the final year of the Group's first five-year strategic plan set out in 2004 when the Group was first listed on The Stock Exchange of Hong Kong Limited. Over the past five years, the Group operated on a model guided by strategic plans and founded on the enhancement of inherent abilities. It consistently invested in brand marketing resources, promoted product development strategies that gave prominence to footwear, and constantly adjusted and streamlined the Group's core business operations. Building on such a foundation, the Group continued to strengthen its product design and development capabilities and integrated marketing capacity. In addition, the Group made strong progress in human resources management, strategic management and information-based management, all of which effectively supported the Group's business growth.

In 2008, the Group sought to achieve rapid growth of its core business under the LI-NING brand through active efforts in integrated marketing and brand promotion, product research and development, sales channel expansion and supply chain management. It also endeavoured to establish a multi-brand structure to develop new businesses.

Brand Promotion and Marketing

Over the past few years, in particular 2008, the Group's integrated marketing capability improved remarkably, forming a marketing theme-based approach which integrates market, product and retail as a whole. The Group's integrated marketing capability was fully reflected in the successful marketing campaigns for the LI-NING brand during the Beijing Olympics. During the year, the LI-NING brand seized the opportunities afforded by the Beijing Olympics and achieved great results through thematic and strategic promotion and integrated marketing revolving around the Beijing Olympics. This resulted not only in contribution to revenue but, more importantly the value of the brand was significantly enhanced. The integrated marketing activities relating to the Beijing Olympics are highlighted below:

- The four Chinese national teams sponsored by the LI-NING brand, namely the Gymnastics, Diving, Table Tennis and Shooting Teams, bagged 27 of the 51 gold medals awarded to the Chinese Olympic Delegation at the Beijing Olympic Games. All four teams delivered stunning performances and the LI-NING brand and its products gained high exposure, achieving the marketing objectives successfully;

- On the international front, the Group's sponsored Spanish Men's Basketball Team and Argentina Men's Basketball Team won the silver medal and the bronze medal, respectively, in the Beijing Olympics. The Argentina Women's Basketball Team, the American Table Tennis Team, the Swedish Olympic Delegation and the Spanish Olympic Delegation were clad in LI-NING's sportswear when appearing at the Beijing Olympic Games and various major events, illustrating the high recognition of the LI-NING brand and its products by the international sports teams;

- The Group has a long history of cooperation with the CCTV and further collaborated with the CCTV Sports Channel during the year. All Beijing Olympic Games reporters for the network appeared in LI-NING branded attire. This greatly increased the awareness of the LI-NING brand among the global audience;

- The meticulously planned programme, "Hero's Assembly – LI-NING China Tour 2008" (英雄會英雄－李寧08中國之旅) was launched in Beijing in March 2008. Aimed at enabling sports enthusiasts to experience the Olympic spirit, two large "LI-NING Hero Vans" (李寧英雄大篷車) travelled across China during the year. The tour covered 70 cities, took 138 days and attracted over 150,000 participants, which stimulated consumer passion and enhanced the brand profile significantly;

- The Group's Olympics marketing theme "Hero" displayed the Group's strategic wisdom and vision as a leading PRC sports brand. The prompt and efficient implementation of a series of promotion strategies under the theme of "Hero", including advertisements, internet marketing, public relations, on the ground activities and store promotion drew tremendous attention. The Group was given a number of acclaimed awards and was the only company to win the "2008 Annual Marketing Prize" of the Asia Pacific region by Media Magazine Group; and

- In April 2008, the Group launched its Beijing Olympics promotion programme targeting major shopping centres in China. The programme comprised three main campaigns, namely, "Heroes Geared to Win" (英雄裝備) (the event for unveiling the Olympic sportswear sponsored by the LI-NING brand) launched in the run-up to the Beijing Olympic Games, "Heroes on Parade" (英雄助威) (the event to cheer for the Beijing Olympic Games) held during the Beijing Olympic Games, and "Return of Heroes" (英雄榮歸) (the event to welcome the return of Beijing Olympic champions) held after the conclusion of the Beijing Olympic Games. The programme was held in

30 major shopping centres covering 25 cities across the country on a route that stretched more than 10,000 km with the participation of 16 Beijing Olympic champions. This strengthened the Group's association with major shopping centres in the country and further promoted the brand image.

