



# Li Ning Company Limited (李寧有限公司)

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

Stock code : 2331

Interim Report 2006



## **MISSION**

**Through sports, we inspire in people the desire and power to make breakthroughs**

## **VISION**

**A world's leading brand in the sports goods industry**

## **CORE VALUES**

**Integrity, professionalism, passion, breakthroughs, and trust**

## **CORPORATE PROFILE**

Li Ning Company Limited is one of the leading sports brand enterprises in the PRC. It has its own branding, research and development, design, manufacturing, distribution and retail capabilities. The Group's products include sports footwear, apparel and accessories for sport and leisure use which are primarily sold under its own LI-NING brand. The Group has established an extensive distribution and retail network in the PRC, of which distributors manage the franchised LI-NING retail outlets under the Group's supervision. The Group also directly manages its own LI-NING retail stores and concessions. In addition, the Group has set up a joint venture with AIGLE in 2005 under which the joint venture has been given the exclusive right by AIGLE to manufacture, market, distribute and sell for 50 years in the PRC, outdoor sports products that bear the "AIGLE" trademark registered and owned by AIGLE.

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# CORPORATE INFORMATION

## Board of Directors

### Executive Directors

Mr. LI Ning (李寧) (*Chairman*)

Mr. ZHANG Zhi Yong (張志勇) (*Chief Executive Officer*)

Mr. TAN Wee Seng (陳偉成) (*Chief Financial Officer*)

### Non-Executive Directors

Mr. LIM Meng Ann (林明安)

Mr. Stuart SCHONBERGER

Mr. FONG Ching, Eddy (方正)

### Independent Non-Executive Directors

Mr. KOO Fook Sun, Louis (顧福身)

Ms. WANG Ya Fei, Jane (王亞非)

Mr. CHAN Chung Bun, Bunny (陳振彬)

## Executive Committee

Mr. ZHANG Zhi Yong (張志勇) (*Committee Chairman*)

Mr. LI Ning (李寧)

Mr. TAN Wee Seng (陳偉成)

Ms. Tina LEH (樂淑鈺)

## Audit Committee

Mr. KOO Fook Sun, Louis (顧福身) (*Committee Chairman*)

Mr. Stuart SCHONBERGER

Ms. WANG Ya Fei, Jane (王亞非)

## Remuneration Committee

Ms. WANG Ya Fei, Jane (王亞非) (*Committee Chairman*)

Mr. LIM Meng Ann (林明安)

Mr. KOO Fook Sun, Louis (顧福身)

## Nomination Committee

Mr. LIM Meng Ann (林明安) (*Committee Chairman*)

Mr. KOO Fook Sun, Louis (顧福身)

Ms. WANG Ya Fei, Jane (王亞非)

## Company Secretary

Mr. TAN Wee Seng (陳偉成), *ACMA*

## Authorised Representatives

Mr. LI Ning (李寧)

Mr. TAN Wee Seng (陳偉成)

## Qualified Accountant

Mr. TAN Wee Seng (陳偉成), *ACMA*

## Registered Office

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British West Indies

## Principal Place of Business in Hong Kong

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Fax: +8610 6708 5140

## Auditors

PricewaterhouseCoopers  
*Certified Public Accountants*

## Legal Advisors

*Hong Kong law*  
Baker & McKenzie

*PRC law*  
Grandall Legal Group Shanghai Office  
Beijing Haisi Law Firm  
King & Wood Law Firm

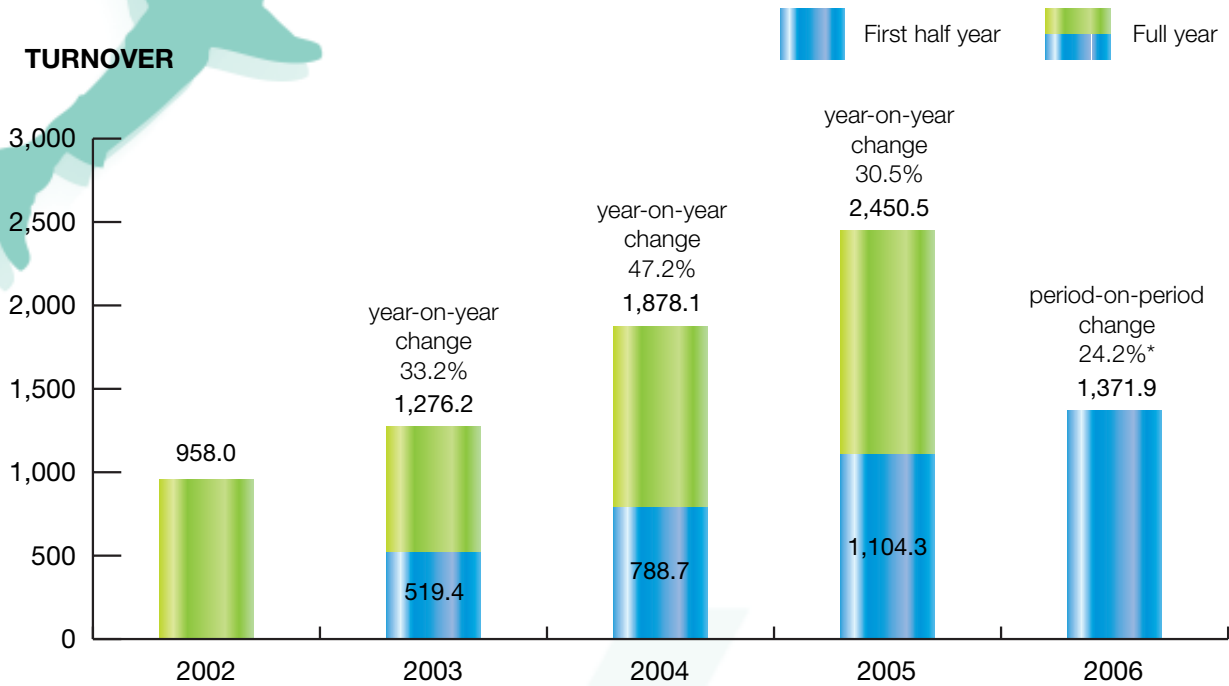
## Principal Bankers

*Hong Kong*  
DBS Bank Ltd., Hong Kong Branch

*PRC*  
China Construction Bank  
Industrial & Commercial Bank of China  
China Merchants Bank  
Bank of Beijing

