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 2006

HIGHLIGHTS OF 2006 INTERIM RESULTS

- Turnover rose by 24.2% to RMB1,371.9 million*
- Profit attributable to equity holders grew by 65.9% to RMB129.9 million
- Basic earnings per share amounted to RMB12.66 cents (corresponding period last year: RMB7.65 cents)
- Margin of profit attributable to equity holders was 9.5% (corresponding period last year: 7.1%)
- Declared interim dividend of RMB3.80 cents (equivalent to HK3.71 cents) per ordinary share

* *Turnover of the LI-NING brand which represents 99.4% of total turnover, rose by 32.8% to RMB1, 363.7 million.*

INTERIM RESULTS

The board of directors (the "Board" or "Directors") of Li Ning Company Limited (the "Company") is pleased to announce the unaudited consolidated condensed interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2006, together with the comparative figures for the corresponding period last year, as follows:

CONSOLIDATED CONDENSED INTERIM BALANCE SHEET
As at 30 June 2006
(All amounts in RMB thousands unless otherwise stated)

	Note	Unaudited 30 June 2006	Audited 31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment		**97,954**	95,796
Land use rights		**3,792**	3,857
Intangible assets		**10,786**	9,960
Deposit paid for land use right		**10,002**	10,002
Total non-current assets		**122,534**	119,615
Current assets			
Inventories		**295,433**	290,617
Accounts and notes receivable	*5*	**513,113**	373,226
Other receivables and prepayments		**86,241**	67,824
Fixed deposits held at banks		**183,988**	353,161
Cash at banks and in hand		**597,660**	378,368
Total current assets		**1,676,435**	1,463,196
Total assets		**1,798,969**	1,582,811
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital		**109,007**	108,889
Reserves		**1,142,697**	1,052,035
		1,251,704	1,160,924
Minority interest		**17,399**	17,372
Total equity		**1,269,103**	1,178,296
LIABILITIES			
Current liabilities			
Trade payables	*6*	**310,772**	214,162
Other payables and accruals		**193,656**	161,196
Taxation payable		**24,957**	29,157
Dividends payable		**481**	–
Total liabilities		**529,866**	404,515
Total equity and liabilities		**1,798,969**	1,582,811
NET CURRENT ASSETS		**1,146,569**	1,058,681
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,269,103**	1,178,296

CONSOLIDATED CONDENSED INTERIM INCOME STATEMENT

For the six months ended 30 June 2006

(All amounts in RMB thousands unless otherwise stated)

		Unaudited	
		Six months ended 30 June	
	Note	**2006**	2005
Turnover	*4*	**1,371,929**	1,104,307
Cost of sales	*8*	**(688,302)**	(573,677)
Gross profit		**683,627**	530,630
Distribution expenses	*8*	**(400,844)**	(331,476)
Administrative expenses	*8*	**(136,141)**	(96,662)
Other income	*7*	**25,871**	10,677
Operating profit		**172,513**	113,169
Finance income, net	*9*	**815**	6,355
Profit before taxation		**173,328**	119,524
Taxation	*10*	**(43,362)**	(40,740)
Profit for the period		**129,966**	78,784
Attributable to:			
Equity holders of the Company		**129,939**	78,313
Minority interest		**27**	471
		129,966	78,784
Interim dividend	*11*	**39,038**	22,649
Earnings per share for equity holders of the Company (RMB cents)			
– Basic	*12*	**12.66**	7.65
– Diluted	*12*	**12.48**	7.60

SELECTED NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION:

(All amounts in RMB thousands unless otherwise stated)

1. BASIS OF PREPARATION

This unaudited consolidated condensed interim financial information for the six months ended 30 June 2006 has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. This unaudited consolidated condensed interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

2. ACCOUNTING POLICIES

The accounting policies adopted are consistent with the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for the financial year ending 31 December 2006:

– Amendment to IAS 19, 'Actuarial gains and losses – group plans and disclosures', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant to the Group;

– Amendment to IAS 39, Amendment 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss;

– Amendment to IAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

– Amendment to IAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

– Amendment to IAS 39 and IFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant to the Group;

– IFRS 6 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after 1 January 2006. This standard is not relevant to the Group;

– IFRIC Int.4 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after 1 January 2006. The Group has reviewed its contracts. Some of them are required to be accounted for as leases in accordance with IAS 17, 'Leases'. However, these leases are operating leases, and their reclassification has had no impact on the expense recognised in respect of them;

– IFRIC Int.5 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant to the Group; and

– IFRIC Int.6 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant to the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

– IFRIC Int.7 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after 1 March 2006. Management does not expect the interpretation to be relevant for the Group;

– IFRIC Int.8 'Scope of IFRS 2', effective for annual periods beginning on or after 1 May 2006. Management is currently assessing the impact of IFRIC Int.8 on the Group's operations;

– IFRIC Int.9 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group has assessed whether any embedded derivative should be separately accounted for using principles consistent with IFRIC Int.9; and

– IFRS 7 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after 1 January 2007. The Group is in the process of assessing the impact of these new standards, and will apply them from annual period beginning on 1 January 2007.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

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

(i) Foreign exchange risk

Renminbi is not a freely convertible currency. Future exchange rates of Renminbi against other currencies could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the government of the People's Republic of China ("PRC"). The exchange rates of Renminbi are also affected by economic developments and political changes domestically and internationally, and supply and demand for Renminbi. From 1994 until 21 July 2005, the rate at which Renminbi was convertible into US dollars was fixed by the People's Bank of China at a stable rate of approximately RMB8.277 per US dollar. From 21 July 2005, the Renminbi was pegged to a basket of currencies instead. This revaluation of exchange rate resulted in the Renminbi appreciating against the US dollars by approximately 2%. The Group has certain fixed deposits denominated in US dollars and Hong Kong dollars held at various banks, and the Company is required to pay dividends in Hong Kong dollars when dividends are declared, the fluctuation of exchange rates of Renminbi may have positive or negative impacts on the results of the operations of the Group.