During the year, the Group continued to invest substantial sports marketing resources to strengthen the implementation of its integrated marketing strategies with a view to highlighting brand differentiation and enhancing the profile of the LI-NING brand.

- In basketball, the Group signed up Baron Davis, a point guard of Los Angeles Clippers featured in the NBA All-Star team, in November 2008. This tallied the total number of NBA stars the Group engages to four, following its partnerships with Shaquille O'Neal, Damon Jones and Chuck Hayes. It marks another great step forward in the Group's internationalization and professionalization strategies and involvement with the basketball field;

- In tennis, as an official partner of the Association of Tennis Professionals (ATP) in China, the Group consistently promoted and developed in the field of tennis together with ATP by exploiting its local advantages. During the year, the Group launched a promotion programme during the Shanghai Tennis Masters Cup, "LI-NING – ATP FEEL IT", to create a new-century tennis concept with power, passion, speed and fierce confrontation;

- In women's fitness, in July 2008, the Group announced its partnership with Beijing's Nirvana Yoga. Leveraging the professionalism of Nirvana Yoga in the women's fitness industry and the leading position of the LI-NING brand in the PRC sports sector, we will continue to develop professional women's fitness products to a new level;

- In indoor sports, the "Badminton World Federation Super Series – LI-NING China Open 2008" was successfully held in Shanghai in November 2008. In the same month, Ms. Wang Chen, the Group's sponsored female badminton player, won the Hong Kong championship of the Series;

- The Group also supported community sports through the sponsorship and organization of various events aimed at sports enthusiasts and young people. These included the China University Basketball Association (CUBA), one of the top three basketball associations in the PRC, the Chinese University Football League (CUFL) and nation-wide junior secondary school basketball events. These marketing and promotion activities, targeting our primary group of existing and potential consumers of sports products, had a far-reaching positive impact on brand-building and the Group's long-term development. During the year, LI-NING brand was named the "2008 Most Favourite Brand among University Students" in the election jointly held by "China Business" and some other media. The LI-NING brand has been awarded this accolade for three consecutive years; and

- In October 2008, the Group signed on as a Diamond Partner, the highest partnership ranking for the Hong Kong 2009 East Asian Games to be held in December 2009. The Group will also be the sole sponsor of sports apparel for this event. The Group believes that this will enhance the brand awareness of the LI-NING brand in Hong Kong and further expand its presence internationally.

In February 2009, the Group announced the signing up of Yan Zi, one of the champions in the women's doubles finals of the 2006 Australian Tennis Open and the 2006 Wimbledon Tennis Open and the bronze medalist in the women's tennis doubles finals of the 2008 Beijing Olympics. In March 2009, the Group signed up Elena Isinbayeva, a Russian pole vault athlete, who is a two-time Olympics gold medalist, three-time winner of the International Association of Athletics Association's World Athlete of the Year and 26-time world record holder. All these have greatly enriched the sports marketing resources as well as enhanced the professionalism and internationalization of the LI-NING brand.

Product Design and Research and Development

As China's leading sports brand, the Group has always strived to be at the forefront of product research and development. While consistently developing new products series, the Group places strong emphasis on the breadth and depth of product design and research and development. The Group has design, research and development centres in mainland China, Hong Kong and Portland, Oregon in the United States, each staffed by professional design and research and development teams. The Group also continued to work with reputable educational institutions and professional bodies in conducting research and development.

During the year, the Group cooperated with Michelin for the development of sports footwear products. This involves applying Michelin's tire-related technology to the soles of LI-NING branded sports shoes, offering consumers sports shoes with greater traction and durability.