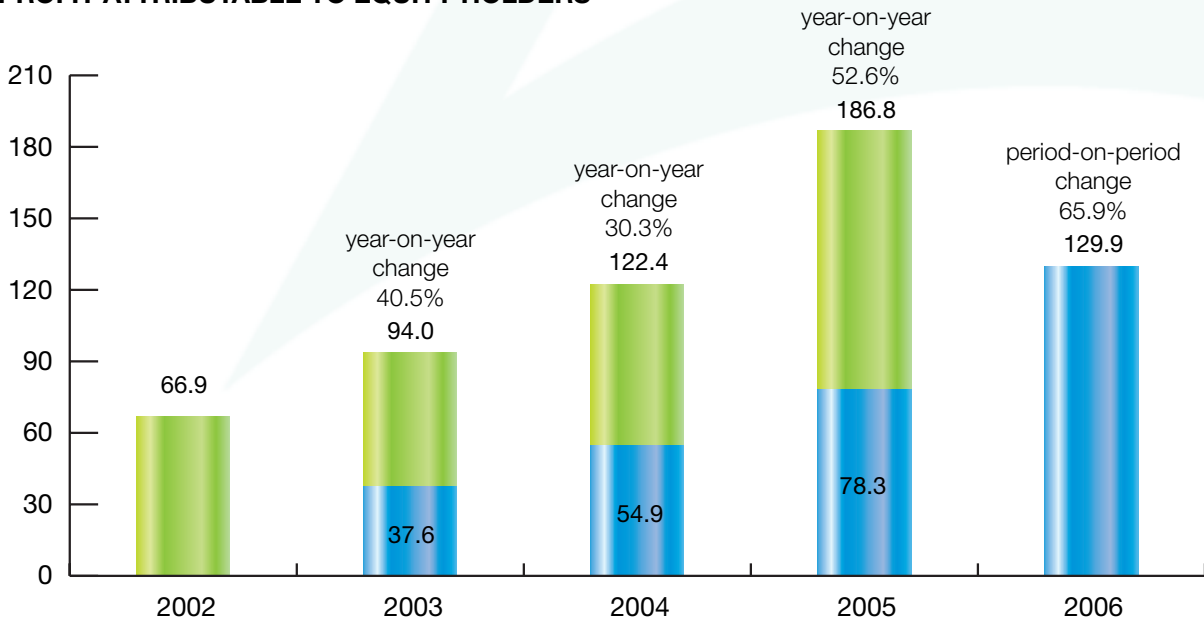
# FIVE-YEAR FINANCIAL HIGHLIGHTS

(All amounts in RMB millions unless otherwise stated)



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

## PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



## 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.

# 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

Key performance indices of the Group's results for the six months ended 30 June 2006 are as follows:

	Six months ended 30 June		Change (%)
	2006	2005	
<b>Items of income statement (unaudited)</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Turnover	<b>1,371,929</b>	1,104,307	24.2
Gross profit	<b>683,627</b>	530,630	28.8
Operating profit	<b>172,513</b>	113,169	52.4
EBITDA (Note 1)	<b>184,929</b>	126,245	46.5
Profit attributable to equity holders	<b>129,939</b>	78,313	65.9
Earnings per share – basic (RMB cents) (Note 2)	<b>12.66</b>	7.65	65.3
<b>Selected financial ratios (unaudited)</b>			
Gross profit margin (%)	<b>49.8</b>	48.1	
Operating profit margin (%)	<b>12.6</b>	10.2	
Margin of profit attributable to equity holders (%)	<b>9.5</b>	7.1	
Effective tax rate (%)	<b>25.0</b>	34.1	
Return on equity holders' equity ratio – half year (%)	<b>10.8</b>	7.6	
Debt to equity holders' equity (%) (Note 3)	<b>42.3</b>	27.5	
Average inventory turnover (days) (Note 4)	<b>77</b>	97	
Average accounts receivable turnover (days) (Note 5)	<b>58</b>	39	
Average trade payables turnover (days) (Note 6)	<b>66</b>	65	

#### Notes:

1. EBITDA refers to earnings before interest, tax, depreciation and amortisation.
2. The calculation of basic earnings per share is based on the profit attributable to equity holders for the six months ended 30 June 2006 of RMB129,939,000 (2005: RMB78,313,000) and the weighted average of 1,026,737,000 ordinary shares in issue (2005: 1,023,038,000 shares) during the period.
3. The debt to equity holders' equity ratio (%) is based on total liabilities divided by equity holders' equity as at 30 June.
4. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by the cost of sales and multiplied by the number of days during the relevant period.



5. The calculation of average accounts receivable turnover (days) is based on the average of opening and closing balances of accounts and notes receivable divided by turnover and multiplied by the number of days during the relevant period.
6. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables divided by total purchases and multiplied by the number of days during the relevant period.

## 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

	2006		2005		Change (%)
	RMB'000	% of total turnover	RMB'000	% of total turnover	
<b>LI-NING brand</b>					
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
<b>Total</b>	<b>1,363,735</b>	<b>99.4</b>	1,026,527	93.0	32.8
<b>Other brands*</b>					
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
<b>Total</b>	<b>8,194</b>	<b>0.6</b>	77,780	7.0	-89.5
<b>Overall</b>					
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
<b>Total</b>	<b>1,371,929</b>	<b>100.0</b>	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 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 % of total turnover	2005 % of total turnover
<b>LI-NING brand</b>		
PRC market		
Sales to franchised distributors	<b>78.8</b>	69.5
Sales by directly-managed retail stores	<b>8.7</b>	10.5
Sales by directly-managed concession counters	<b>10.8</b>	11.7
International markets	<b>1.1</b>	1.3
<b>Other brands*</b>		
PRC market	<b>0.6</b>	7.0
Total	<b>100.0</b>	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
<b>LI-NING brand</b>			
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
<b>Other brands*</b>			
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 Gross profit margin (%)	2005 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 of the Group 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 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 the Group of approximately RMB136,141,000 (2005: RMB96,662,000) for the six months ended 30 June 2006 mainly comprised staff costs, consulting expenses, office rentals, depreciation of office premises and other general expenses. Administrative expenses as a percentage of the Group's total 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. Margin of profit 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 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 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 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 (%)
<b>LI-NING brand</b>			
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
<b>AIGLE brand</b>			
Franchised retail outlets	8	–	100.0
Directly-managed retail stores	2	–	100.0
Directly-managed concession counters	11	–	100.0
Total	21	–	100.0
<b>Overall</b>			
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.

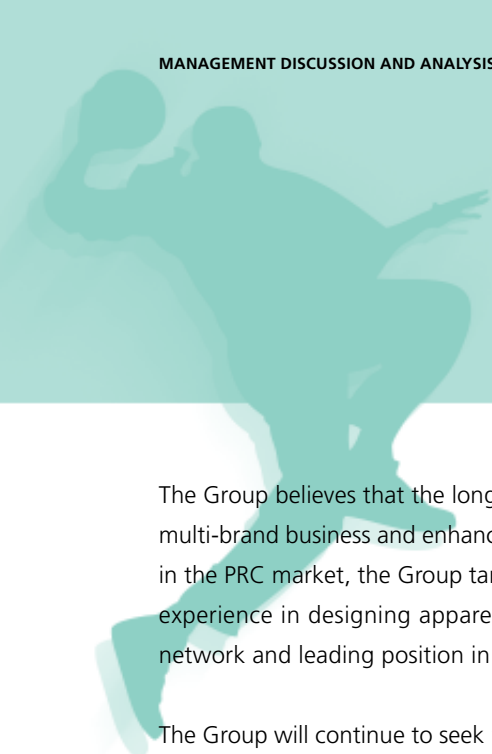
### **Supply chain management**

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 commenced operation in 2006. AIGLE is a world-renowned company which specialises 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 its 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.

# UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited consolidated condensed interim financial information of the Group for the six months ended 30 June 2006, together with the comparative figures for the corresponding period last year, is 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
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	97,954	95,796
Land use rights	7	3,792	3,857
Intangible assets	8	10,786	9,960
Deposit paid for land use right		10,002	10,002
<b>Total non-current assets</b>		<b>122,534</b>	119,615
<b>Current assets</b>			
Inventories	10	295,433	290,617
Accounts and notes receivable	11	513,113	373,226
Other receivables and prepayments	12	86,241	67,824
Fixed deposits held at banks	13	183,988	353,161
Cash at banks and in hand	13	597,660	378,368
<b>Total current assets</b>		<b>1,676,435</b>	1,463,196
<b>Total assets</b>		<b>1,798,969</b>	1,582,811

**CONSOLIDATED CONDENSED INTERIM BALANCE SHEET** (Continued)**As at 30 June 2006**

(All amounts in RMB thousands unless otherwise stated)

	Note	Unaudited 30 June 2006	Audited 31 December 2005
<b>EQUITY</b>			
<b>Capital and reserves attributable to the equity holders of the Company</b>			
Share capital	16	109,007	108,889
Reserves	17	1,142,697	1,052,035
		<b>1,251,704</b>	1,160,924
<b>Minority interest</b>		<b>17,399</b>	17,372
<b>Total equity</b>		<b>1,269,103</b>	1,178,296
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade payables	14	310,772	214,162
Other payables and accruals	15	193,656	161,196
Taxation payable		24,957	29,157
Dividends payable		481	–
<b>Total liabilities</b>		<b>529,866</b>	404,515
<b>Total equity and liabilities</b>		<b>1,798,969</b>	1,582,811
<b>NET CURRENT ASSETS</b>		<b>1,146,569</b>	1,058,681
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,269,103</b>	1,178,296

The notes on page 24 to 50 form an integral part of this interim financial information.

## CONSOLIDATED CONDENSED INTERIM INCOME STATEMENT

For the six months ended 30 June 2006

(All amounts in RMB thousands unless otherwise stated)

	Note	Unaudited	
		Six months ended 30 June 2006	2005
Turnover	5	1,371,929	1,104,307
Cost of sales	19	(688,302)	(573,677)
<b>Gross profit</b>		<b>683,627</b>	530,630
Distribution expenses	19	(400,844)	(331,476)
Administrative expenses	19	(136,141)	(96,662)
Other income	18	25,871	10,677
<b>Operating profit</b>		<b>172,513</b>	113,169
Finance income, net	20	815	6,355
<b>Profit before taxation</b>		<b>173,328</b>	119,524
Taxation	21	(43,362)	(40,740)
<b>Profit for the period</b>		<b>129,966</b>	78,784
<b>Attributable to:</b>			
Equity holders of the Company		129,939	78,313
Minority interest		27	471
		<b>129,966</b>	78,784
<b>Interim dividend</b>	22	<b>39,038</b>	22,649
<b>Earnings per share for equity holders of the Company (RMB cents)</b>			
– Basic	23	12.66	7.65
– Diluted	23	12.48	7.60

The notes on page 24 to 50 form an integral part of this interim financial information.

**CONSOLIDATED CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY****For the six months ended 30 June 2006***(All amounts in RMB thousands unless otherwise stated)*

		<b>Unaudited</b>		
		<b>Six months ended 30 June</b>		
		<b>Attributable</b>		
	<i>Note</i>	<b>to equity</b>	<b>Minority</b>	<b>Total</b>
		<b>holders of</b>	<b>interest</b>	<b>equity</b>
		<b>the Company</b>		
<b>Balance at 1 January 2005</b>		1,010,017	17,208	1,027,225
Profit for the period		78,313	471	78,784
Dividends paid		(46,932)	–	(46,932)
Share options granted for services provided	<i>16, 17</i>	9,138	–	9,138
<b>Balance at 30 June 2005</b>		<b>1,050,536</b>	<b>17,679</b>	<b>1,068,215</b>
<b>Balance at 1 January 2006</b>		<b>1,160,924</b>	<b>17,372</b>	<b>1,178,296</b>
Profit for the period		<b>129,939</b>	<b>27</b>	<b>129,966</b>
Dividends paid		<b>(51,166)</b>	–	<b>(51,166)</b>
Share options granted for services provided	<i>16, 17</i>	<b>9,840</b>	–	<b>9,840</b>
Proceeds from exercise of share options	<i>16, 17</i>	<b>2,167</b>	–	<b>2,167</b>
<b>Balance at 30 June 2006</b>		<b>1,251,704</b>	<b>17,399</b>	<b>1,269,103</b>

The notes on page 24 to 50 form an integral part of this interim financial information.



## CONSOLIDATED CONDENSED INTERIM CASH FLOW STATEMENT

For the six months ended 30 June 2006

(All amounts in RMB thousands unless otherwise stated)

	Note	Unaudited	
		Six months ended 30 June 2006	2005
<b>Cash flows from operating activities:</b>			
– Continuing operations		<b>106,998</b>	(43,197)
<b>Cash flows from investing activities:</b>			
– Purchases of property, plant and equipment		<b>(10,613)</b>	(12,702)
– Proceeds on disposal of property, plant and equipment		<b>1,475</b>	163
– Other investing cash flows – net		<b>170,484</b>	(5,556)
<b>Cash flows from investing activities (net)</b>		<b>161,346</b>	(18,095)
<b>Cash flows from financing activities:</b>			
– Dividends paid		<b>(50,685)</b>	(46,932)
– Proceeds from borrowings		–	19,000
– Proceeds from issuance of shares	16, 17	<b>2,167</b>	–
– Repayments of borrowings		–	(50,000)
– Other financing cash flows – net		–	(34,208)
<b>Cash flows from financing activities (net)</b>		<b>(48,518)</b>	(112,140)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>219,826</b>	(173,432)
Cash and cash equivalents at start of period		<b>378,368</b>	322,568
Exchange loss on cash and cash equivalents		<b>(534)</b>	–
<b>Cash and cash equivalents at end of period</b>		<b>597,660</b>	149,136

The notes on page 24 to 50 form an integral part of this interim financial information.

# SELECTED NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

*(All amounts in RMB thousands unless otherwise stated)*

## 1. General Information

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

The Company was incorporated on 26 February 2004 in the Cayman Islands as an exempted company with limited liability under the Company Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The address of registered office is Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681GT, George Town, Grand Cayman, British West Indies.

The Company's shares were listed on The Stock Exchange of Hong Kong Limited on 28 June 2004.

## 2. 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.

## 3. 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;

### 3. Accounting Policies *(Continued)*

- 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 periods beginning 1 January 2007.

## 4. 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 PRC government. 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 of the Company 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.



