LI NING COMPANY LIMITED
（李寧有限公司）
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2331)

LI-NING

Make the change

Interim Report 2010

This report is printed on environmentally friendly paper

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Every 'body' can
become a legend

Mission

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

Vision

A world's leading brand in the sports goods industry

Core Values

Live for Dream, Integrity and Commitment, We Culture, Achieving Excellence, Consumer Oriented, Breakthrough

Contents

LI-NING

Corporate Profile

Li Ning Company Limited is one of the leading sports brand enterprises in the PRC, possessing brand marketing, research and development, design, manufacturing, distribution and retail capabilities. The Group's products mainly include footwear, apparel, accessories and equipment for sport and leisure uses under its own **LI-NING** brand. The Group has established an extensive supply chain management system, and a distribution and retail network in the PRC primarily through outsourcing of manufacturing operations and distribution via franchised agents. The Group also directly manages retail stores for the **LI-NING** brand.

The Group adopts a multi-brand business development strategy. In addition to its core **LI-NING** brand, the Group (i) distributes sports products under its **Z-DO** brand via hypermarket channel; (ii) manufactures, markets, distributes and sells outdoor sports products under the French brand **AIGLE** in the PRC, the exclusive right of which has been granted to a joint venture established with Aigle International S.A.; (iii) engages in manufacture, research and development, marketing and sale of table tennis and other sports equipment under the **Double Happiness** brand through a subsidiary in which the Group has a 57.5% interest; (iv) develops, manufactures, markets, distributes and sells the licensed products under the Italian sports fashion brand **Lotto** in the PRC under an exclusive license granted by a company owned by Lotto Sport Italia S.p.A.; and (v) engages in the research and development, manufacture and sale of professional badminton equipment under the **Kason** brand.

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Corporate Information

Board of Directors

Executive Directors

Mr. LI Ning *(Chairman)*
Mr. ZHANG Zhi Yong *(Chief Executive Officer)*
Mr. CHONG Yik Kay *(Chief Financial Officer)*

Non-executive Directors

Mr. LIM Meng Ann
Mr. CHU Wah Hui
Mr. James Chun-Hsien WEI

Independent non-executive Directors

Mr. KOO Fook Sun, Louis
Ms. WANG Ya Fei
Mr. CHAN Chung Bun, Bunny

Executive Committee

Mr. ZHANG Zhi Yong *(Committee Chairman)*
Mr. LI Ning
Mr. CHONG Yik Kay
Mr. GUO Jian Xin
Mr. FANG Shih Wei
Mr. ZHANG Hui

Audit Committee

Mr. KOO Fook Sun, Louis *(Committee Chairman)*
Ms. WANG Ya Fei
Mr. CHAN Chung Bun, Bunny

Remuneration Committee

Ms. WANG Ya Fei *(Committee Chairman)*
Mr. LIM Meng Ann
Mr. KOO Fook Sun, Louis

Nomination Committee

Mr. LIM Meng Ann *(Committee Chairman)*
Mr. KOO Fook Sun, Louis
Ms. WANG Ya Fei
Mr. CHU Wah Hui

Authorised Representatives

Mr. ZHANG Zhi Yong
Mr. CHONG Yik Kay

Company Secretary

Ms. LEE Hung

Registered Office

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Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

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Postal Code: 101111
Telephone: +8610 8080 0808
Fax: +8610 8080 0000

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KY1-1107
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

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisors

Hong Kong law

Baker & McKenzie

PRC law

Beijing Guorui Law Firm

Principal Bankers

Hong Kong

Hang Seng Bank Limited
DBS Bank Ltd., Hong Kong Branch

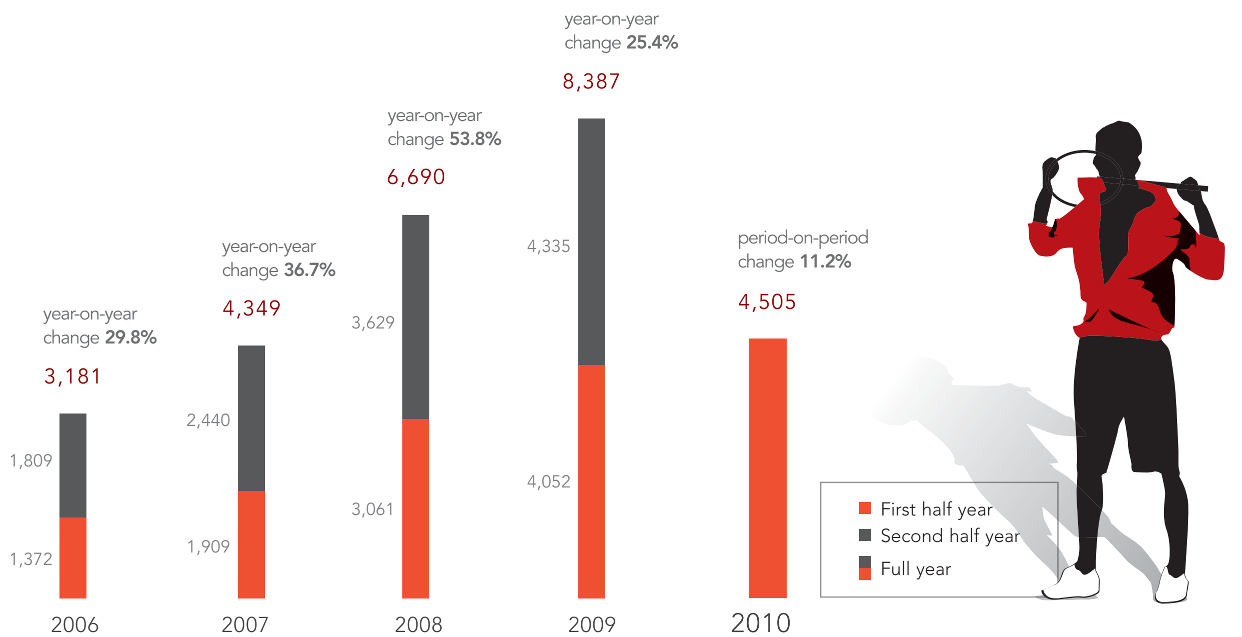
PRC

Industrial & Commercial Bank of China
China Construction Bank
Bank of China
China Merchants Bank
Bank of Beijing
Hang Seng Bank (China) Limited
Standard Chartered Bank (China) Limited