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates and the Group has no significant interest-bearing assets, other than cash at banks. The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(iii) Credit risk

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

(b) Fair value estimation

The face values less any estimated credit adjustments for the Group's financial assets and liabilities with a maturity of less than one year, including cash at banks and in hand, fixed deposits held at banks, accounts and notes receivable and other receivables, trade payables and other payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purpose is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. TURNOVER AND SEGMENT INFORMATION

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

Primary reporting format – business segment

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

Secondary reporting format – geographical segment

Substantially all assets and operations of the Group for the period under review were located in the PRC. No geographical segment analysis is presented as less than 5% of the Group's turnover and contribution to operating profit is attributable to markets outside the PRC.

5. ACCOUNTS AND NOTES RECEIVABLE

	Unaudited 30 June 2006	Audited 31 December 2005
Gross accounts and notes receivable	**523,548**	376,942
Less: provision for impairment of receivables	**(10,435)**	(3,716)
	513,113	373,226

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

	Unaudited 30 June 2006	Audited 31 December 2005
0 – 30 days	**253,474**	226,956
31 – 60 days	**91,654**	67,105
61 – 90 days	**97,620**	44,661
91 – 180 days	**70,365**	34,504
181 – 365 days	**7,769**	637
Over 365 days	**2,666**	3,079
	523,548	376,942

6. 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 2006	Audited 31 December 2005
0 – 30 days	**243,555**	205,666
31 – 60 days	**57,315**	4,645
61 – 90 days	**5,854**	2,410
91 – 180 days	**2,794**	312
181 – 365 days	**585**	829
Over 365 days	**669**	300
	310,772	214,162

7. OTHER INCOME

	Unaudited Six months ended 30 June	
	2006	2005
Subsidies from local governments *(note a)*	**20,901**	10,677
Net gain on disposal of a subsidiary *(note b)*	**4,970**	–
	25,871	10,677

Notes:

(a) The Group received subsidies from various local governments in the PRC amounting to RMB20,901,000 for the six months ended 30 June 2006 (2005: RMB10,677,000).

(b) During the six months ended 30 June 2006, the Group disposed of Hangzhou Edosports Goods Sales Co., Ltd., a company incorporated in the PRC and principally engaged in sales of sports goods, to two individuals unrelated to the Group, and recognised gain on disposals of RMB4,970,000 (2005: nil).

8. EXPENSES BY NATURE

Expenses included in cost of sales, distribution and administrative expenses are analysed as follows:

	Unaudited Six months ended 30 June	
	2006	2005
Cost of inventories recognised as expenses included in cost of sales	**660,548**	545,207
Depreciation on property, plant and equipment	**11,041**	11,650
Amortisation of intangible assets	**1,310**	1,322
Amortisation of land use rights	**65**	104
Advertising and marketing expenses	**240,229**	173,378
Director benefit expenses	**7,500**	9,199
Employee benefit expenses	**118,738**	91,178
Operating lease rentals in respect of land and buildings	**50,504**	50,208
Research and product development	**20,708**	21,609
Transportation and logistics expenses	**21,544**	25,979
Impairment charge of accounts receivable	**6,724**	2,563
Write-down of inventories to net realisable value	**18,706**	8,492
Auditor's remuneration	**1,132**	1,516
Other expenses	**66,538**	59,410
Total of cost of sales, distribution and administrative expenses	**1,225,287**	1,001,815

9. FINANCE INCOME, NET

	Unaudited Six months ended 30 June	
	2006	2005
Interest expenses on bank borrowings wholly repayable within 5 years	**–**	1,102
Interest income on bank balances and deposits	**(7,543)**	(7,308)
Net foreign currency exchange loss/(gain)	**6,078**	(599)
Bank charges	**650**	450
	(815)	(6,355)

10. TAXATION

	Unaudited Six months ended 30 June	
	2006	2005
Current taxation		
– Hong Kong profits tax	**262**	933
– the PRC enterprise income tax	**43,100**	39,807
	43,362	40,740

(a) The Company was incorporated in the Cayman Islands. Under the current laws of the Cayman Islands, there are no income, estate, corporation and capital gains subject to income tax 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 for at the rate of 17.5% on the estimated assessable profit arising in Hong Kong for the six months ended 30 June 2006 (2005: 17.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 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 15% based on the relevant PRC tax rules and regulations.