## 5. 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 brand 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.

## 6. Property, Plant and Equipment

	<b>Unaudited</b>
<b>Six months ended 30 June 2005</b>	
Opening net book amount at 1 January 2005	89,399
Additions	12,702
Disposals	(2,489)
Depreciation charge	(11,650)
Closing net book amount at 30 June 2005	87,962
<b>Six months ended 31 December 2005</b>	
Opening net book amount at 1 July 2005	87,962
Additions	25,844
Disposals	(7,350)
Depreciation charge	(10,660)
Closing net book amount at 31 December 2005	95,796
<b>Six months ended 30 June 2006</b>	
Opening net book amount at 1 January 2006	<b>95,796</b>
Additions	<b>15,792</b>
Disposals	<b>(2,593)</b>
Depreciation charge	<b>(11,041)</b>
Closing net book amount at 30 June 2006	<b>97,954</b>

## 7. Land Use Rights

	<b>Unaudited</b>
<b>Six months ended 30 June 2005</b>	
Opening net book amount at 1 January 2005	4,057
Amortisation charge	(104)
Closing net book amount at 30 June 2005	<u>3,953</u>
<b>Six months ended 31 December 2005</b>	
Opening net book amount at 1 July 2005	3,953
Disposals	(70)
Amortisation charge	(26)
Closing net book amount at 31 December 2005	<u>3,857</u>
<b>Six months ended 30 June 2006</b>	
Opening net book amount at 1 January 2006	<b>3,857</b>
Amortisation charge	<b>(65)</b>
Closing net book amount at 30 June 2006	<u><b>3,792</b></u>

## 8. Intangible Assets

	Trademark	Unaudited Computer software	Total
<b>Six months ended 30 June 2005</b>			
Opening net book amount at 1 January 2005	1,299	8,064	9,363
Additions	161	890	1,051
Disposals	–	(31)	(31)
Amortisation charge	(48)	(1,274)	(1,322)
Closing net book amount at 30 June 2005	1,412	7,649	9,061
<b>Six months ended 31 December 2005</b>			
Opening net book amount at 1 July 2005	1,412	7,649	9,061
Additions	1,366	958	2,324
Disposals	–	(249)	(249)
Amortisation charge	(110)	(1,066)	(1,176)
Closing net book amount at 31 December 2005	2,668	7,292	9,960
<b>Six months ended 30 June 2006</b>			
Opening net book amount at 1 January 2006	2,668	7,292	9,960
Additions	3	2,360	2,363
Disposals	–	(227)	(227)
Amortisation charge	(118)	(1,192)	(1,310)
Closing net book amount at 30 June 2006	2,553	8,233	10,786

## 9. Interest in a Jointly Controlled Entity

At 30 June 2006 and 31 December 2005, the Group had a 50% equity interest in Li-Ning Aigle Ventures Limited (“Li-Ning Aigle Ventures”) which is a company jointly controlled by the Group and Aigle International S.A., a company incorporated in France. Li-Ning Aigle Ventures and its subsidiary are principally engaged in the manufacturing, marketing and distribution of AIGLE brand apparel and footwear products in the PRC.

## 9. Interest in a Jointly Controlled Entity (Continued)

The following amounts represent the Group's 50% share of the consolidated assets and liabilities, and consolidated sales and results of Li-Ning Aigle Ventures and its subsidiary which have been included in the consolidated balance sheet and income statement.

	Unaudited 30 June 2006	Audited 31 December 2005
<b>Assets</b>		
Property, plant and equipment	788	–
Current assets		
– Inventories	9,047	–
– Other receivable and prepayments	1,741	–
– Cash at banks and in hand	15,680	5
	<b>27,256</b>	5
<b>Liabilities</b>		
Current liabilities		
– Trade payables	4,198	63
	<b>4,198</b>	63
<b>Net assets/(liabilities)</b>	<b>23,058</b>	(58)

	Unaudited Six months ended 30 June 2006
Turnover	1,164
Cost of sales	(610)
<b>Gross profit</b>	<b>554</b>
Distribution expenses	(2,386)
Administrative expenses	(295)
Finance income, net	49
<b>Loss for the period</b>	<b>(2,078)</b>



## 9. Interest in a Jointly Controlled Entity (Continued)

No comparative figures for the six months ended 30 June 2005 were presented as Li-Ning Aigle Ventures was set up in the second half of 2005.

At 30 June 2006 and 31 December 2005, neither the Group nor Li-Ning Aigle Ventures and its subsidiary had any contingent liabilities.

## 10. Inventories

	<b>Unaudited 30 June 2006</b>	Audited 31 December 2005
Raw materials	6,122	1,934
Work in progress	4,278	3,730
Finished goods	317,552	299,180
	<b>327,952</b>	304,844
Less: provision for write-down to net realisable value	<b>(32,519)</b>	(14,227)
	<b>295,433</b>	290,617

## 11. Accounts and Notes Receivable

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

## 11. Accounts and Notes Receivable (Continued)

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:

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

## 12. Other Receivables and Prepayments

	<b>Unaudited 30 June 2006</b>	Audited 31 December 2005
Advances to suppliers	<b>18,683</b>	1,856
Rental and other deposits	<b>17,090</b>	17,131
Prepaid rental	<b>24,107</b>	18,165
Others	<b>26,361</b>	30,672
	<b>86,241</b>	67,824

### 13. Cash and Bank Deposits

At 30 June 2006, the Group had the following cash and bank deposits with banks in the PRC (including Hong Kong Special Administrative Region):

	<b>Unaudited 30 June 2006</b>	Audited 31 December 2005
Cash at banks and in hand	<b>597,660</b>	378,368
Fixed deposits held at banks with maturity of more than three months	<b>183,988</b>	353,161
	<b>781,648</b>	731,529

The effective interest rate on fixed deposits was 4.36% (2005: 3.8%). These deposits have an average maturity of 105 days (2005: 83 days).

Any analysis of cash and bank deposits by denomination currency is as follows:

	<b>Unaudited 30 June 2006</b>	Audited 31 December 2005
Denominated in Renminbi	<b>589,437</b>	360,446
Denominated in Hong Kong Dollars	<b>177,726</b>	258,157
Denominated in United States Dollars	<b>14,485</b>	112,926
	<b>781,648</b>	731,529

At present, Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currencies and remittance of Renminbi out of the PRC are subject to the rules and regulations of exchange control promulgated by the PRC government.

## 14. Trade Payables

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

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

## 15. Other Payables and Accruals

	<b>Unaudited 30 June 2006</b>	Audited 31 December 2005
Accrued expenses	<b>88,203</b>	49,668
Advances from customers	<b>11,141</b>	8,777
Wages payables	<b>26,547</b>	36,633
Welfare payables	<b>21,214</b>	23,310
VAT and other taxes payable	<b>22,911</b>	16,670
Other payables	<b>23,640</b>	26,138
	<b>193,656</b>	161,196

## 16. Share Capital

	Number of shares (Thousands)	Approximate amount HK\$'000
<b>Authorised at HK\$0.10 each</b>		
At 31 December 2005 and 30 June 2006	10,000,000	1,000,000
<b>Issued and fully paid up</b>		
At 31 December 2004 and 30 June 2005	1,023,038	102,304
Proceeds from shares issued pursuant to exercise of share options	3,129	313
At 31 December 2005	1,026,167	102,617
Proceeds from shares issued pursuant to exercise of share options	1,140	114
At 30 June 2006	1,027,307	102,731
Equivalent to RMB'000		109,007

### Share Options

#### (a) Share Purchase Scheme

Alpha Talent Management Limited ("Alpha Talent") was set up in 2004 by Mr. Li Ning, a substantial shareholder and chairman of the Company, to hold 35,250,000 of the Company's shares beneficially owned by Mr. Li Ning.

The objective of the share purchase scheme of Alpha Talent (the "Alpha Talent Option") is to provide for the grant of rights to purchase the Company's shares beneficially owned by Mr. Li Ning through Alpha Talent to certain key individuals who have contributed to the economic achievement of the Group.

The Alpha Talent Option was adopted by Alpha Talent on 5 June 2004 and is effective for a period of 10 years from that date. A committee established by the board of directors of Alpha Talent determines the individuals within the Group who shall be selected to receive options, the exercise price, and the terms and conditions of the options. Lapsed or cancelled options will be re-granted in accordance with the terms of the Alpha Talent Option until all shares held by Alpha Talent have been purchased pursuant to the scheme.