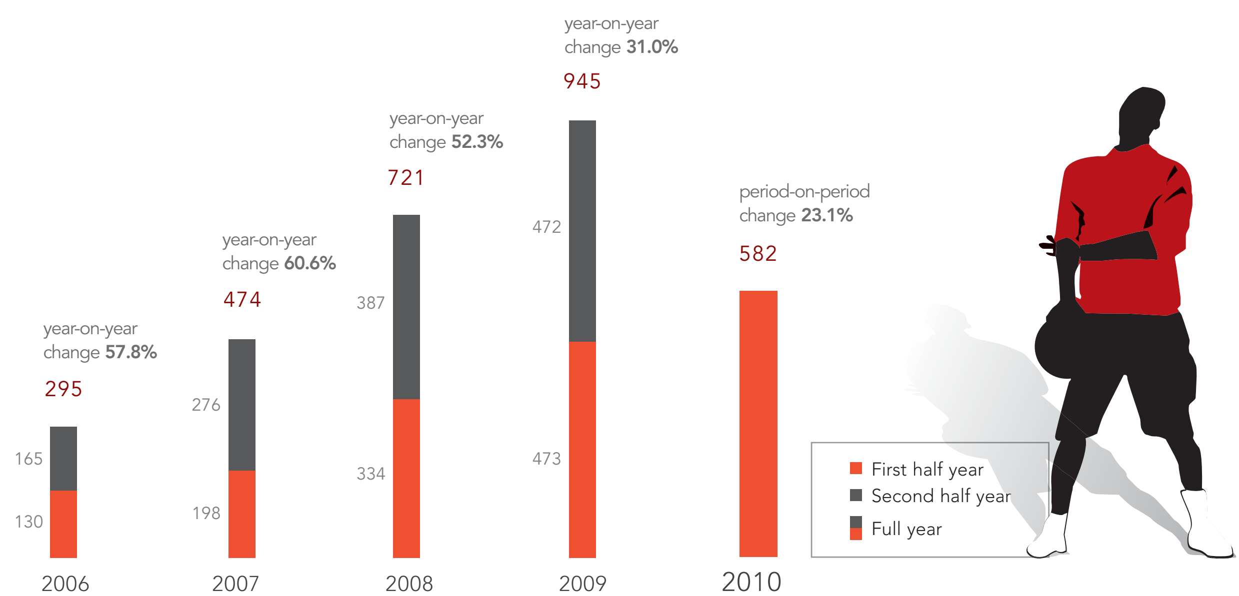
Five-year Financial Highlights

(All amounts in RMB millions)

Revenue



Profit Attributable to Equity Holders



Results Highlights

- Revenue rose by 11.2% to RMB4,505 millions
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 18.0% to RMB913 millions
- Profit attributable to equity holders grew by 23.1% to RMB582 millions
- Margin of profit attributable to equity holders increased by 1.2 percentage points to 12.9%
- Basic earnings per share increased by 22.1% to RMB55.58 cents
- Declared an interim dividend of RMB22.15 cents per ordinary share, an increase of 63.1%
- Number of LI-NING brand retail stores reached 7,478, a net increase of 229 stores during the period

Overview

Continuing the economic rebound in 2009, China's macroeconomic environment maintained its growth momentum during the first half of 2010. However, uncertainties remained as we witnessed the outbreak of the Euro debt crisis on the international front and the ongoing re-adjustment of China's economy. China's economic growth is still driven mainly through investments, while export growth remained sluggish. Consumption recovered mainly in industries supported by government policies such as automotive and home appliances. China's sporting goods industry continued its growth, however, the pace has slowed down. Price slashing and fierce challenges over channel distribution resources further fueled competition in the industry.

Notwithstanding the unstable and challenging external environment, the Group, through sound and effective management measures, maintained satisfactory performance in various key financial indicators and achieved strong results in profit and return on equity during the first half of 2010, thereby continuing to create value for shareholders and investors.

In addition to promoting short-term growth, the Group also attached importance to its long-term development. During the period, the Group embarked on the brand revitalisation strategy for the LI-NING brand and continued to put strong focus on brand innovation and product innovation, with an aim to laying a solid foundation for the Group's long-term stable growth. This reflects the Group's confidence in the future of the sporting goods industry in China.

Financial Review

Key operating and financial indicators of the Group for the six months ended 30 June 2010 are set out below:

	Unaudited Six months ended 30 June		Change
	2010	2009	(%)
Items of income statement			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	4,504,565	4,051,855	11.2
Gross profit	2,158,440	1,936,560	11.5
Operating profit	813,257	685,843	18.6
Earnings before interest, tax, depreciation and amortisation (EBITDA)	912,604	773,256	18.0
Profit attributable to equity holders	581,566	472,540	23.1
Basic earnings per share (RMB cents) (Note 1)	55.58	45.53	22.1
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	47.9	47.8	
Operating profit margin (%)	18.1	16.9	
Effective tax rate (%)	25.0	25.4	
Margin of profit attributable to equity holders (%)	12.9	11.7	
Return on equity holders' equity – half year (%)	20.3	22.5	

	Unaudited Six months ended 30 June 2010	2009
Expenses as a % of revenue		
Director and employee benefits expenses (%)	7.7	7.8
Advertising and marketing expenses (%)	13.2	15.4
Research and product development expenses (%)	2.5	2.3
Asset efficiency		
Average inventory turnover (days) (Note 2)	48	56
Average trade receivables turnover (days) (Note 3)	48	47
Average trade payables turnover (days) (Note 4)	70	68
	As at 30 June 2010	As at 31 December 2009
Asset ratios		
Debt-to-equity ratio (%) (Note 5)	81.8	94.1
Interest-bearing debt-to-equity ratio (%) (Note 6)	7.6	9.7
Net asset value per share (RMB cents)	311.85	273.92

Notes:

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

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

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

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

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

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

Revenue

The Group's revenue for the six months ended 30 June 2010 amounted to RMB4,504,565,000, representing a growth of 11.2% as compared to the corresponding period last year.

Breakdown of revenue by brand and product category

	Six months ended 30 June				
	2010		2009		Revenue
		% of total		% of total	Growth
	RMB'000	revenue	RMB'000	revenue	(%)
LI-NING brand					
Footwear	1,843,504	40.9	1,716,824	42.4	7.4
Apparel	2,036,036	45.3	1,812,696	44.7	12.3
Equipment/accessories	254,315	5.6	207,354	5.1	22.6
Total	4,133,855	91.8	3,736,874	92.2	10.6
Double Happiness brand					
Equipment/accessories	236,202	5.2	219,037	5.4	7.8
Total	236,202	5.2	219,037	5.4	7.8
Lotto brand					
Footwear	12,662	0.3	6,153	0.2	105.8
Apparel	33,168	0.7	8,939	0.2	271.0
Equipment/accessories	1,506	0.1	344	0.0	337.8
Total	47,336	1.1	15,436	0.4	206.7
Other brands*					
Footwear	28,005	0.6	24,947	0.6	12.3
Apparel	41,784	0.9	46,826	1.2	(10.8)
Equipment/accessories	17,383	0.4	8,735	0.2	99.0
Total	87,172	1.9	80,508	2.0	8.3
Total					
Footwear	1,884,171	41.8	1,747,924	43.2	7.8
Apparel	2,110,988	46.9	1,868,461	46.1	13.0
Equipment/accessories	509,406	11.3	435,470	10.7	17.0
Total	4,504,565	100.0	4,051,855	100.0	11.2

* Including AIGLE, Z-DO and Kason.

The Group's core brand, the LI-NING brand, generated revenue of RMB4,133,855,000, which accounted for 91.8% of the Group's total revenue, representing an increase of 10.6% as compared to the corresponding period last year.