In November 2008, Li Ning Sports Science Research and Development Centre officially commenced operations. This centre has a gross floor area of approximately 1,000 sq.m. and is equipped with various advanced equipment that meet the highest international standards. It also has three laboratories that focus on sports mechanics, shoe mechanical testing and research of foot shape and shoe tree shape. This research and development centre places strong emphasis on areas such as sports science research, product testing, research and development of core technology and enhancement of product functionality. The completion of the centre will bring about important breakthrough in research and development for LI-NING branded products and will contribute to the technological innovation of China sports products.

The Group applied its core patented technology, the "LI-NING BOW" (李寧弓) anti-shock technology, to its footwear products. This anti-shock capability meets the high standards of similar products in the market and the overall functionalities are on par with other international brands. In addition, a number of LI-NING branded basketball shoes were granted various local and international awards from widely recognized competitions, including "iF China Industrial Design Award" and "China Innovative Design Red Star Award". It was also named the "Most Successful Product Design" by Fortune Magazine. These awards demonstrate the great improvement in overall design quality of the LI-NING branded products.

In the apparel sector, the Group collaborated with its core material suppliers to develop the AT DRY SMART technology which is now broadly applied, especially to functional materials and products. This technology has an intelligent moisture-absorbing and quick-dry capability which dries out sweat quickly to reduce heat and stickiness and keep the body dry and comfortable. With super lightweight and bi-directional ventilation, products of the AT DRY SMART series were worn by the Group's sponsored Olympic contestants, helping them to achieve outstanding performances during the Beijing Olympic Games.

The Group combined advanced technology with oriental elements into its fashionable design, including the "Banpo" (半坡) basketball shoes blended with the sense of ancient culture, the team uniforms of the China's four national teams combined with the element of China's classic "dragon" culture, and the "LI-NING BOW" (李寧弓) series of running shoes derived from the wisdom of China's classical bridge architecture, Zhaozhou Bridge. This unique oriental design was embodied in different series of products. In 2008, the Group conducted a brand healthiness survey with a professional research institution and the LI-NING brand achieved satisfactory results in the areas of "professional sports brand", "trendiness", "able to represent China" and "oriental culture".

Sales Channel Expansion and Management

The number of retail stores of the Group has continued to grow at a steady pace. The following details the distribution and retail network of the Group's various brands in the PRC as at 31 December 2008.

LI-NING Brand

As at 31 December 2008, the number of LI-NING brand retail stores was 6,245, representing a net increase of 1,012 stores during the year, comprising:

- approximately 146 distributors operating a total of 5,935 franchised retail stores under the LI-NING brand across the PRC; and

- a total of 310 directly-managed retail stores under the LI-NING brand in Beijing, Shanghai and 16 provinces in the PRC.

Number of franchised and directly-managed retail stores

	31 December 2008	31 December 2007	**Change (%)**
LI-NING brand stores			
Franchised retail stores	**5,935**	4,881	**21.6**
Directly-managed retail stores	**310**	352	**-11.9**
Total	**6,245**	5,233	**19.3**

During 2008, the Group implemented the following measures to expand and manage sales channels for the LI-NING brand:

- continued to expand its sales channel coverage, especially in second- and third-tier cities that have the greatest growth potential. The number of stores in second- and third-tier cities accounted for 76.2% of total stores and 80.6% of total new stores for the year;

- strengthened retail capabilities and enhanced service quality to improve store efficiency. During the year, the efficiency and growth rate of retail stores in all market tiers achieved good results;

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

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

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

Number of stores by geographical location

	31 December 2008	31 December 2007	**Change (%)**
LI-NING brand stores			
Eastern region *(Note 1)*	**2,587**	2,185	**18.4**
Northern region *(Note 2)*	**2,204**	1,796	**22.7**
Southern region *(Note 3)*	**1,454**	1,252	**16.1**
Total	**6,245**	5,233	**19.3**

Notes:

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

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

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

Other Brands

As at 31 December 2008, there were a total of 637 franchised retail stores and 35 directly-managed retail stores under the AIGLE brand, the Z-DO brand and the Lotto brand. Products of Double Happiness and its subsidiaries mainly include equipment which are sold through wholesale and sports goods stores.