## 16. Share Capital (Continued)

### Share Options (Continued)

#### (a) Share Purchase Scheme (Continued)

Currently granted options vest gradually after the individuals complete certain periods of service in the Group's companies ranging from 6 to 30 months.

Movement in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2006 Weighted average exercise price (per share) HK\$	2006 Outstanding options (Thousands)	2005 Weighted average exercise price (per share) HK\$	2005 Outstanding options (Thousands)
At 1 January	0.65	20,370	0.69	24,630
Exercised	0.84	(5,552)	–	–
At 30 June	0.58	14,818	0.69	24,630
Exercisable at 30 June 2006	0.53	11,191		
Granted			3.19	4,603
Exercised			2.07	(8,863)
At 31 December			0.65	20,370
Exercisable at 31 December 2005			0.68	16,042

## 16. Share Capital (Continued)

### Share Options (Continued)

#### (a) Share Purchase Scheme (Continued)

Share options outstanding at 30 June 2006 and 31 December 2005 have the following expiry dates and weighted-average exercise prices:

Expiry date	30 June 2006 Weighted average exercise price (per share) HK\$	30 June 2006 Share options (Thousands)	31 December 2005 Weighted average exercise price (per share) HK\$	31 December 2005 Share options (Thousands)
8 June 2010	0.55	13,415	0.64	18,967
11 November 2011	0.86	1,403	0.86	1,403
		14,818		20,370

#### (b) Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the "Pre-IPO Option"). The purpose of the scheme is to give the directors and full-time employees of the Company and the Group an opportunity to have a personal stake in the Company and recognise their contributions to the Group. The Pre-IPO Option was adopted on 5 June 2004. HK\$1 is payable by the grantee who accepts the grant of an option.

Total number of share options subject to the Pre-IPO Option is 16,219,000 shares and they have been granted on 5 June 2004. No further share options will be granted under the Pre-IPO Option. Options granted under the Pre-IPO Option vest gradually after employees or directors complete a period of service in the Group of 12 to 36 months starting from the date of grant (5 June 2004).

## 16. Share Capital (Continued)

### Share Options (Continued)

#### (b) Pre-IPO Share Option Scheme (Continued)

Movement in the number of share options outstanding and exercise prices are as follows:

	2006 Exercise price (per share) HK\$	2006 Outstanding options (Thousands)	2005 Exercise price (per share) HK\$	2005 Outstanding options (Thousands)
At 1 January	1.8275	11,512	1.8275	15,641
Exercised	1.8275	(1,141)	–	–
Lapsed	1.8275	(285)	1.8275	(408)
At 30 June	1.8275	10,086	1.8275	15,233
Exercisable at 30 June 2006	1.8275	5,748		
Exercised			1.8275	(3,129)
Lapsed			1.8275	(592)
At 31 December			1.8275	11,512
Exercisable at 31 December 2005			1.8275	2,501

Share options outstanding at 30 June 2006 and 31 December 2005 have the following expiry dates and exercise prices:

Expiry date	30 June 2006 Exercise price (per share) HK\$	30 June 2006 Share options (Thousands)	31 December 2005 Exercise price (per share) HK\$	31 December 2005 Share options (Thousands)
5 June 2010	1.8275	10,086	1.8275	11,512





## 16. Share Capital (Continued)

### Share Options (Continued)

#### (c) Share Option Scheme

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

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

HK\$1 is payable by the participant who accepts the grant of an option. The subscription price for the shares under the option to be granted will be determined by the Company's board of directors and will be the highest of: (a) the closing price of the shares of the Company as at stated in The Hong Kong Stock Exchange Limited's daily quotations sheets on the date of the grant of the option; (b) the average closing price of the shares of the Company as stated in The Hong Kong Stock Exchange Limited's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (c) the nominal value of the shares of the Company.

The maximum number of shares that may be granted under the Post-IPO Option and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. Lapsed or cancelled options may be re-granted in accordance with the terms of the Post-IPO Option.

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

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

## 16. Share Capital (Continued)

### Share Options (Continued)

#### (c) Share Option Scheme (Continued)

Movement in the number of share options outstanding and exercise prices are as follows:

	2006 Exercise price (per share) HK\$	2006 Outstanding options (Thousands)	2005 Exercise price (per share) HK\$	2005 Outstanding options (Thousands)
At 1 January	3.685	15,505	–	–
Granted	5.500	360	–	–
Lapsed	3.685	(500)	–	–
At 30 June	3.728	15,365	–	–
Exercisable at 30 June 2006	–	–		
Granted			3.685	15,921
Lapsed			3.685	(416)
At 31 December			3.685	15,505
Exercisable at 31 December 2005			–	–

Share options outstanding at 30 June 2006 and 31 December 2005 have the following expiry dates and exercise prices:

Expiry date	30 June 2006 Exercise price (per share) HK\$	30 June 2006 Share options (Thousands)	31 December 2005 Exercise price (per share) HK\$	31 December 2005 Share options (Thousands)
4 July 2011	3.685	15,005	3.685	15,505
3 January 2012	5.500	360	–	–
		15,365		15,505

## 16. Share Capital (Continued)

### Share Options (Continued)

#### (d) Fair value of share options

The fair values of the options granted under the above three schemes during the six months ended 30 June 2006 and the year ended 31 December 2005 determined using Black-Scholes valuation model were as follows:

	30 June 2006	31 December 2005
Alpha Talent Option	N/A	10,190
Post-IPO Option	681	17,368

The fair values were determined using the Black-Scholes valuation model which was performed by an independent valuer, American Appraisal China Limited. Significant inputs into the model were as follows:

	30 June 2006	31 December 2005
<b>Alpha Talent Option</b>		
Weighted average share price (HK\$)	N/A	4.68
Weighted average exercise price (HK\$)	N/A	3.19
Expected volatility	N/A	39.2%
Expected option life (years)	N/A	3.11
Weighted average annual risk free interest rate	N/A	4.4%
Expected dividend pay-out rate	N/A	2.0%
<b>Post-IPO Option</b>		
Share price (HK\$)	5.4	3.65
Exercise price (HK\$)	5.5	3.685
Expected volatility	45.0%	39.2%
Expected option life (years)	4.0	4.0
Weighted average annual risk free interest rate	4.09%	3.3%
Expected dividend pay-out rate	2.0%	2.0%

The volatility of the share options is estimated based on the daily trading prices of the Company's shares since its date of listing (28 June 2004).