In order to safeguard the healthy and stable long-term development of the LI-NING brand and maintain its competitiveness in the complex economic environment, additional efforts have been stepped up for the LI-NING brand during the period to: (i) reinforce the establishment of the retail management system so as to enable rapid response and solution to problems of the retail terminals and safeguard the effective operation of the retail management system; (ii) formulate regional marketing plans to enable the effective implementation of brand marketing activities appropriate for the region; and (iii) promote the establishment of a demand-driven, flexible and effective supply chain system so as to upgrade the operational efficiency on a persistent basis.

The Group adheres to the strategy of developing multiple brands. Following continuous marketing efforts, recognition from more consumers of the product characteristics has been received.

Percentage of revenue of the respective brands by sales channel

	Six months ended 30 June		
	2010 % of revenue of the respective brands	2009 % of revenue of the respective brands	Change (%)
LI-NING brand			
PRC market			
Sales to franchised distributors	85.2	88.1	(2.9)
Sales by directly-managed retail stores	13.7	11.0	2.7
International market	1.1	0.9	0.2
Total	100.0	100.0	
Double Happiness brand			
PRC market	89.6	89.0	0.6
International market	10.4	11.0	(0.6)
Total	100.0	100.0	
Lotto brand			
PRC market	100.0	100.0	
Total	100.0	100.0	
Other brands*			
PRC market	100.0	100.0	
Total	100.0	100.0	

* Including AIGLE, Z-DO and Kason.

Breakdown of revenue by geographical location

		Six months ended 30 June				
		2010		2009		Revenue
			% of total		% of total	Growth
	Note	RMB'000	revenue	RMB'000	revenue	(%)
LI-NING brand						
PRC market						
Eastern region	1	1,545,160	34.4	1,460,464	36.0	5.8
Northern region	2	1,808,186	40.1	1,574,544	38.9	14.8
Southern region	3	733,671	16.3	670,678	16.5	9.4
International market		46,838	1.0	31,188	0.8	50.2
Double Happiness brand						
PRC market		211,571	4.7	195,039	4.8	8.5
International market		24,631	0.5	23,998	0.6	2.6
Lotto brand						
PRC market		47,336	1.1	15,436	0.4	206.7
Other brands*						
PRC market		87,172	1.9	80,508	2.0	8.3
Total		4,504,565	100.0	4,051,855	100.0	11.2

* Including AIGLE, Z-DO and Kason.

Notes:

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

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

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

During the period, the Group continued to reinforce the retail operation and management system, thereby ensuring the persistent and stable growth in revenue of different regions. At the same time, the Group has further explored the Southeast Asian markets, especially Singapore and other new international market channels, leading to an increase of 50.2% in revenue from LI-NING brand in the international market compared to the same period last year.

Cost of Sales and Gross Profit

For the six months ended 30 June 2010, the cost of sales for the Group amounted to RMB2,346,125,000 (2009: RMB2,115,295,000), and its overall gross profit margin was 47.9% (2009: 47.8%), which remained stable and continued to run within the Group's optimal gross profit margins.

Cost of sales of LI-NING brand amounted to RMB2,117,886,000 (2009: RMB1,915,445,000), and its gross profit margin was 48.8% (2009: 48.7%). During the period, despite the challenges from the rising costs of raw materials and labour of the upstream suppliers in the industry, the Group managed to maintain its gross profit margin through appropriate cost control and pricing strategy in line with the brand's competitiveness.

Cost of sales of Double Happiness brand amounted to RMB145,099,000 (2009: RMB129,754,000), and its gross profit margin was 38.6% (2009: 40.8%). The slight decrease in the gross profit margin of Double Happiness brand during the period was primarily attributable to the rising labour costs and raw materials prices. The gross profit margin of Double Happiness brand was in line with its brand positioning.

Cost of sales of Lotto brand amounted to RMB26,675,000 (2009: RMB15,881,000), and its gross profit margin was 43.6% (2009: -2.9%). With the Group's expansion of sales channels and continuous investment for the brand, the sales revenue increased steadily and the impact of the research and development expenses on costs has decreased such that the gross profit margin rose substantially during the period.

Distribution Costs

For the six months ended 30 June 2010, the Group's distribution costs amounted to RMB1,107,963,000 (2009: RMB1,038,764,000), accounting for 24.6% of the Group's total revenue (2009: 25.6%).

Distribution costs of LI-NING brand amounted to RMB978,713,000 (2009: RMB969,028,000), which accounted for 23.7% of LI-NING brand's revenue and represented a decrease of 2.2 percentage points from 25.9% in the corresponding period last year. During the period, the Group's advertising expenses were lower than those in the corresponding period last year, which was mainly due to the fact that there were no major sports events in the first half of the year. The Group will strategically commit major resources to the second half of the year, such as the marketing expenses for the LI-NING brand revitalisation and the marketing activities for events such as the Guangzhou Asian Games. Salaries and benefits for sales staff, depreciation, amortisation and logistics costs recorded a steady increase. As a result, the overall percentage of distribution costs to total revenue decreased as compared to that of the corresponding period last year.

Distribution costs of Double Happiness brand amounted to RMB31,216,000 (2009: RMB18,207,000), which accounted for 13.2% of Double Happiness brand's revenue and represented an increase of 4.9 percentage points from 8.3% in the corresponding period last year. These costs mainly comprised advertising expenses, sponsorship fees and other marketing expenses, as well as salaries and other benefits for sales staff. The rise in the rate of distribution costs was a result of increased sponsorships of major events during the period.

Distribution costs of Lotto brand amounted to RMB71,101,000 (2009: RMB32,285,000), which mainly included fee of license rights, marketing expenses, salaries and other benefits for sales staff as well as operating lease rentals, of which the amortisation fee of license rights for the period in relation to the 20-year license relating to Lotto trademarks (the "Lotto License") amounted to RMB9,845,000 (2009: RMB9,845,000).

According to International Accounting Standards, the Lotto License carrying a present value of RMB393,798,000 has been recognised as "Intangible assets – license rights" and amortised in each relevant period using straight-line method and included in the distribution costs starting from the year 2009. In addition, unrecognised finance costs of RMB555,102,000 was recognised and has been amortised in each relevant period using the effective interest rate method and included in the finance costs starting from the year 2009. During the period, the amortised license rights amounted to RMB9,845,000 and the amortised finance costs was RMB16,196,000. The combined effect of these two costs on profit before tax for the period was RMB-26,041,000.

Being the new focus for the Group's business development, the Group continued to step up channel expansion and brand promotion for Lotto brand during the period, resulting in a relatively higher level of marketing expenses for advertising, special promotions in shopping centres and channel establishment during the period.

Administrative Expenses

For the six months ended 30 June 2010, the Group's administrative expenses amounted to RMB324,508,000 (2009: RMB281,165,000), which accounted for 7.2% of the Group's total revenue (2009: 6.9%).