Supply Chain Management

In 2008, the Group implemented the following supply chain management measures that enabled effective and timely response to shifts in the market:

- four large scale sales fairs of LI-NING brand and five sales fairs of AIGLE and Z-DO brands were organized for distributors;

- optimized management of supply chain planning that regulates outputs based on demand, and purchases based on outputs in an effort to reduce inventory level and duration of stock keeping units;

- optimized procurement system and cost management, established procurement centre, integrated the supply of durable and interchangeable materials, increased purchase efficiency and reduced purchase cost;

- adopted a delivery logistics model that is able to cater for different retail demands and merchandise nature and integrate logistics resources to enhance efficiency, reduce costs and shorten warehousing and transit time. In addition, the Group is in the course of inviting a number of core suppliers to set up production facilities in Jingmen Industrial City, Hubei in order to ensure that its supply chain adapts to the needs of the market in a timely manner while mitigating the pressure from cost increases. The Group is also planning to set up a logistics centre in the City which will be a one-stop logistics solution that brings together manufacturing and distribution;

- the continuously refined supply chain and more effective inventory management have demonstrated their success on the back of high growth rates in sales. The average inventory turnover cycle was shortened to 61 days from 70 days in 2007. This demonstrates the continuous improvement of the Group's asset turnover; and

- exercised good credit control and improved the management of receivables, which resulted in shortening of the average trade receivables turnover cycle to 48 days from 53 days in 2007.

During the year, the continued increase in the cost of labour and raw materials posed challenges to production cost control. By adopting forward-looking cost management measures, the Group was able to maintain its cost competitiveness and gross profit margin, which successfully mitigated pressure from rising labour, raw material and other related costs through improvements in various aspects, including internal operating efficiency, economies of scale and advanced supply chain planning.

In the future, the Group will continue to enhance its supply chain so that it can adapt to changes in the market rapidly. It will take steps to reconfigure the production base and logistics flow in order to further streamline the supply chain which can better cater for the Group's business needs.

Multi-Brand Business Development

While strengthening the core LI-NING brand to achieve sustainable growth, the Group made further inroads in developing its multi-brand business. Other brands under the Group's brand portfolio now has AIGLE, Z-DO, Double Happiness and Lotto.

Z-DO

In April 2007, the Group officially launched Z-DO as a subsidiary brand of LI-NING, which utilizes hypermarkets as its sales channel. The development of the Z-DO brand not only sets a new sales model and establishes new sales networks, but also efficiently leverages the Group's supply chain resources to achieve better economies of scale. In complementing the LI-NING brand, the future development of the Z-DO brand will focus on developing a product portfolio that is better adapted for hypermarket channels and implementing an efficient operation model to enhance the supply of products to hypermarket channels.

AIGLE

The AIGLE brand specializes in high-end outdoor sports and casual apparel and footwear products. Future business development of the AIGLE brand will focus on promoting brand awareness, adjusting the product portfolio and pricing as well as localizing the supply chain in order to enhance store efficiency and sales.

Double Happiness

On 21 July 2008, the Group completed its acquisition of a 57.5% equity interest in Double Happiness which has become a non wholly-owned subsidiary of the Company.