## 17. Reserves

	Share premium	Capital reserves	Statutory reserve fund (a)	Statutory staff welfare fund (a)	Retained profits	Other reserves	Total
At 1 January 2005	564,323	45,634	47,403	17,426	215,643	11,025	901,454
Profit for the period	-	-	-	-	78,313	-	78,313
2004 dividends paid	-	-	-	-	(46,932)	-	(46,932)
Share options granted for services provided	-	-	-	-	-	9,138	9,138
<b>At 30 June 2005</b>	<b>564,323</b>	<b>45,634</b>	<b>47,403</b>	<b>17,426</b>	<b>247,024</b>	<b>20,163</b>	<b>941,973</b>

	Share premium	Capital reserves	Statutory reserve fund (a)	Statutory staff welfare fund (a)	Retained profits	Other reserves	Total
At 1 January 2006	516,381	45,634	69,771	20,905	376,596	22,748	1,052,035
Profit for the period	-	-	-	-	129,939	-	129,939
Share options granted for services provided	-	-	-	-	-	9,840	9,840
Issue of new shares pursuant to exercise of share options	2,049	-	-	-	-	-	2,049
Transfer of fair value of share options exercised to share premium	9,110	-	-	-	-	(9,110)	-
2005 dividends paid	(51,166)	-	-	-	-	-	(51,166)
<b>At 30 June 2006</b>	<b>476,374</b>	<b>45,634</b>	<b>69,771</b>	<b>20,905</b>	<b>506,535</b>	<b>23,478</b>	<b>1,142,697</b>

## 17. Reserves (Continued)

### (a) Statutory reserves

The Company's subsidiaries in the PRC (the "PRC Companies") are required to appropriate certain percentage of their respective net profit to two statutory funds – the statutory reserve fund and the statutory staff welfare fund. Details of the two funds are as follows:

#### (i) Statutory reserve fund

Pursuant to applicable PRC laws and regulations, the PRC Companies are required to allocate 10% of the companies' net profit to the fund until such fund reaches 50% of the companies' registered capital. The statutory reserve fund can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the companies, provide that such fund be maintained at a minimum of 25% of the companies' registered capital.

#### (ii) Statutory staff welfare fund

Pursuant to applicable PRC laws and regulations, the PRC Companies are required to transfer certain percentage of the companies' net profit to the fund. This fund can only use to provide staff welfare facilities and other collective benefits to the companies' employees. This fund is non-distributable other than upon liquidation of the PRC Companies.

### (b) Distributable reserves

Under the Company Law (revised) of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to its equity holders provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

## 18. 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 disposal of RMB4,970,000 (2005: nil).

## 19. 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

## 20. 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)



## 21. 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
	<b>43,362</b>	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.

## 21. Taxation (Continued)

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

	Unaudited	
	Six months ended 30 June	
	2006	2005
Profit before taxation	173,328	119,524
Tax calculated at a tax rate of 33%	57,198	39,443
Effects of different tax rate in Hong Kong	(1,344)	(826)
Preferential tax rate on the income of certain subsidiaries	(20,592)	(18,626)
Tax losses not recognised	6,547	3,083
Expenses not deductible for tax purposes	20,321	19,834
Income not subject to tax	(12,772)	(2,168)
Tax credit granted to a subsidiary	(5,996)	–
Taxation charge	43,362	40,740

The weighted average applicable tax rate for the six months ended 30 June 2006 is 25.0% (2005: 34.1%).

## 22. Interim Dividend

	Unaudited	
	Six months ended 30 June	
	2006	2005
Declared interim dividend of RMB3.80 cents (2005: 2.30 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 Renminbi against Hong Kong dollars on 28 August 2006.



## 23. 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 as 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

## 24. Commitments

### (a) Capital commitments

Capital expenditure authorised but not contracted and contracted but not paid at the balance sheet date is as follows:

	Unaudited 30 June 2006	Audited 31 December 2005
Property, plant and equipment		
– authorised but not contracted	134,726	98,000
– contracted but not paid	8,793	–
Land use right		
– contracted but not paid	12,000	12,000
Intangible assets		
– exclusive license	29,984	–
	<b>185,503</b>	110,000

### (b) Operating lease commitments – where a Group company is the lessee

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

	Unaudited 30 June 2006	Audited 31 December 2005
Not later than 1 year	78,606	51,776
Later than 1 year and not later than 5 years	106,335	91,893
Later than 5 years	3,078	2,880
	<b>188,019</b>	146,549

## 25. Significant Related Party Transactions

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

	Unaudited Six months ended 30 June	
	2006	2005
Sales of goods to:		
– 北京動感九六體育用品有限責任公司 (Beijing Dong Gan Jiu Liu Sporting Goods Company Limited), a company controlled by the family members of a former director, Chen Yi Hong	–	9,663
– 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Trading Company Limited), a company controlled by the family members of a former director, Chen Yi Hong	–	345
Sponsorship fee paid to:		
– 北京一動體育發展有限公司 (Beijing Edo Sports Development Company Limited), a company controlled by 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.), a company controlled by the family members of Mr. Li Ning, Chairman of the Company	1,850	2,170

### (b) Key management compensation:

Details of compensation paid to key management of the Group (all being directors of the Company) are as follows:

	Unaudited Six months ended 30 June	
	2006	2005
Salaries and other benefits	5,266	5,213
Contribution to retirement benefit scheme	286	191
Share options granted for services provided (note)	26,131	–
	31,683	5,404

Note: This represents the difference between the exercise prices and the market prices of the Company's shares on dates of exercise of share options by the directors.

## 26. Subsequent Events

- (a) On 5 July 2006, options to purchase 4,300,000 shares of the Company held by Alpha Talent, 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 Alpha Talent Option.
- (b) On 14 July 2006, the board of directors of the Company 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.

## 27. Approval of the Interim Financial Information

This unaudited consolidated condensed interim financial information of the Group for the six months ended 30 June 2006 were approved by the board of directors of the Company on 28 August 2006.

## OTHER INFORMATION



### 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 Renminbi into Hong Kong dollars is made at the rate of HK\$1.00 = RMB1.0247 being the official exchange rate of Renminbi against Hong Kong dollars as quoted by the People's Bank of China as at the date of this report. 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.

### Connected Transactions

During the six months ended 30 June 2006, the Group had the following transactions which constituted continuing connected transactions under the Listing Rules:

1. *Sports organising and promotion framework agreement ("Sports Organising Agreement") between Beijing Li Ning and 北京一動體育發展有限公司 (Beijing Edo Sports Development Co., Ltd.) ("Beijing Edo Sports")*

Beijing Edo Sports is a limited company established in the PRC, which is owned as to 80% by 上海寧晟企業管理有限公司 (Shanghai Ning Sheng Corporate Management Co., Ltd.) ("Shanghai Ning Sheng"). By reason of the interests of Mr. Li Ning (the Chairman and a substantial shareholder of the Company) and his family members in Shanghai Ning Sheng, Beijing Edo Sports is an associate of Mr. Li Ning and hence, a connected person of the Company for the purpose of the Listing Rules.

Beijing Li Ning entered into the Sports Organising Agreement dated 1 January 2004 with Beijing Edo Sports for a term of three years commencing from 1 January 2004, under which Beijing Li Ning engaged Beijing Edo Sports to carry out joint promotion of sports events in return for organising fees payable to Beijing Edo Sports.

Payments from Beijing Li Ning to Beijing Edo Sports for the six months ended 30 June 2006 amounted to an aggregate of RMB1,850,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Company's listing prospectus dated 15 June 2004 ("Listing Prospectus").

2. *Non-exclusive distributorship arrangement of LI-NING branded products by 北京動感競技經貿有限公司 (Beijing Dong Gan Jing Ji Trading Co., Ltd.) ("Dong Gan Jing Ji")*

Dong Gan Jing Ji is a limited liability company established in the PRC, which is owned as to 60% by Mr. Chen Yi Liang and 40% by Mr. Chen Yi Yong. Both of Mr. Chen Yi Liang and Mr. Chen Yi Yong are brothers of Mr. Chen Yi Hong, an Executive Director of the Company before his resignation on 1 September 2005. Dong Gan Jing Ji is an associate of Mr. Chen Yi Hong and hence, a connected person of the Company for the purpose of the Listing Rules.