Administrative expenses of LI-NING brand amounted to RMB291,144,000 (2009: RMB245,053,000), which mainly comprised directors' and staff costs, management consulting expenses, basic research and development expenses, office rental, provision for impairment of assets, depreciation and amortisation charges and other sundry expenses. Administrative expenses accounted for 7.0% of LI-NING brand's revenue, representing an increase of 0.4 percentage points as compared to 6.6% in the corresponding period last year. Given the special emphasis the Group has placed on product research and development, basic research and development expenses and their percentage to revenue increased during the period. Moreover, the Group has adopted corresponding treatment for the inventories bearing the LI-NING brand classic trademark in line with the brand revitalisation. Taking into account the stock clearance discounts offered in the wholesale segment, the Group made a reasonable special provision for the inventories bearing the classic trademark in the wholesale segment according to its prudent accounting principles, and such provision was included in the administrative expenses for the period, resulting in an increase in such expenses. The relevant treatment adopted by the Group will ensure that these inventories bearing the classic trademark are processed in an orderly manner.

Administrative expenses of Double Happiness brand amounted to RMB24,438,000 (2009: RMB29,879,000), which accounted for 10.3% of Double Happiness brand's revenue and represented a decrease of 3.3 percentage points from 13.6% in the corresponding period last year. Such expenses mainly comprised staff costs, depreciation and amortisation charges and other sundry expenses.

Administrative expenses of Lotto brand amounted to RMB2,278,000 (2009: RMB2,744,000), which accounted for 4.8% of Lotto brand's revenue. Such expenses mainly comprised staff costs, basic research and development expenses, depreciation and amortisation charges and other sundry expenses. During the period, sundry expenses and staff costs basically remained stable as a result of the reasonable cost control. As the products were still in their basic research and development stage during the corresponding period last year, the basic research and development expenses committed were relatively higher, and accordingly the overall administrative expenses declined during the period.

Earnings before interest, tax, depreciation and amortisation (EBITDA)

For the six months ended 30 June 2010, the Group's EBITDA amounted to RMB912,604,000 (2009: RMB773,256,000), representing an increase of 18.0% as compared to the corresponding period last year.

EBITDA of LI-NING brand amounted to RMB906,972,000 (2009: RMB740,447,000), representing an increase of 22.5% as compared to the corresponding period last year. This was mainly attributable to stable gross profit margin and the significant reduction of the ratio of distribution costs.

EBITDA of Double Happiness brand amounted to RMB47,570,000 (2009: RMB53,256,000), representing a decrease as compared to the corresponding period last year. Such decrease was mainly attributable to the rising distribution costs.

Lotto brand was at its preliminary stage of development and promotion, which involved relatively higher advertising and channel support expenses. As a result, EBITDA of Lotto brand during the period was RMB-42,668,000 (2009: RMB-25,218,000).

Finance Costs

For the six months ended 30 June 2010, the Group's finance costs amounted to RMB22,476,000 (2009: RMB35,587,000), accounting for 0.5% of the Group's total revenue. Of the finance costs, an interest expense of RMB16,196,000 was recognised for the discounted license fees payable for the Lotto License during the period using the effective interest method in accordance with International Accounting Standards.

Income Tax Expense

For the six months ended 30 June 2010, income tax expense of the Group amounted to RMB197,700,000 (2009: RMB165,221,000). The effective tax rate was 25.0% (2009: 25.4%).

Overall Profitability

For the six months ended 30 June 2010, the Group's profit attributable to equity holders amounted to RMB581,566,000 (2009: RMB472,540,000), representing an increase of 23.1% as compared to the corresponding period last year. Margin of profit attributable to equity holders for the period was 12.9% (2009: 11.7%), representing an increase of 1.2 percentage points as compared to the corresponding period last year.

During the period, the Group's return on equity was 20.3% (2009: 22.5%). The Group continued to record a relatively high return on equity as a result of the Management adhering to the objective of maximising the interests of shareholders through full utilisation of the Group's resources, professional management and operation and reasonable cost control.

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2010 was the same as that in 2009. Inventories are stated at the lower of cost and net realisable value. In the event that net realisable value falls below cost, the difference is taken as provision for inventories.

As at 30 June 2010, accumulated provision for inventories was RMB115,989,000 (31 December 2009: RMB72,526,000), which included the special provision for inventories in respect of the products bearing the classic trademark of the LI-NING brand in the wholesale segment during the period.

Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for the first half of 2010 was the same as that in 2009.

As at 30 June 2010, the accumulated provision for doubtful debts was RMB5,434,000 (31 December 2009: RMB1,184,000).

Liquidity and Financial Resources

The Group's net cash inflow from operating activities for the six months ended 30 June 2010 amounted to RMB529,033,000 (2009: RMB723,323,000). As at 30 June 2010, cash and cash equivalents (including cash at banks and cash in hand, and fixed deposits with original maturity of no more than three months) amounted to RMB1,436,574,000, representing a net increase of RMB172,231,000 as compared with the position as at 31 December 2009. The increase was brought about by the following items:

Items	Six months ended 30 June 2010 RMB'000
Net cash inflow generated from operating activities	529,033
Net capital expenditure	(73,992)
Settlement for acquisition of subsidiaries and payment for investment in a company	(28,273)
Dividends paid to equity holders of the Company	(235,895)
Dividends paid to non-controlling interests of a subsidiary	(9,036)
Bank borrowings – net	(28,082)
Other net cash inflow	18,476
Net increase in cash and cash equivalents	172,231

The Group always pursues a prudent treasury management policy. The Group places strong emphasis on the safety and liquidity of funds and is in a strong liquidity position. Through effective finance management, bank borrowings as at the end of the period decreased to RMB231,888,000 from RMB259,970,000 at the beginning of the period, which reduced the interest expense of bank borrowings.

The Group also has sufficient standby bank credit facilities to cope with the funding needs arising from daily operations and future developments. As at 30 June 2010, the Group's total available banking facilities amounted to RMB946,000,000, which included the outstanding bank borrowings of RMB231,888,000. The outstanding bank borrowings to equity holders' equity ratio (i.e., the gearing ratio) was 7.6% (31 December 2009: 9.7%).

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

Foreign Exchange Risk

The operation of the Group is mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. Moreover, the Group established subsidiaries in Singapore and the US for the expansion of its international business, and Singapore and US Dollars are used as the local functional currencies respectively. A small amount of the Group's cash and bank deposits are denominated in Hong Kong Dollars, US Dollars, Euros and Singapore Dollars. The Company pays dividends in Hong Kong Dollars. In addition, the Group pays certain license fees and sponsorship fees in US Dollars or Euros, and repays part of the bank borrowings in Hong Kong Dollars.

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

Pledge of Assets

As at 30 June 2010, buildings with a net book value of RMB33,843,000 (31 December 2009: RMB33,851,000) and land use rights with a net book value of RMB38,768,000 (31 December 2009: RMB39,324,000) of the Group were pledged to secure certain bank borrowings of companies of the Group.

Contingent Liabilities

As at 30 June 2010, the Group had no significant contingent liabilities.