11. INTERIM DIVIDEND

	Unaudited Six months ended 30 June	
	2006	2005
Declared interim dividend of RMB3.80 cents (2005: RMB2.30 cents) per ordinary share	**39,038**	22,649

At the meeting held on 25 August 2005, the Directors declared an interim dividend of RMB2.30 cents (equivalent to HK2.21 cents) per ordinary share, totalling RMB22,649,000, for the six months ended 30 June 2005, which was paid on 30 September 2005.

At the meeting held on 28 August 2006, the Directors declared an interim dividend of RMB3.80 cents (equivalent to HK3.71 cents) per ordinary share, totalling RMB39,038,000, for the six months ended 30 June 2006. This declared dividend is not reflected as a dividend payable in this condensed financial information, but will be reflected as an appropriation of distributable reserves for the year ending 31 December 2006. The conversion rate for the purpose of dividend payment in Hong Kong dollars is based on the official exchange rate of RMB against Hong Kong dollars on 28 August 2006.

12. 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 during the period.

	Unaudited Six months ended 30 June	
	2006	2005
Profit attributable to equity holders of the Company	**129,939**	78,313
Weighted average number of ordinary shares in issue (thousands)	**1,026,737**	1,023,038
Basic earnings per share (RMB cents)	**12.66**	7.65

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company's potentially dilutive ordinary shares comprised shares which may be issued under its share option schemes. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market price of the Company's shares during the period) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options, 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	
	2006	2005
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**129,939**	78,313
Weighted average number of ordinary shares in issue (thousands)	**1,026,737**	1,023,038
Adjustment for share options (thousands)	**14,603**	6,721
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,041,340**	1,029,759
Diluted earnings per share (RMB cents)	**12.48**	7.60

13. SUBSEQUENT EVENTS

(a) On 5 July 2006, options to purchase 4,300,000 shares of the Company held by Alpha Talent Management Limited, a company owned by Mr. Li Ning who is the Chairman and a substantial shareholder of the Company, were granted to certain employees of the Group at the subscription price of HK$0.86 per share pursuant to the share purchase scheme of Alpha Talent Management Limited.

(b) On 14 July 2006, the Board adopted a restricted share award scheme (the "Scheme") with a duration of 10 years. Pursuant to the Scheme, the Company shall transfer cash to a trustee from time to time for the acquisition of shares of the Company to be held upon trust for the benefits of the selected participants. Shares granted to the selected participants are restricted shares which will become unrestricted upon vesting at the end of each vesting period. No shares will be granted under the Scheme if the number of shares granted at any time during the scheme period has exceeded 2% of the issued share capital of the Company as at the adoption date. Apart from the expenses incurred by the trustee attributable or payable in connection with the vesting of the restricted shares which shall be borne by the selected participants, vested shares shall be transferred at no cost to the selected participants.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of RMB3.80 cents (equivalent to HK3.71 cents) per ordinary share for the six months ended 30 June 2006 (2005: RMB2.30 cents, equivalent to HK2.21 cents). The conversion of RMB into Hong Kong dollars is made at the rate of HK$1.00 = RMB1.0247 being the official exchange rate of RMB against Hong Kong dollars as quoted by the People's Bank of China as at the date of this announcement. The dividend will be payable on or around 29 September 2006 to the shareholders whose names appear on the register of members of the Company on 22 September 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 19 September 2006 to Friday, 22 September 2006 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Center, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on Monday, 18 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Owing to the sustained growth of the PRC's economy and the increasing consumption power of people in the PRC, as well as the business opportunity brought about by the 2008 Beijing Olympics, the Group has continued to operate under a favorable business environment. It maintained outstanding results in the first half of 2006 by leveraging on its remarkable brand marketing efforts with a distinguished market positioning, capabilities in conducting innovative product research, development and design, extensive distribution and retail network, and flexibilities and efficiency in supply chain management.

FINANCIAL REVIEW

Highlights

For the six months ended 30 June 2006, the Group's turnover grew by 24.2% to RMB1,371,929,000; operating profit rose by 52.4% to RMB172,513,000; EBITDA, i.e. earnings before interest, tax, depreciation and amortisation, grew by 46.5% to RMB184,929,000; profit after tax increased by 65.0% to RMB129,966,000; profit attributable to equity holders surged by 65.9% to RMB129,939,000, and return on equity holders' equity (half year) was 10.8%. Net asset value per share was RMB123.54 cents and debt to equity holders' equity ratio (i.e. total liabilities as a percentage of equity holders' equity) was 42.3%.

Turnover

For the six months ended 30 June 2006, the Group's turnover reached RMB1,371,929,000, an increase of 24.2% over the corresponding period last year. In particular, turnover of LI-NING branded products amounted to RMB1,363,735,000, showing an increase of 32.8% over the corresponding period last year. The growth in turnover was attributable to (i) distinct and well-defined brand marketing strategies; (ii) successful development of new product series; (iii) constant enhancement in supply chain management; and (iv) distinguished market position and improved sales capabilities.