Double Happiness and its subsidiaries are principally engaged in the manufacture, research and development, marketing and sale of table tennis, badminton and other sports equipment. Its brands include the Double Happiness brand which is best-known internationally for its high quality table tennis products. At the Beijing Olympics, Double Happiness supplied equipment for table tennis, badminton and weight-lifting tournaments as well as the competition attire for the athletes, which garnered high recognition from the athletes and the International Olympic Committee. The outstanding performance of the table tennis and badminton national athletes sponsored by Double Happiness in the Beijing Olympics and other international competitions, has immensely strengthened the brand profile. Going forward, the LI-NING brand and the Double Happiness brand will benefit from synergies of brand promotion, marketing, event sponsorship and expansion of sales channels.

The Board believes that having Double Happiness brand in the Group's brand portfolio enables the Group to strengthen its position in the flourishing PRC table tennis market. It will also further promote the professional image of the LI-NING brand and support the Group's multi-brand strategy. The Group believes that, given the growing popularity of indoor sports in the PRC, with many players reaching top-notch international standards, indoor sports will become an iconic sport for the Group. The Group will actively seek opportunities to collaborate with other indoor sports brands to accelerate its penetration in this sector in order to add a new dimension to the Group's future growth.

Lotto

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

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

Human Resources

The Group views its talent as an important asset and has placed special emphasis in the hiring, nurturing, incentivizing and retention of staff. During the year, major efforts were made in staff recruitment, training and development as well as refinement of organizational structure to provide strong support that drives the sustainable and rapid growth of the Group. As at 31 December 2008, the Group had 4,001 employees (2007: 2,904). This included the addition of 940 employees from its acquisition of Double Happiness.

The Group adopts a quantitative-based key performance indicators appraisal system, by linking its strategic goals in quantifiable terms through multiple layers to individual levels. Individual salary is divided into fixed salary and performance-based salary, and the latter is pegged to corporate performance, departmental objectives and individual merit. This system serves to reward outstanding achievers by motivating staff to become passionate and creative in their work while aligning individual goals to the Group's strategic objectives. In addition to a basic salary, employees with outstanding performance will be rewarded by way of cash, restricted shares, share options, individual awards, or a combination of these. This further aligns the interests of the employees to that of the Company. The Group also closely monitors salary trends in the market and the mix of its remuneration package to ensure market competitiveness. In addition, the Group endeavours to offer a good working environment with a wide range of training and promotion opportunities. All of these efforts combined enable the Group to attract and motive talented individuals.

Strategic Management

The Group's strategic management process has been developed and the management team has actively identified new opportunities, analysed and practiced new businesses, thereby enhancing the Group's strategic capabilities.

The Group has outlined the strategic development plan for the next five years, accompanied by detailed work plans and targets at every operational level. Meanwhile, in light of the changing landscape in the global economy, the Group actively engages external experts to develop procedures that help the organization respond swiftly to changes in the market environment. The Group's strategic management embodies elements of consistency, forward-looking, flexibility and operability.

In an effort to encourage establishment of a knowledge base for the Group, the "Li Ning Knowledge-based Management" planning session was kicked-off in June 2008. The project serves as a precursor to instil elements of knowledge-based management into development of a holistic framework of knowledge-based management guiding the Group's operations in the next five years. The Group believes that through implementing knowledge-based management, internal operations involving the use of knowledge will become more effective, dissemination of core knowledge can be strengthened and the whole organization's capabilities in learning, mobilization and team-based innovation can be enhanced.

In the future, strategic research exploring aspects of forward looking and innovation will become the focal point of the Group's strategic management. The Group will intensify its effort in innovation at the strategic level.

Information-based management

The Group has established a core trading backbone based on SAP, integrating financial management, sales management, supply chain management, decision support and information service functions into an amalgamated information management application which supports immensely the needs of our business development.

In the next stage, we shall continue to manage and perfect our information system. Product life cycle management system, synergistic supply chain management system, new generation of retail management system (POS) and SOA-based multi-system integrated architecture will continually be established and implemented.

Outlook

The stellar performance in 2008 concluded the Group's strategy for the past five years. It also sets the tone for the next five years from 2009 to 2013.