Business Review

During the first half of 2010, against the backdrop of a complex macro-economic environment and the increasing competition in the sporting goods industry, the Group proactively coped with the challenges through a combination of strategic measures and tactics as well as a fine-tuned coordination between long-term strategies and short-term execution plans. Thanks to the continuous efforts in enhancing the development of the Group's capabilities in brand marketing and promotion, product design, research and development, sales channel expansion and management, as well as supply chain management, the Group has strengthened its competitiveness in key areas such as brand awareness and product performance, thus achieving stable and sustainable business development.

LI-NING Brand

Brand Revitalisation

Brand building is the focus of the Group's business and reflects the Group's core competence. After several years of preparation, the Group unveiled the brand revitalisation strategy for the LI-NING brand on 30 June 2010 at its Beijing headquarters to mark the 20th anniversary of the LI-NING brand.

After two decades of rapid development, the LI-NING brand is well aware of the evolution of the sporting culture and the upward trend of the sporting goods industry in China. Taking reference from in-depth research of the maturity cycle of the market, industry development analysis, competition landscape analysis and positioning and understanding of the consumption trends, the Group sought to reconfigure the LI-NING brand's DNA to clearly define its brand positioning and target consumer groups. This helped give birth to a new personality and attitude for the LI-NING brand – a brand essence that best encapsulates the "inspiring sportsmanship", with a view to further strengthening brand loyalty.

The brand revitalisation strategy has integrated communications, product and retail experience to convey the brand's DNA to consumers in a continuous and consistent manner, and hence bringing consumers an authentic, meaningful, refreshing and innovative experience:

- Unveiled a new logo and a new slogan together with the "Post 90s LI-NING" (90後李寧) themed advertising campaign to express the brand's new proposition and positioning. The new logo of the LI-NING brand gives a new interpretation of the iconic attributes of the original logo in a modern design language. Not only does the new logo convey the rich visual heritage of the classic "LN" symbol, it also subtly outlines the "Li Ning Cross" gymnastic posture introduced by Mr. Li Ning. The new logo effectively conveys the brand's sports values using the resemblance of its shape to the Chinese character "人" meaning people, encouraging everybody to express themselves and achieve self-actualization through sports. The new slogan "Make the change" is adapted from a new brand manifesto that naturally transforms the evolution from "dare to think" to "dare to do", encouraging people to embrace change and achieve breakthroughs;

- The brand revitalisation campaign goes beyond upgrading the visual impact. Behind this facelift, the Group carried out a number of organisational revitalisation initiatives, including systemic upgrading of its sporting goods categorisation, division of business regions, product research and development and design. As part of the brand revitalisation process, the LI-NING brand also unveiled new product collections that carry rich new features: the "Athletic Pro" collection of top-notch sports gear for professional athletes, the multi-function "Urban Sports" collection for light urban sports, the all-orange "Brand Heritage" collection that illustrates the brand equity, and the "Crossover" collection that collaborates local and foreign design talents; and

- Innovation was also introduced at the retail level to offer consumers an authentic and meaningful brand retail experience.

This significant brand revitalisation campaign symbolises the efforts by the LI-NING brand to upgrade both brand innovation and product innovation.

In July 2010, the LI-NING brand was ranked 19th in the "Forbes 2010 Most Valuable China Brands", up four places from the same list released in 2007, and the second fastest growing in terms of the growth of brand value of the brands on the list. The list's adjudication panel considered that the gap between the LI-NING brand and international brands has been narrowed significantly through the brand's strategy in benchmark sports, its ongoing efforts in creating differentiation, its establishment of overseas research and development centres and its in-depth involvement in 2008 Beijing Olympics and 2010 Shanghai World Expo. The position that the LI-NING brand earned on Forbes' list is a result of the Group's ongoing efforts in brand building. It encourages us to work even harder towards our goal of becoming an international brand.

Brand Marketing and Promotion

In addition to the brand revitalisation, the Group also launched the following major marketing and promotion activities in relation to the respective sports categories during the period:

Continued Optimisation of Sports Sponsorship Resources

In February 2010, the Group signed up Espanyol, a strong team in Spain La Primera, which is the first European football team sponsored by the Group.

In March 2010, the Group announced the sponsorship for the top Norwegian javelin thrower, Andreas Thorkildsen, also known as the "Prince of Javelin". The Group will provide high quality professional gear to Thorkildsen, who is the first javelin thrower in history to have been crowned champion in all three major international tournaments, including the European Athletics Championships, the World Athletics Championships and the Olympics. Similar to the Russian female pole vault champion sponsored by the Group, Elena Isinbayeva, the spectacular performances by these two world-class field athletes, and their incessant pursuit of excellence, perfectly epitomise LI-NING's brand essence – "inspiring sportsmanship".

In the basketball and track and field sectors, the Group will continue beefing up its arsenal of sports sponsorship resources by signing up world-class and up-and-coming athletes in the second half of the year. The Group's excellent resources of international sports sponsorship, including the Spanish Basketball Team and the Argentina Basketball Team, have staged spectacular performances in various major sports tournaments, effectively raising the professional image and profile of the LI-NING brand and are well-prepared for the LI-NING brand's promotion opportunities afforded by the 2012 London Olympics.

Badminton

Badminton enjoys a high level of participation in China and is one of the country's fastest growing sports. It is a key focus of the Group and represents an important part of the Group's sports category differentiation strategy.

In May 2010, the Chinese National Badminton Team sponsored by the Group was crowned champion for the eighth time in the "Thomas Cup". This triumph was the first time in badminton history that the Chinese team has won the "Thomas Cup" four times in succession. In June, the "BWF Super Series – LI-NING Singapore Open 2010" was successfully concluded. As the equipment provider and the title sponsor for the games, the Group provided all-round professional services as well as carried out a series of integrated marketing activities. During the period, the Group was also named the official equipment sponsor for the "China Badminton Super League" and provided full series of professional equipment and services to the games. All these demonstrated that the LI-NING brand badminton products stood the test of major tournaments, and won high regard and recognition from the industry.

In addition, the Group continuously placed badminton product advertisements in CCTV sports channel (CCTV-5) and print sports media, developed the large sports community on Sina.com, deepened its cooperation with professional badminton websites and provided detailed online coverage of major badminton tournaments. Through a series of activities integrating the marketing, product and retailing efforts, the Group has significantly enhanced consumers' recognition of the LI-NING brand badminton products and the association of the LI-NING brand with badminton.

Running

Running is another sport that enjoys high popularity in China. The Group's promotion and sponsorship activities in this sector also focus on high exposure among the general public.

- The Group's interactive platform for running in China, the "LI-NING iRUN" running club, has established the "RUN Fans Club" in 10 cities in China, which provides various running activities regularly for running fans as well as encourages its members to actively participate in domestic competitions. In addition, iRUN teamed up with Sina.com in the development of a multi-function website (http://www.irun.cn), which provides information such as professional knowledge on running, members' community and forum, introduction of running products, entertainment and events, hence becoming an integrated resources platform for the development of running products.

- In May this year, a "night run" themed running event "LI-NING FUNRUN Super Night" was held again by the Group in Beijing to coincide with the launch of "Light Bow" (輕弓), the LI-NING brand's new generation of running shoes. Promoting the "Fun Run" concept, the activity attracted over 6,000 participants in the 6km night run, which further enhanced the trendiness of the brand and the positive impression of consumers to the brand.