Breakdown of turnover by brand and product category

	Six months ended 30 June				
	2006		2005		
		% of total turnover		% of total turnover	Change
	RMB'000	***(%)***	*RMB'000*	*(%)*	*(%)*
LI-NING brand					
Footwear	**527,166**	**38.4**	351,626	31.9	49.9
Apparel	**728,912**	**53.2**	591,019	53.5	23.3
Accessories	**107,657**	**7.8**	83,882	7.6	28.3
Total	**1,363,735**	**99.4**	1,026,527	93.0	32.8
Other brands*					
Footwear	**876**	**0.1**	15,147	1.3	-94.2
Apparel	**7,243**	**0.5**	57,917	5.3	-87.5
Accessories	**75**	**0.0**	4,716	0.4	-98.4
Total	**8,194**	**0.6**	77,780	7.0	-89.5
OVERALL					
Footwear	**528,042**	**38.5**	366,773	33.2	44.0
Apparel	**736,155**	**53.7**	648,936	58.8	13.4
Accessories	**107,732**	**7.8**	88,598	8.0	21.6
Total	**1,371,929**	**100.0**	1,104,307	100.0	24.2

* *Other brands include KAPPA and AIGLE. The corresponding figures for 2005 relate to KAPPA brand (sold in August 2005) and those for 2006 relate to AIGLE brand.*

Turnover of the Group was mainly generated by the Group's core brand, LI-NING, which accounted for 99.4% of the total turnover. The Group has built a distinguished brand position by infusing innovative and distinctive brand characteristics into its products. In particular, the "飛甲" (Flying Armor) series of basketball shoes and "天羽" (Flying Feather) series of running shoes have been well accepted by the market due to their respective oriental and innovative elements. In addition, significant improvements in footwear product design, increasing number of medium-priced products and reinforced marketing efforts resulted in a strong growth of 49.9% in footwear sales over the corresponding period last year. In spite of keen competition from the aggressive expansion of both overseas and domestic brands, an increase of sales growth of 23.3% was achieved for apparel products. Sales of accessories increased by 28.3% as a result of the optimisation of product strategy during the period.

AIGLE branded products operated by the joint venture established by the Group and Aigle International S.A. ("AIGLE") of France were launched during the period under review, and their sales for the period amounted to RMB8,194,000.

Percentage of turnover by sales channel

	Six months ended 30 June	
	2006	2005
	% of total turnover	% of total turnover
	(%)	*(%)*
LI-NING brand		
PRC market		
Sales to franchised distributors	**78.8**	69.5
Sales by directly-managed retail stores	**8.7**	10.5
Sales by directly-managed concession counters	**10.8**	11.7
International markets	**1.1**	1.3
Other brands*		
PRC market	**0.6**	7.0
Total	**100.0**	100.0

* *Other brands include KAPPA and AIGLE. The corresponding figures for 2005 relate to KAPPA brand (sold in August 2005) and those for 2006 relate to AIGLE brand.*

Percentage of turnover by geographical location

	Note	Six months ended 30 June **2006** **% of total turnover** ***(%)***	2005 % of total turnover *(%)*
LI-NING brand			
PRC market			
Beijing and Shanghai		**7.6**	8.5
Central region	*1*	**12.1**	11.8
Eastern region	*2*	**22.3**	23.3
Southern region	*3*	**12.4**	11.9
Southwestern region	*4*	**9.8**	7.9
Northern region	*5*	**17.5**	14.6
Northeastern region	*6*	**14.5**	12.0
Northwestern region	*7*	**2.1**	1.7
International markets		**1.1**	1.3
Other brands*			
PRC market		**0.6**	7.0
Total		**100.0**	100.0

* *Other brands include KAPPA and AIGLE. The corresponding figures for 2005 relate to KAPPA brand (sold in August 2005) and those for 2006 relate to AIGLE brand.*

Notes:

1. Central region includes Hubei, Hunan and Jiangxi.

2. Eastern region includes Zhejiang, Jiangsu and Anhui.

3. Southern region includes Guangdong, Guangxi, Fujian and Hainan.

4. Southwestern region includes Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

5. Northern region includes Shandong, Hebei, Henan, Tianjin, Shanxi and Inner Mongolia.

6. Northeastern region includes Liaoning, Jilin and Heilongjiang.

7. Northwestern region includes Shaanxi, Xinjiang, Gansu, Qinghai and Ningxia.

The Group has established an extensive distribution and retail network with sales outlets throughout the PRC. In terms of market potential, the second and third-tier cities where the Group has a strong presence, are expected to be the mainstream markets for future growth.

Cost of sales and gross profit

For the six months ended 30 June 2006, cost of sales of the Group amounted to approximately RMB688,302,000 (2005: RMB573,677,000). The overall gross profit margin for the period was maintained at a satisfactory level of 49.8%, showing an increase of 1.7% from 48.1% for the corresponding period last year. Such margin expansion was mainly due to the larger proportion of new products in the Group's total sales, as well as enhancement in product design and research and development, which enabled the Group to command a premium in the retail price of new products.

Gross profit margin of product category

	Six months ended 30 June	
	2006	2005
	Gross profit margin (%)	Gross profit margin (%)
Overall	**49.8**	48.1
Footwear	**48.7**	47.4
Apparel	**50.1**	48.9
Accessories	**53.5**	44.5

Other income

For the six months ended 30 June 2006, other income of the Group amounted to approximately RMB25,871,000 (2005: RMB10,677,000), which was mainly comprised of government subsidies and gain on disposal of a subsidiary.