On 1 January 2004, Beijing Li Ning (as supplier) and Dong Gan Jing Ji (as non-exclusive distributor) have entered into a non-exclusive distributorship agreement for the sale of LI-NING branded products at a retail shop in Beijing for a term of three years commencing from 1 January 2004.

Transaction value for the distribution of products between Beijing Li Ning and Dong Gan Jing Ji for the six months ended 30 June 2006 was RMB451,000, which was below the relevant annual cap approved by the Hong Kong Stock Exchange as disclosed in the Listing Prospectus.

## Share Option Schemes

### Share Purchase Scheme

Details of the Share Purchase Scheme of Alpha Talent, a company owned by Mr. Li Ning, the Chairman and a substantial shareholder of the Company, and the movements of the share options granted under the Share Purchase Scheme during the six months ended 30 June 2006 are set out in note 16 to the unaudited interim financial information.

### Pre-IPO Share Option Scheme

Details of the Pre-IPO Share Option Scheme are set out in note 16 to the unaudited interim financial information. Movements of the share options granted under the Pre-IPO Share Option Scheme for the six months ended 30 June 2006 are as follows:

	Date of grant	Exercise price per Share HK\$	Number of share options			as at 30/06/2006
			as at 01/01/2006	exercised during the period	lapsed during the period	
<b>Executive Directors</b>						
Zhang Zhi Yong	05/06/2004	1.8275	1,597,000	(90,000)*	–	1,507,000
Tan Wee Seng	05/06/2004	1.8275	1,212,000	(300,000)+	–	912,000
<b>Employees of the Group</b>						
In aggregate	05/06/2004	1.8275	8,703,000	(750,667)#	(285,333)	7,667,000
			11,512,000	(1,140,667)	(285,333)	10,086,000

\* The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$7.20.

+ The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$7.10.

# The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$7.00.

Options referred to above are subject to vesting schedules and exercise periods as follows:

% of the options granted	Vesting date	Exercise period
33.3	28/06/2005	28/06/2005 – 05/06/2010
33.3	28/06/2006	28/06/2006 – 05/06/2010
33.4	28/06/2007	28/06/2007 – 05/06/2010

### Post-IPO Share Option Scheme

Details of the Post-IPO Share Option Scheme are set out in note 16 to the unaudited interim financial information. Movements of the share options granted under the Post-IPO Share Option Scheme for the six months ended 30 June 2006 are as follows:

	Date of grant	Exercise price per Share HK\$	Number of share options			as at 30/06/2006
			as at 01/01/2006	granted during the period	lapsed during the period	
<b>Executive Directors</b>						
Zhang Zhi Yong	04/07/2005	3.685	832,000	–	–	832,000
Tan Wee Seng	04/07/2005	3.685	728,000	–	–	728,000
<b>Non-Executive Directors</b>						
Lim Meng Ann	04/07/2005	3.685	246,000	–	–	246,000
Stuart Schonberger	04/07/2005	3.685	246,000	–	–	246,000
Fong Ching, Eddy	04/07/2005	3.685	246,000	–	–	246,000
<b>Independent Non-Executive Directors</b>						
Koo Fook Sun, Louis	04/07/2005	3.685	246,000	–	–	246,000
Wang Ya Fei, Jane	04/07/2005	3.685	246,000	–	–	246,000
<b>Employees of the Group</b>						
In aggregate	04/07/2005	3.685	12,715,000	–	(500,000)	12,215,000
	03/01/2006	5.50	–	360,000*	–	360,000
			15,505,000	360,000	(500,000)	15,365,000

\* The closing price per Share immediately before the date of grant of the options was HK\$5.50.



Options referred to above are subject to vesting schedules and exercise periods as follows:

<b>% of the options granted</b>	<b>Vesting date</b>	<b>Exercise period</b>
<b>Options granted on 4 July 2005</b>		
33.3	04/07/2006	04/07/2006 – 04/07/2011
33.3	04/07/2007	04/07/2007 – 04/07/2011
33.4	04/07/2008	04/07/2008 – 04/07/2011
<b>Options granted on 3 January 2006</b>		
33.3	03/01/2007	03/01/2007 – 03/01/2012
33.3	03/01/2008	03/01/2008 – 03/01/2012
33.4	03/01/2009	03/01/2009 – 03/01/2012

Valuation of the options granted under the Share Purchase Scheme, the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme is set out in note 16 to the unaudited interim financial information.

Save as disclosed above, the Company or its subsidiaries was at no time during the period, a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by way of the acquisition of shares in or debentures of the Company or any other corporation.

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

As at 30 June 2006, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") contained in the Listing Rules, are as follows:

Name of Director	Number of Shares/ underlying Shares held	Capacity	% of issued share capital *
Li Ning	374,209,000 (note 1) (long position)	Interests of controlled corporations	36.43
	14,817,500 (note 1(c)) (short position)	Interests of controlled corporation	1.44
Zhang Zhi Yong	13,077,000 (note 2) (long position)	Personal	1.27
Tan Wee Seng	2,395,000 (note 3) (long position)	Personal	0.23
Lim Meng Ann	246,000 (note 4) (long position)	Personal	0.02
Stuart Schonberger	246,000 (note 4) (long position)	Personal	0.02
Fong Ching, Eddy	246,000 (note 4) (long position)	Personal	0.02
Koo Fook Sun, Louis	246,000 (note 4) (long position)	Personal	0.02
Wang Ya Fei, Jane	246,000 (note 4) (long position)	Personal	0.02

\* The calculation of the percentages is based on 1,027,307,334 shares of the Company in issue as at 30 June 2006.

## Notes:

1. *Mr. Li Ning is taken to be interested in an aggregate of 374,209,000 Shares held by Victory Mind Assets Limited, Dragon City Management Limited and Alpha Talent, respectively, as follows:*
  - (a) *203,374,000 Shares are held by Victory Mind Assets Limited which is owned as to 62.106% by Mr. Li Ning and 37.894% by Mr. Li Chun, the brother of Mr. Li Ning. Mr. Li Ning is taken to be interested in the 203,374,000 Shares that Victory Mind Assets Limited is interested. Mr. Li Ning is a director of Victory Mind Assets Limited.*
  - (b) *150,000,000 Shares are held by Dragon City Management Limited in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Ning and his brother, Mr. Li Chun. Mr. Li Ning is the settlor of the Palm Trust and is taken to be interested in the 150,000,000 Shares that Dragon City Management Limited is interested. Mr. Li Ning is a director of Dragon City Management Limited.*
  - (c) *20,835,000 Shares are held by Alpha Talent, which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme. Mr. Li Ning is taken to be interested in 20,835,000 Shares that Alpha Talent is interested. Mr. Li Ning is a director of Alpha Talent.*  
*Mr. Li Ning is taken to have a short position in 14,817,500 Shares, among the total of 20,835,000 Shares, held by Alpha Talent in the Company. When the Share Purchase Scheme was first set up in June 2004, 35,250,000 Shares were held by Alpha Talent. As at 30 June 2006, Alpha Talent had granted options to purchase 29,832,500 Shares pursuant to the Share Purchase Scheme, among which options to purchase for 600,000 Shares have been lapsed due to resignation of an employee and options to purchase 14,415,000 Shares have been exercised. The total number of outstanding options as at 30 June 2006 is 14,817,500 Shares. Mr. Li Ning is the sole shareholder of Alpha Talent, a controlled corporation of Mr. Li Ning, he is thus taken to have a short position in the 14,817,500 Shares.*
2. *Mr. Zhang Zhi Yong is interested in 1,200,000 Shares held and is also taken to be interested as a grantee of options to purchase 9,538,000 Shares under the Share Purchase Scheme, options to subscribe for 1,507,000 Shares under the Pre-IPO Share Option Scheme and options to subscribe for 832,000 Shares under the Post-IPO Share Option Scheme.*
3. *Mr. Tan Wee Seng is interested in 755,000 Shares held and is also taken to be interested as a grantee of options to subscribe for 912,000 Shares under the Pre-IPO Share Option Scheme and options to subscribe for 728,000 Shares under the Post-IPO Share Option Scheme.*
4. *The respective Director is taken to be interested as a grantee of options to subscribe for 246,000 Shares each under the Post-IPO Share Option Scheme.*