Basketball

The Group has signed up a total of four NBA stars, namely, Shaquille O'Neal, Baron Davis, Jose Calderon and Hasheem Thabeet. During the period, with such valuable international basketball sports resources, the Group carried out an integrated marketing and promotion campaign titled "Signature Movement" (獨門絕招). The campaign fully brought out the individual charms of each sponsored player and effectively combined the unique selling points of the Group's products, which can be used on and off the court, and in other daily life situations, gaining sound media exposure and word-of-mouth impact while fulfilling the functional and emotional needs of target consumers.

During the period, the Group sealed the top strategic official partnership with the National Basketball League ("NBL"). NBL currently covers 18 second-tier cities in China. The sponsorship of NBL will help promote the expansion of the LI-NING brand in the second- and third-tier cities in China. In 2010, the NBL has, for the first time, allowed university students and foreign aid to participate, which significantly raises the standards and attractiveness of the competition, while gaining increasing attention and influence from media and basketball fans. The partnership with NBL enriches LI-NING brand's marketing resources in the basketball sector and broadens the scope of development of LI-NING brand basketball products.

Fitness

The Group strives to highlight brand differentiation and personality in the promotion of fitness products. Centering on the concept of "Inner Shine" – pursuit of fashionable and healthy female charm, the Group made a strong push in women's fitness products such as yoga, jogging and dancing. During the period, the Group joined forces with Beijing Nirvana Yoga and successfully launched the "LI-NING•Nirvana Yoga 2010 Yoga Workshop" in Beijing, Shanghai and Shenyang. The workshop aims at developing into a scalable and professional interaction platform and has aroused enormous attention from female consumers.

Following the cooperation agreement with Beijing CSI Bally Total Fitness Investment Management Limited ("CSI") established by the first listed sporting group in China, the Group entered into an agreement with Lesmills China in January 2010 with respect to in-depth joint brand collaboration on a nationwide basis. Lesmills is a leading provider of fitness products for the international fitness industry. Lesmills China has over 200 franchise clubs in China and is a mainstream provider of fitness programmes in the country.

The collaboration with Beijing Nirvana Yoga, CSI and Lesmills China has established a solid foundation for the development of LI-NING brand in the fitness industry.

Tennis

Tennis enjoys growing popularity among teenagers in China. During the period, in addition to the continuous sponsorship of the qualifying round of the "LI-NING Prince Cup – International Junior Tennis Championships", the Group maintained its cooperation with the Association of Tennis Professionals (ATP). The Group sponsored about 20 ATP players out of the top 200 singles players and top 20 doubles players under the "Apparel Sponsorship Plan for ATP Players". These included Ivan Ljubicic, who captured the title of the 2010 ATP World Tour Masters 1000 – Indian Wells and Wesley Moodie, a runner-up in the men's tennis doubles finals of the 2009 French Open.

In the beginning of 2010, the Group signed up Peng Shuai (彭帥), a famous tennis player in China, who has won or shared four golden medals in the 11th National Games, namely female singles, female doubles, mixed doubles and female team event, being the first player making a clean sweep of the gold medals of all the female tennis events in the history of the National Games. In April, Peng Shuai (彭帥) and another renowned female tennis player sponsored by the Group, Yan Zi (晏紫), won the gold and silver medals in the "WTA World Tour – MPS Championships" with their respective partners.

Community Marketing Events

Anchoring the Group's marketing activities on the important pool of existing and potential consumers of sports products will have a positive impact on brand-building and the Group's long-term development. During the period, the Group also extensively sponsored and organised various sports events targeting sports enthusiasts and young people. These included:

- Sponsorship of the "Chinese University Football League" (CUFL) and organisation of the "LI-NING China Basketball Draft Camp";

- The Group's meticulously-planned "LI-NING Hero Vans" (李寧英雄大篷車), aimed at encouraging sports enthusiasts to participate in sports activities and enjoy the pleasure of sports, was launched for the third successive year in China. The programme had already staged events on 128 separate days during the period and travelled to 51 medium to large cities across the country, attracting well over 130,000 participants. It is expected that the programme will cover 120 cities by year end. Supported by public relations, digital marketing and advertising activities, the event significantly enhanced the brand image while driving retail sales growth. Meanwhile, most of the places where the NBL competitions took place were also covered by the programme, which maximised the utilisation of the Group's resources in basketball competitions;

- The LI-NING brand has also seen its presence in mainstream online media in the country, including "LI-NING Sports World" which went live on the sports section of the official website of CCTV, and the introduction of the LI-NING online store on the website of CCTV, further creating a positive impact for the LI-NING brand; and

- "The LI-NING Sports Theme Park in Beijing Chaoyang Park" (北京朝陽公園李寧體育園) built by the LI-NING brand has entered its third anniversary. With urban multi-purpose stadiums as its platform, the LI-NING brand continued to communicate with sports lovers through venue advertising, mini matches and brand outlets. During the period, various activities such as running, tennis and football games were held and attracted thousands of participants, who experienced a memorable and lasting impression of the brand.

Product Design, Research and Development

The Group is committed to product design and innovation in research and development. We have established design, research and development centres in mainland China, Hong Kong and Portland of Oregon in the United States, each staffed by an excellent team of professionals. The Group has also worked on an ongoing basis with reputable academic institutions and professional bodies in conducting research and development, aiming at raising the functionality of product technology, realising breakthroughs in technology and enhancing product standards. Situated in the Group's headquarters in Beijing, the Li Ning Sports Science Research and Development Centre specialises in sports science research, product testing, research and development of core technology and enhancement of product functionality, all of which are conducive to further raising the bar of the Group's research and development.

Products for Professional Sponsorships

The Group's domestic and international sports sponsorship resources are grounded on our solid strengths in product design, research and development:

- Badminton has a high technological requirement on its sports gear. With in-depth understanding of the latest trends in badminton technology and in light of the characteristics of the sport, the Group's research and development team has used special techniques in developing a comprehensive range of specialised professional products for the Chinese National Badminton Team. The technological performance and practical experience of the LI-NING badminton gear, including the handle grip and attacking power of rackets, comfort and protection of footwear products, as well as fitting, moisture-absorption ability of apparel products, have all met the professional needs of the Chinese National Badminton Team.

  The Chinese National Badminton Team is the fifth gold medal-winning national team sponsored by the Group, joining national teams in table tennis, diving, gymnastics and shooting. The LI-NING brand has been the long-term sponsor of professional gear for these five gold medal-winning national teams, strengthening its brand position as the No. 1 in China in terms of professionalism and the sports competition.