Distribution and administrative expenses

For the six months ended 30 June 2006, distribution expenses amounted to approximately RMB400,844,000 (2005: RMB331,476,000), mainly comprising advertising and promotional expenses, salaries and benefits of sales staff, rental and renovation expenses of retail stores, transportation and logistics expenses, and sponsorship and other marketing-related expenses. Distribution expenses accounted for 29.2% of the Group's total turnover, representing a decline of 0.8% against 30.0% for the corresponding period last year. The decrease was mainly attributable to (i) optimisation of sales personnel deployment of the sales department and stable human resources expenses; and (ii) better logistics management leading to a reduction in logistics expenses.

Administrative expenses of approximately RMB136,141,000 (2005: RMB96,662,000) for the six months ended 30 June 2006 were mainly comprised of staff costs, consulting expenses, office rentals, depreciation of office premises and other general expenses. Administrative expenses as a percentage of turnover increased to 9.9% from 8.8% for the corresponding period last year and is mainly due to (i) the increase in human resources expenses as a result of recruiting senior management personnel, together with the enhanced salaries and benefits as well as stronger performance incentives; and (ii) an increase in provision for inventories and bad debts.

Operating profit

For the six months ended 30 June 2006, operating profit of the Group was RMB172,513,000, representing an increase of 52.4% from RMB113,169,000 for the corresponding period last year. Operating profit margin for the period was approximately 12.6%, representing an increase of 2.4% over the corresponding period last year, primarily attributable to the rise in gross profit margin and more effective cost management.

Finance income and taxation

For the six months ended 30 June 2006, finance income of the Group amounted to RMB815,000 (2005: finance income of RMB6,355,000). This decrease was mainly due to the increase in exchange loss and cost of treasury management as a result of fluctuation in foreign exchange rates.

For the six months ended 30 June 2006, taxation amounted to RMB43,362,000 (2005: RMB40,740,000) with an effective tax rate of 25.0% (2005: 34.1%). Reduction of effective tax rate was attributable to the implementation of effective tax planning by the Group during the period.

Profit attributable to equity holders

Profit attributable to equity holders for the six months ended 30 June 2006 was approximately RMB129,939,000, showing an increase of 65.9% from RMB78,313,000 for the corresponding period last year. Net profit margin attributable to equity holders for the period was 9.5%, representing an increase of 2.4% compared to 7.1% for the corresponding period last year.

Basic earnings per share amounted to RMB12.66 cents (2005: RMB7.65 cents).

Provision for inventories
Inventories of the Group are stated at the lower of cost and net realisable value. In the event that net realisable value falls below cost, the difference will be taken as a provision for inventories.

Accumulated provision for inventories as at 30 June 2006 amounted to approximately RMB32,519,000 (31 December 2005: RMB14,227,000). In light of the business expansion, the proportion of provision for inventories was adjusted and increased during the period in accordance with the net realisable value, resulting in an increase in provision for inventories.

Provision for doubtful debts
The Group's policy in respect of provision for doubtful debts in 2006 remains the same as that in 2005.

Accumulated provision for doubtful debts as at 30 June 2006 amounted to approximately RMB10,435,000 (31 December 2005: RMB3,716,000). The increase in provision for doubtful debts was mainly attributable to an increase in sales and extension of credit period granted to customers.

BUSINESS REVIEW

During the six months ended 30 June 2006, the Group continued to focus on its business development strategies, including (i) reinforcing brand awareness and brand loyalty; (ii) infusing professional and trendy elements into the brand image; (iii) strengthening product design, research and development; (iv) expanding sales channels and network; (v) improving supply chain management; and (vi) embarking on a multi-brand expansion plan.

Brand promotion and sponsorships
The Group has invested substantial resources in marketing and promotion with a view to raising brand awareness and brand influence. In the first half of 2006, the Group has embarked on a number of effective marketing initiatives for its five target sports goods series, namely running, basketball, soccer, tennis and fitness. Brand influence and customer loyalty have been effectively enhanced through a diversified range of brand image promotion and sponsorship activities as summarised below.

NBA – Official marketing partner in China
Being the official marketing partner of the National Basketball Association ("NBA") in China, the Group successfully entered into an agreement with an NBA player, Damon Jones in January 2006. Pursuant to the agreement, Damon Jones will wear LI-NING professional basketball shoes in the NBA league games in which he participates. This partnership attests to the professional qualities and international standards of the LI-NING branded sports footwear and marks a great stride for the LI-NING brand towards the achievement of its goal of becoming a top world-class sports goods brand.

In addition, the Group successfully arranged for the NBA Jam Van to pay their first visit to the PRC last year. The Group has become the official marketing partner for the NBA Jam Van in China in 2006. The Group will participate in a wide-range of activities with the NBA Jam Van in 2006 and will provide its products to be used in these activities. In the first half of 2006, the Group organised 38 activity days in 10 different cities, including Shanghai, Nanjing, Wuhan and Guangzhou. These activities have successfully reinforced the strong ties between the LI-NING brand and the NBA brand, which has further enhanced the professional image of the LI-NING brand.