Going forward, the Group will reconstruct the LI-NING brand by better defining its target customer segments and establishing its unique positioning and brand personality. Evolving from the multi-brand platform anchored on the LI-NING brand, the Group will strive to deliver growth in its new strategic businesses and strengthen key capabilities, including the ability of the management, sales and design teams, and the key business attributes, in order to boost its competitiveness and generate more growth drivers. The LI-NING brand, as the Group's core brand, will serve to communicate the new meaning and definition that the Group seeks to establish, and continuous efforts will be made to better structure its channel networks and enhance store efficiency, increase its brand competitiveness in the multi-brand operators and optimize its supply chain in order to support and strengthen fast business growth.

From a macroeconomic perspective, the global economic crisis is continuing. China's economy is exposed to structural change. The China Government has set "maintaining growth" as one of its key objectives with a series of measures introduced to boost domestic demand. The macroeconomic environment is uncertain and growth in consumption and retail sales has shown signs of slowing down. These, coupled with escalating raw material and labour costs, as well as aggressive price discounts, will affect the profitability of brand companies, especially at the upper end of profit margins.

From the industry perspective, the success of the Beijing Olympics has provided the China Government a solid foundation in building the country into a strong sports nation. In the medium to long term, it is expected that China's demographic development pattern will continue to support high-speed growth in the sporting goods industry. This, when coupled with accelerating urbanization will help drive the development of the sporting goods industry in the PRC in the medium to long term. In the midst of a high-speed growth cycle, China's sporting goods industry is set to benefit from the improving consumption power of the Chinese consumer and the increasing aspirations for sports and leisure, hence providing ample room for ongoing business development. Meanwhile, leading enterprises in the industry are increasing the scale of their investment in resources. Coupled with increasing concentration of the major brands, which blurs the distinction between brands, competition within the industry is becoming more and more intense.

Challenges breed opportunities. The adverse macroeconomic situation poses great challenge to those in the retail industry, including the Group. In light of the pressure surrounding China's and the global economy and the uncertain macroeconomic environment, the Group has adopted cautious strategies and is proactively assessing its business risks and formulating appropriate remedial measures in order to be prepared for contingencies and ensure sustainable growth.

The Group is determined to meet the challenges ahead by leveraging its leading brand position in China and the highly professional management team. We will utilize fully our strength and advantages and continue to adopt the strategy-driven and capacity building growth model so as to further establish our core capabilities in product research and development and integrated marketing. We will strive to enhance the brand equity and penetrate into more market segments to achieve well-balanced development from its multi-brand and multi-stream business platform. The Group will also strive to maintain a suitable level of gross profit margin, increase market share and achieve stable growth in store efficiency with a view to maintain sustainable growth and create better value for shareholders and investors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company had not redeemed any of its shares during the year ended 31 December 2008. Except for the Restricted Share Award Scheme Trust, neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company is committed to upholding a high standard of corporate governance by continual review and enhancement of its corporate governance practices. During the year 2008, the Company has complied with all the code provisions and most of the recommended practices set out in 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 2008.

The Audit Committee of the Company, consisting of three non-executive Directors (two of whom are independent non-executive Directors), has reviewed the accounting principles and practices adopted by the Group and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2008.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 15 May 2009 at 11:00 a.m. A notice of the annual general meeting will be published on the Company's websites at www.lining.com and www.irasia.com/listco/hk/lining and The Stock Exchange of Hong Kong Limited's website at www.hkex.com.hk, on or about 8 April 2009 and will be dispatched to the shareholders together with the Company's annual report 2008.

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

Hong Kong, 18 March 2009

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. Stuart Schonberger, Mr. Chu Wah Hui and Mr. James Chun-Hsien Wei. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei and Mr. Chan Chung Bun, Bunny.

This results announcement is published on the Company's websites at www.lining.com and www.irasia.com/listco/hk/lining and The Stock Exchange of Hong Kong Limited's website at www.hkex.com.hk.