- Specialising in the development of superior sports gear for professional athletes, Athletic Pro is LI-NING brand's top end series which provides over 35 sports gear items covering various sports categories such as track and field, football, basketball, tennis and badminton. The products include:

- The professional badminton shoes, "Champion" (奪帥), for famous men's single badminton player, Lin Dan (林丹), which fully meet Lin's specific needs in terms of product functionality, aesthetics and other personalised needs;

- The sports shoes and apparel which heaped praise from the world's No. 1 pole vault athlete, Elena Isinbayeva;

- The sports shoes developed for NBA stars, including the "BD Doom" shoes for Baron Davis, "G-Shark" (年輪) shoes for Shaquille O'Neal and "Master V" (馭帥V) shoes for Jose Calderon, all of which were given recognition from these leading players in the world's champions league;

- Professional LI-NING branded javelin shoes, apparel and accessories tailor-made for the "Prince of Javelin", Andreas Thorkildsen. The competition gear not only excels in functionality, but also perfectly blends Norway's unique culture and Chinese characteristics in the design; and

- The "Fish Fin" (奇魚) sports shoes for tennis star Ivan Ljubicic and the tennis gear for Yan Zi (晏紫) have all won strong recognition and appreciation.

Athletic Pro, the top-end professional sports gear series of the LI-NING brand, employs the latest sports theory, bringing immense possibilities to the athletes to break new ground time and again. The series symbolises that LI-NING brand's efforts in sports science and research have met international standards, demonstrating the Group's prowess in design, research and development.

Footwear Products

In addition to developing professional products for athletes, the Group also offers wide variety for general sports lovers. During the period, the Group launched its superlight series of running shoes, "Light Bow" (輕弓), which inherits the "lightweight" heritage of the LI-NING brand footwear. This series uses the newly developed shoe last which better fits the foot shape of Chinese consumers while featuring various advanced techniques and materials, including the patented "LI-NING BOW" (李寧弓) shock absorbent cushioning technology, PavTRAC anti-abrasion rubber, FoamRBlite lightweight EVA rubber and Insole-cushion shock absorbent sock-liner. The combination of lightness, stability, comfort and durability demonstrates the Group's innovative concepts and competence in research and development and has been well received by customers.

Apparel Products

On the design, research and development of apparel products, the Group's professional design and R&D teams in mainland China and Hong Kong collaborated with reputable local and overseas academic institutions and professional organisations to bring added-value to LI-NING brand products:

- The establishment and operation of the apparel R&D laboratory at the Li Ning Sports Science Research and Development Centre promotes new functions of apparel material and new R&D technology, providing full guarantee for product innovation and quality;

- Innovative product R&D centre develops the basic block while focusing on the application of product technology. This helps further refine the Group's product categories and raise the product professionalism, hence offering more comfortable apparel products for individual consumers;

- Introduced crossover collaboration with high-calibre design talents to add versatility to the LI-NING brand products and broaden the choices for consumers;

- Raising the brand's competence and attractiveness by achieving technological innovation while applying research results on apparel products through joint projects with reputable local and overseas academic institutions and research organisations;

- Collaborating with China's reputable sports institutions in the research of physiological characteristics of the human body in order to provide scientific data for sports and apparel products. Findings through data collation and analysis were successfully applied to the material, garment blocks and design, laying a scientific basis for the LI-NING brand's professional gear;

- On the apparel material R&D front, the Group upgraded the AT DRY SMART platform and developed and applied AT Cool material in functional products. The enhanced moisture absorption and quick-dry function, complementing the garment block technology and fashion technology, have provided consumers with improved comfort; and

- Extended the green Eco-Circle series which embodied the Group's environmental protection efforts and its full support for the vitality and low-carbon green apparel concept.

In line with the LI-NING brand revitalisation, the Group also upgraded its product design, research and development to convey the brand's DNA to consumers through product innovation. The Group will continue to invest in world-class R&D teams, facilities, process and organisational structure integration to enhance the product innovation and benefits we provide to world-class athletes and consumers.

Sales Channel Expansion and Management

As at 30 June 2010, there were 7,478 LI-NING brand retail stores in China, representing a net increase of 229 stores for the period. The LI-NING brand has established a nationwide distribution and retail network covering all provinces and municipalities in China. As at 30 June 2010, the distribution and retail network of LI-NING brand comprised:

- 129 distributors operating a total of 7,004 LI-NING brand franchised retail stores across China; and
- a total of 474 directly-managed LI-NING brand retail stores in 18 provinces, regions and municipalities in China.

Number of franchised and directly-managed retail stores

LI-NING brand stores	30 June 2010	31 December 2009	Change (%)
Franchised retail stores	7,004	6,854	2.2
Directly-managed retail stores	474	395	20.0
Total	7,478	7,249	3.2

Number of retail stores by geographical location

LI-NING brand stores	30 June 2010	31 December 2009	Change (%)
Eastern region (Note 1)	3,141	3,071	2.3
Northern region (Note 2)	2,658	2,545	4.4
Southern region (Note 3)	1,679	1,633	2.8
Total	7,478	7,249	3.2

Notes:

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

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

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

The Group is of the view that with further development of the industry, sales channel coverage is becoming more mature and the growth of single-store will be the most important component for future brand growth. During the period, the following measures were implemented to expand and manage the sales channels for the LI-NING brand:

- Placed emphasis on strengthening the development and management of sales channels in shopping centres and sports towns in metropolitan and first-tier cities, thereby reinforced the LI-NING brand's leading position among domestic players in these more competitive channels;
- Continued to expand the sales channel coverage in which second- and third-tier cities were the major markets for sales channel expansion as over 70% of the newly opened stores and retail floor area during the period were attributable to these cities;
- On top of the aforementioned integrated retail outlets, the Group operated stores selling specialised products, such as fashion stores and category stores to attempt the niche markets;
- Promoted sales channel reform in order to increase the influence on the sales channel, such as the management capability and service quality of the distributors, sub-distributors and retail stores, with a view to enhance store efficiency and retail market share;
- Implemented organisational reform in the sales division to establish an infrastructure consisting of three major sales regions, namely northern, eastern and southern China in order to strengthen the Group's ability to respond to the needs of customers as well as the quality of management of different sales regions. Emphasis was placed on management of product lifecycles based on sales regions to improve management efficiency; and
- Continued to upgrade the store image. The trendy and stylish decor of the sixth-generation stores highlighted the characteristics and values of the LI-NING brand and helped promote the sporting and consumption experience of consumers. As at 30 June 2010, there were 41 sixth-generation LI-NING brand stores.

With the growing popularity of the internet, online distribution emerges as a new fast-growing sales channel. In recent years, the Group has been expanding its e-sales network. An official online shop for the LI-NING brand (www.e-lining.com) has been established. Online flagship shops for the LI-NING brand have been opened on reputable e-commerce platforms in China such as Taobao.com and Paipai.com and famous e-shops in China such as Joyo Amazon and 360buy.com have specific web pages for purchasing LI-NING brand products. More than 80 online shops for the LI-NING brand have been established, which facilitated the promotion and enhancement of the brand image, communication and interaction with target consumers as well as business growth. Apart from the LI-NING brand, the Group has also established online distribution channels for Lotto, Double Happiness and Z-DO brands, sharing the e-commerce resources and experience.