CUBA – Sponsorship for one of the top three basketball associations in the PRC
In December 2005, the Group announced its partnership agreement with the China University Basketball Association ("CUBA") and has become the key partner of one of the top three basketball associations in the PRC. In the PRC basketball sector, CUBA is a leading association in terms of geographical coverage, participation and cultural sophistication. The Group's role as the sponsor

of on-site accoutrements of CUBA will further reinforce the professional image of the LI-NING brand in the basketball sector, which will in turn enable the Group to leverage on the relevant promotional resources in markets at the university level. Such cooperation can also set up a long-term marketing platform for the Group in the basketball sector.

ATP – Official marketing partner
On 16 March 2006, the Group announced an official marketing partnership agreement with Association of Tennis Professionals ("ATP"), the world's premier men's professional tennis tournament association. During the seven-year period as specified in the agreement, the Company will be granted the exclusive right for manufacturing, selling and marketing of tennis products including apparel, footwear and accessories co-branded by LI-NING and ATP. These co-branded products will appear in ATP events as part of the promotion campaign. ATP and the Company will co-host the LI-NING ATP Challenger Series and the LI-NING ATP Smash Tennis tournaments, which aim at offering young tennis athletes development opportunities. In addition, ATP will assist the Company to identify and sign-up tennis players for endorsement purposes.

CUFL – Sponsorship for China University Football League
Football is one of the most popular sports activities among university students. The China University Football League ("CUFL") is a leading event that attracts the participation of the largest number of high schools with the highest level of skills, and exerts the most extensive influence in the football sector amongst high schools in the PRC. In April 2006, LI-NING brand and the Federation of University Sports of China announced their collaboration in launching the new LI-NING China University Football League (李寧中國大學生足球聯賽). In the next 10 years of cooperation, LI-NING brand will fully utilize its technological strength and to make good use of its favorable market position to participate in and to support football activities among Chinese university students by various means such as event naming, event promotion, brand promotion and provision of apparel and sports goods for football matches.

Sponsorship for Sudan National Track & Field Team
LI-NING brand has commenced its sponsorship for the National Track & Field Team of the Republic of Sudan from 1 January 2006. Sudan athletes will wear LI-NING branded products in the 2008 Beijing Olympics. The athletic team of Sudan is an outstanding team with notable performance especially in middle and long distance races. Their young athletes have currently obtained distinguished results in various international matches and will play a key role in their team in the 2008 Beijing Olympics. The sponsorship enables the Group to improve its professional image of its series of running products.

Netease – "LI-NING Netease Sports Channel"
The Group and Netease, a leading Internet technology venture in the PRC, have collaborated in the "LI-NING Netease Sports Channel'' (李寧網易體育頻道). Through a series of joint promotional activities, marketing resources and corporate culture development initiatives, the two parties have joined hands to establish an information exchange platform which provides professional and comprehensive coverage of sports news. Through such collaboration, the scope of the reports of the NBA games has been widened and it provides sufficient coverage of medal-winning national sports teams, together with emphasis on in-depth reports in relation to the diving team, table tennis team, gymnastics team and the shooting team.

Media advertisements
The Group has adopted an effective advertising strategy by using television commercials and other indoor and outdoor media to promote the image of its brand and to provide information in relation to its products. The new advertisement series introduced in 2006 integrates oriental elements into the spirit of sports with an international outlook. This successfully reinforces the unique character of the brand by showing a distinctive cultural difference between the LI-NING brand and its competitors. Such distinctive expression further reinforces the Group's motto, "Anything is possible". This advertisement series impressed consumers and the Group was awarded "最具創意機構" (The Most Creative Organisation) at the First Grand Ceremony of Creative China held in May 2006.

Subsequent event

On 14 August 2006, the Group announced an agreement with the world renowned NBA player, Shaquille O'Neal for a term of five years. Shaquille O'Neal currently plays as a center for Miami Heat. He was honored as one of the NBA All-Time Top 50 Players and has won four NBA championships. According to the agreement, the Group and Shaquille O'Neal will jointly develop the LI-NING - SHAQ Series, a professional basketball product line, in which the professional endorsement of Shaquille O'Neal, including his image, name, jersey with his player number and autograph, will be widely applied in the product line which will be sold in Hong Kong, Macau, Taiwan and the PRC. This co-brand collaboration is a pioneering effort, signifying an important breakthrough in the sales and marketing of sports brands in the PRC. The cooperation will further enhance the image of the LI-NING brand in the international basketball sector.

Product research and development

The Group has a team of highly competent product development and design professionals to conduct product research and development and design work on its five target sports goods series, namely, running, basketball, soccer, tennis and fitness products. The "RUN FREE" ultra-light air-flow running footwear series, as well as the "TOP GUN", "虎鯊" (Shark) and "飛甲" (Flying Armor) series of professional basketball shoes launched in the market last year were popular with the consumers. The "天羽" (Flying Feather) running shoes and "馭風" (Wind Galloper) marathon running shoes launched subsequently in spring and summer this year have also enjoyed great popularity in the market. Innovative design and advanced technology were incorporated into these products. Consumers are provided with products of better quality as the LI-NING brand has been further enhanced by professional and trendy elements. As for the core technology of sports shoes, the Group succeeded in establishing the patented "LN弓" (LN Arch), which is expected to be launched in fall of 2006. Such a move will significantly improve the technological level of the LI-NING brand and the overall product quality, which will in turn mark a substantial progress in maintaining and improving the Group's core competitive edge.