Save as disclosed above, so far as was known to any Director, as at 30 June 2006, none of the Directors or chief executive of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in any shares or underlying shares or interests in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange, or any interests which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

## Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2006, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, representing 5% or more of the Company's issued share capital:

Name of shareholder	Number of Shares held	Capacity	% of issued share capital *
Li Ning (Note 1)	374,209,000 (Long position)	Interest of controlled corporations	36.43
	14,817,500 (Short position)	Interest of controlled corporation	1.44
Li Chun (Note 2)	353,374,000 (Long position)	Interest of controlled corporations	34.40
Victory Mind Assets Limited (Note 2(a))	203,374,000 (Long position)	Beneficial owner	19.80
Dragon City Management Limited (Note 2(b))	150,000,000 (Long position)	Trustee	14.60
Cititrust (Cayman) Limited (Note 2(b))	150,000,000 (Long position)	Trustee	14.60
Tetrad Ventures Pte. Ltd. (Note 3)	113,055,500 (Long position)	Beneficial owner	11.01
Government of Singapore Investment Corporation (Ventures) Pte. Ltd. (Note 3)	113,055,500 (Long position)	Interest of controlled corporation	11.01
GIC Special Investments Pte. Ltd. (Note 3)	113,055,500 (Long position)	Interest of controlled corporation	11.01
Government of Singapore Investment Corporation Pte. Ltd. (Note 3)	113,055,500 (Long position)	Interest of controlled corporation	11.01

Name of shareholder	Number of Shares held	Capacity	% of issued share capital *
Minister of Finance (Incorporated) (Note 3)	113,055,500 (Long position)	Interest of controlled corporation	11.01
Fidelity International Limited	51,861,500 (Long position)	Investment manager	5.05
Matthews International Capital Management, LLC	51,317,000 (Long position)	Investment manager	5.00

\* The calculation of the percentages is based on 1,027,307,334 shares of the Company in issue as at 30 June 2006.

Notes:

- See note 1 under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".
- Mr. Li Chun is taken to be interested in an aggregate of 353,374,000 Shares held by Victory Mind Assets Limited and Dragon City Management Limited, respectively, as follows:
  - 203,374,000 Shares are held by Victory Mind Assets Limited which is owned as to 37.894% by Mr. Li Chun, and 62.106% by Mr. Li Ning, the brother of Mr. Li Chun. Mr. Li Chun is taken to be interested in the 203,374,000 Shares that Victory Mind Assets Limited is interested; and
  - 150,000,000 Shares are held by Dragon City Management Limited in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko Trust. Both of the Palm Trust and the Gingko Trust are irrevocable discretionary trusts, the objects of which include the respective family members of Mr. Li Chun and his brother, Mr. Li Ning. Mr. Li Chun is the settler of the Gingko Trust and is taken to be interested in the 150,000,000 Shares that Dragon City Management Limited is interested.
- 113,055,500 Shares are held by Tetrad Ventures Pte. Ltd., a wholly-owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated). Tetrad Ventures Pte. Ltd. is also an investment vehicle managed by GIC Special Investments Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corporation Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated).

Save as disclosed above, as at 30 June 2006, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interests and short positions in the shares and underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

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

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

## Corporate Governance

The Company is committed to 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 Listing Rules. In the "Asia's Best Companies Poll 2006" conducted by FinanceAsia Magazine, the Company was ranked one of the top 10 Chinese companies with 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 Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers issued by the Hong Kong Stock Exchange as its own code governing securities transactions of the Directors. Having made specific enquiries to all Directors, during the six months ended 30 June 2006, all the Directors have complied with their obligations under the said model code regarding their dealings in the Shares.

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 Auditing applicable to review engagements issued by the International Federation of Accountants. On the basis of their review, which does not constitute an audit, PricewaterhouseCoopers confirmed in writing that 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 the International Accounting Standard 34 "Interim Financial Reporting" in all material aspects.

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

Hong Kong, 28 August 2006

# INFORMATION FOR INVESTORS

## Share Information

Listing: the Main Board of the Hong Kong Stock Exchange  
Stock code: 2331  
Board lot: 2,000 Shares  
Shares outstanding as at 30 June 2006: 1,027,307,334 Shares  
Market capitalisation as at 30 June 2006: HK\$7,807,535,738.40  
Interim dividend per ordinary share for 2006: RMB3.80 cents (equivalent to HK3.71 cents)

## Financial Calendar

Annual General Meeting	12 May 2006
Announcement of interim results	28 August 2006
Book closing dates for interim dividend	19 September 2006 – 22 September 2006
Record date for the interim dividend	22 September 2006
Payment of interim dividend	on or about 29 September 2006
Announcement of annual results	March 2007

## Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited  
Butterfield House  
68 Fort Street  
Grand Cayman  
Cayman Islands

## Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
Shops 1712 – 1716, 17th Floor, Hopewell Centre  
183 Queen's Road East  
Wanchai  
Hong Kong

## Websites

[www.lining.com](http://www.lining.com)  
[www.irasia.com/listco/hk/lining](http://www.irasia.com/listco/hk/lining)

## Investor Relations Contact

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## GLOSSARY

In this interim report, unless the context states otherwise, the following expressions have the following meanings:

“AIGLE”	Aigle International S.A., a corporation organised under the laws of France
“Alpha Talent”	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and beneficially owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme
“ATP”	Association of Tennis Professionals
“Beijing Li Ning”	北京李寧體育用品有限公司 (Beijing Li Ning Sports Goods Co. Ltd.), a limited liability company established in the PRC and an indirect wholly-owned subsidiary of the Company
“Board”	the board of Directors
“Company”	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Hong Kong Stock Exchange
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region in the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“NBA”	National Basketball Association
“Pre-IPO Share Option Scheme”	the pre-IPO share option scheme of the Company adopted on 5 June 2004
“Post-IPO Share Option Scheme”	the post-IPO share option scheme of the Company adopted on 5 June 2004
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Share Purchase Scheme”	the share purchase scheme set up by Mr. Li Ning and adopted by Alpha Talent on 5 June 2004
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	shareholders of the Company