Further, the Group's design and research and development centre in Hong Kong has continued to concentrate on the design of LI-NING branded apparel products. During the period under review, the Group has actively recruited designers with international standards to join the Group. This has resulted in remarkable improvement in the Group's design, which in turn strengthens the solid foundation for the future success of its business.

Distribution and retail network

During the period, the Group continued to establish sales channels with rapid and wide coverage. Accordingly, there was a notable increase in the number of outlets in the PRC. As at 30 June 2006, the domestic distribution and retail network of the Group comprised:

– over 260 distributors operating 3,272 franchised retail outlets under the LI-NING and the AIGLE brands across the PRC; and

– a total of 126 directly-managed retail stores and 253 concession counters in Beijing, Shanghai and 12 provinces in the PRC.

Number of franchised and directly-managed retail stores

	As at 30 June 2006	As at 31 December 2005	Change (%)
LI-NING brand			
Franchised retail outlets	**3,264**	3,005	8.6
Directly-managed retail stores	**124**	111	11.7
Directly-managed concession counters	**242**	257	-5.8
Total	**3,630**	3,373	7.6
AIGLE brand			
Franchised retail outlets	**8**	–	100.0
Directly-managed retail stores	**2**	–	100.0
Directly-managed concession counters	**11**	–	100.0
Total	**21**	–	100.0
Overall			
Franchised retail outlets	**3,272**	3,005	8.9
Directly-managed retail stores	**126**	111	13.5
Directly-managed concession counters	**253**	257	-1.6
Total	**3,651**	3,373	8.2

There was a net increase of 278 new stores during the period, bringing the total number of stores of the Group to 3,651. With the aim of establishing an international, professional and trendy image for the LI-NING brand and enhancing store efficiency, the Group has launched the fourth generation store image standard since the second half of 2005. As at 30 June 2006, the Group operated a total of 736 stores adopting the fourth generation standard. Furthermore, the Group has established spacious flagship stores with stylish decorations at prime locations in various major PRC cities. As at 30 June 2006, the Group had opened a total of 21 flagship stores.

Supply chain management

During the period, the Group has adopted a flexible and effective supply chain management strategy and responded to market changes in an efficient and prompt manner as highlighted below:

- reform of the traditional supply chain model with advancing information technology to establish a competitive edge for the whole supply chain;
- two large-scale sales fairs for distributors were organised to shorten the cycle from product development to order placements;
- average inventory turnover has been improved to 77 days from 97 days for the corresponding period last year as a result of reforming the inventory system;
- in line with the rapid growth of the business, average accounts receivable turnover has increased to 58 days from 39 days for the corresponding period last year, yet remaining at a normal and reasonable level; and
- average trade payables turnover was 66 days, approximated to the 65 days for the corresponding period last year.

Multi-brand business development strategy

The joint venture established by the Group and AIGLE of France commenced operation in 2006. AIGLE is a world-renowned company which specializes in the business of apparel and footwear products for outdoor leisure activities. Pursuant to the agreement between the Group and AIGLE, a wholly foreign-owned enterprise set up in the PRC by the joint venture has been granted the exclusive right by AIGLE to manufacture, market, distribute and sell apparel and footwear products for outdoor leisure activities and extreme sports with the AIGLE trademarks in the PRC (excluding Hong Kong, Taiwan and Macau) for a term of 50 years. As at 30 June 2006, the Group recorded a remarkable expansion of sales outlets with a total of 21 AIGLE outlets which have commenced operation in the PRC. The Group will expand its sales network rapidly, and will adjust its product portfolio and prices, as well as organising large-scale brand promotion activities for the AIGLE brand in the future.

The Group believes that the long-term strategic joint venture with AIGLE is conducive to its objective of developing a multi-brand business and enhancing its overall competitive strength. By joining forces with AIGLE for the development in the PRC market, the Group targets to benefit from the combination of AIGLE's worldwide reputation and extensive experience in designing apparel and footwear products for outdoor leisure activities, with the Group's vast sales network and leading position in the PRC market.

The Group will continue to seek mutually beneficial partnerships in order to facilitate the entry of international brands into the PRC market and to develop itself into a multi-brand operator with a portfolio of reputable brands.

FINANCIAL POSITION

Net asset value

As at 30 June 2006, the Group's total net asset value was RMB1,269,103,000 (31 December 2005: RMB1,178,296,000). Net asset value per share was RMB123.54 cents (31 December 2005: RMB115.09 cents).

Liquidity and capital resources

For the six months ended 30 June 2006, the Group's net cash inflow from operating activities amounted to RMB106,998,000, as compared with the net cash outflow of RMB43,197,000 for the corresponding period last year.

Net cash (cash and cash equivalents less bank borrowings) as at 30 June 2006 amounted to RMB597,660,000, representing an increase of RMB219,292,000 compared with the net cash position as at 31 December 2005. This increase represented the aforesaid cash inflow from the operating activities of RMB106,998,000, proceeds from the issue of new shares upon exercise of share options by Directors and employees of RMB2,167,000, interest income received of RMB9,397,000 and net return on fixed deposit of RMB166,039,000, less dividend payment of RMB50,685,000, net capital expenses of RMB11,500,000, expenses of other investment activities of RMB2,590,000 and cash reduction of RMB534,000 due to fluctuation in the exchange rates.

As at 30 June 2006, the Group's cash and cash equivalents amounted to RMB597,660,000 (31 December 2005: RMB378,368,000). There were no outstanding bank borrowings (31 December 2005: nil). Equity holders' equity amounted to RMB1,251,704,000 (31 December 2005: RMB1,160,924,000). The debt to equity holders' equity ratio, expressed in total outstanding bank borrowings as a percentage of equity holders' equity, was nil (31 December 2005: nil).

As at 30 June 2006, the Group had not entered into any interest rate swaps to hedge against interest rate risks.

Pledge of assets

As at 30 June 2006, no asset of the Group was pledged to secure bank borrowings or for any other purpose.

Contingent liabilities

As at 30 June 2006, the Group had no material contingent liabilities.

Foreign exchange risk
The Group mainly operated in the PRC with most transactions settled in Renminbi, the lawful currency of the PRC. Proceeds from the initial public offering of the Company in June 2004 were denominated in Hong Kong dollars, part of which has been invested in fixed deposits denominated in US dollars or Hong Kong dollars. The Company also pays dividends in Hong Kong dollars.

The Group may be exposed to fluctuation in foreign exchange rates in relation to its deposits.

HUMAN RESOURCES

As at 30 June 2006, the Group had about 2,274 employees (31 December 2005: 2,890 employees). The decrease in the number of employees was mainly due to the outsourcing of sales activities which led to a reduction in sales staff.

The Group strongly believes that talent is an invaluable asset and it strives to offer a good working environment and a wide range of training and personal development programs, as well as an attractive remuneration package to the employees. The Group endeavors to motivate staff with a performance-based remuneration system. On top of basic salary, staff with outstanding performance will be rewarded with bonuses in the form of cash, share options, honorary awards or a combination of these. These can effectively align staff benefits with the growth of the Group.

Last year, the Group was honored by Fortune Magazine (Chinese Edition) as "The 2005 WorkChina™ Best Company to Work For" and was awarded the "二零零五年度最佳僱主" (2005 Best Employer) by CCTV in the PRC and the "中國最受尊敬企業"(The Most Respectable Enterprise in China) jointly organised by Peking University and *The Economic Observer.*

OUTLOOK AND DEVELOPMENT STRATEGIES

Based on the favorable macro-economic conditions in the PRC and the approaching of 2008 Beijing Olympics, the sports goods industry in the PRC offers immense potential for rapid growth. At the same time, such a lucrative market has also attracted both domestic and international brands, leading to an intense competition. The Group will continue to enhance its core competitive edge and to strengthen its efforts towards building a distinguished brand portfolio, striving to enhance its competitiveness in the international arena by 2008.

Going forward, the Group will continue to maintain rapid growth by implementation of comprehensive marketing strategies, product research and development, and supply chain management. It will continue to focus on sports footwear and apparel products. By way of innovative designs and technological improvements, the Group will improve its product quality and expand its product portfolio with a view to infusing greater variety and international, professional and trendy elements into the LI-NING brand. Paving the way for future development, the Group will further expand its retail network and enhance the store displays and decoration with a view to further improving store efficiency and promoting its brand image.

In addition to developing its core LI-NING brand, the Group will continue to seek opportunities for long-term cooperation with reputable international brands, so as to further enhance its competitive edge to propel future growth.

The Group has an experienced professional management team and has implemented excellent corporate governance. By leveraging on our competitive strengths, the Group's management aspires to offer premium sports goods for customers, provide job satisfaction for its employees and generate attractive returns for shareholders and investors as a whole.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its shares during the six months ended 30 June 2006. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE

The Company is committed to upholding the highest standard of corporate governance by continual review and enhancement of its corporate governance practices. During the period under review, the Board has complied with all the code provisions set out in Appendix 14 of the Code on Corporate Governance Practices to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. In the "Asia's Best Companies Poll 2006" conducted by FinanceAsia Magazine, the Company was ranked one of the top 10 Chinese companies with the best corporate governance by investment professionals and financial analysts. This well proves the recognition by the investment community that the Company maintains a high standard of corporate governance. 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 2005.

The Audit Committee of the Company, consisting of three non-executive Directors (two of whom are independent non-executive Directors), has reviewed the accounting principles and practices adopted by the Group and has also reviewed auditing, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2006, together with the management and external auditors.

In addition, the Company's external auditors, PricewaterhouseCoopers, have performed an independent review of the interim financial information for the six months ended 30 June 2006 in accordance with the International Standards on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the International Federation of Accountants. On the basis of their review, which does not constitute an audit, PricewaterhouseCoopers confirmed in writing that nothing has come to their attention which would cause them to believe that the interim financial information has not been properly prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" in all material aspects.

As at the date of this announcement, the executive directors of the Company are Mr. LI Ning, Mr. ZHANG Zhi Yong and Mr. TAN Wee Seng. The non-executive directors are Mr. LIM Meng Ann, Mr. Stuart SCHONBERGER and Mr. FONG Ching, Eddy. The independent non-executive directors are Mr. KOO Fook Sun, Louis, Ms. WANG Ya Fei, Jane and Mr. CHAN Chung Bun, Bunny.

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

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

Hong Kong, 28 August 2006