Supply Chain Management

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

- Hosted two large-scale order fairs of new products of LI-NING brand for distributors;

- Continued to improve supply chain planning that regulates output based on demand, and purchases based on output, in an effort to further reduce the minimum required inventory level and warehousing time. The Group also stepped up the implementation of direct delivery and streamlined the whole process to alleviate the gridlock built up in logistics operations and speed up the supply chain response time;

- Optimised the procurement system and cost management on an on-going basis, and integrated resources to improve the procurement efficiency and reduce procurement costs;

- Developed the retail logistics, launched the direct delivery project and integrated the logistics operations of subsidiaries to enhance efficiency in retail logistics operations; and

- Invited a number of core suppliers to set up production facilities in the Jingmen Industrial City, Hubei province in order to ensure that the supply chain can adapt to the needs of the market in a timely manner while mitigating the pressure from increasing costs. The first phase of the industrial city has already commenced commercial production while construction of the second phase is in progress. The Group has also started the architectural design for its planned "LI-NING Logistics Centre" in the industrial city. Upon completion, this logistics centre will enable the industrial city to serve as an integrated base for both manufacturing and distribution, so as to enhance the response of the supply chain.

The Group's ongoing efforts in optimising its supply chain and inventory management resulted in the average inventory turnover cycle shortening to 48 days from 56 days of the corresponding period last year, demonstrating the continuous enhancement in asset turnover.

Double Happiness Brand

The Group holds a 57.5% equity interest in Shanghai Double Happiness Co., Ltd. ("Shanghai Double Happiness"), which together with its subsidiaries (collectively, "Double Happiness") is principally engaged in the manufacture, research and development, marketing and sales of table tennis and other sports equipment. Its brands include the Double Happiness brand, which is internationally known for its high quality table tennis equipment.

Double Happiness continued to adopt sponsorship of sports stars and sports events as its core marketing and promotion strategy. In 2010, Double Happiness continued its sponsorship of the leading table tennis players in China, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞), as spokespersons for its table tennis equipment. In addition, during the first half of 2010, Double Happiness also actively sponsored various professional tournaments and provided professional equipment for events in China and around the world, including the Table Tennis World Tour (with 6 stops), the 50th Table Tennis World Cup held in Moscow, the 23rd Asian Table Tennis Championships, China Table Tennis Super League as well as National Women Weight-lifting Championship.

Double Happiness maintains a strong product research, development and design capability. In line with the reform trend of inorganic glue stipulated by the International Table Tennis Federation, Double Happiness introduced its "NEO" equipment series which quickly became the preferred equipment for the Chinese National Table Tennis Team with up to 80% of the team members preferring NEO racket rubber covers. During the year 2010, in addition to professional gear, Double Happiness also launched more than 100 new products that represent breakthroughs in design and appearance. Innovations adopted in this new batch of products include patented technologies in its racket rubber cover products and rackets that feature handles with grips customised to suit individual users' styles. These new products complement Double Happiness' product range and showcase Double Happiness' strong research and development capabilities and design strengths.

Double Happiness brand products are mainly distributed via wholesale and integrated sporting goods stores. It has adopted a wholesale model with a relatively stable clientele across 30 provinces and municipalities in China. During the period, Double Happiness stepped up its customer management efforts and implemented detailed management of customer behaviour and sales policies. It established "product display walls" to exhibit the full range of Double Happiness brand products in about 400 professional equipment stores. These "product display walls" occupied dedicated retail space in the stores and were managed by dedicated salesmen with appropriate retail promotional strategy.

Indoor sports enjoy immense popularity in China, with many players reaching top-notch international standards. LI-NING and Double Happiness brands will continue to enjoy synergies in respect of brand marketing and promotion, sports tournament sponsorships and sales channel development, further solidifying the Group's position in the table tennis sector in China.

Lotto Brand

The Group started its Italian Lotto brand sports lifestyle business in China in 2009. Building on Lotto's positioning as a brand of taste and sensuality, the brand was immersed in an extensive programme of branding and product promotion events and has successfully achieved recognition among consumers for its characteristics and product design themes.

2010 marks an important year for the development of the Lotto brand in China. During the first half of the year, the Group implemented digital promotion campaigns, media placements, public relations-driven communication strategies, on-location events and a series of entertainment marketing events such as sponsorships of movies, TV programmes, TV drama series, events and appearances by celebrities, which enhanced the brand's influence and market awareness.

During the period, the Group completed defining the product design themes for the Lotto brand based on consumer preference studies and differentiation strategies decided upon for the brand, which form a basis for the Group to formulate product strategies and design for the brand. The Group will continue its product innovation efforts for the Lotto brand through crossover co-operation and the application of new technologies.

The sports lifestyle market in China has experienced rapid growth as consumers continue to lead a more versatile and leisurely lifestyle. The Lotto brand will continue its product innovation and explore crossover co-operation opportunities in order to establish a unique character for the brand and its products and to establish its competitive advantages. The brand will also proactively expand its sales channels, enhance store efficiency and implement integrated marketing strategies with a view to raise brand awareness and to acquire a higher market share.

Other Brands

Kason

Kason is a well-known badminton equipment brand in China. It forms an integral part of the Group's badminton strategy. Kason brand's professional badminton products include rackets, strings, shuttlecocks, apparel, footwear and accessories. Its sponsorships include the Chinese National Youth Badminton Team and various provincial badminton teams.

The Group has completed the integration and streamlining of the business of Kason brand and established a research and development and production centre for LI-NING brand badminton products based on Kason brand's existing technology research and development centre and manufacturing facilities. The Group will continue to rearrange and consolidate Kason's brand positioning, product mix, research and development and sales channel. It will also continue to combine Kason brand's leading manufacturing techniques and research and development capabilities with the Group's core competitive edges, and fully utilise the mutual advantages in sports marketing resources to increase the Group's market share in the badminton sector.

Z-DO

Z-DO brand adopts hypermarkets as its sales channel, and shares resources with the LI-NING brand to achieve economies of scale. However, there are main differences between the two brands in terms of sales model, sales network and product portfolio.

Z-DO brand's operation model is maturing. During the period, the major operation measures implemented included:

- Further shifted the sales model from solely the shop-in-shop in hypermarkets set up by distributors to gradually establishing direct cooperation with hypermarkets to take better advantage of the characteristics of the hypermarket channel;
- Continued to optimise the structure of suppliers and improve the supply chain system, while implementing reasonable cost control to enable suitable pricing for the hypermarket channel, thereby increasing the product competitiveness;
- Completed consolidation of the distributors, assisting in improving the distributors' operating system while attracting high quality distributors to establish a sizeable core distributor system; and
- Conducted in-depth research into the consumption behaviour and demands of core consumers so as to fine-tune Z-DO's brand positioning and personality and to increase the size of the Z-DO brand business based on this core consumer group.

AIGLE

AIGLE brand specialises in high-end outdoor sports and casual apparel and footwear products. It serves as the Group's stepping stone to the outdoor sporting goods sector. AIGLE brand products are sold mostly in metropolitan and first-tier cities, and will gradually penetrate into key second-tier cities.

AIGLE enjoys an increasingly clear brand positioning. Its core products have won customer recognition and over 50% of customers have made repeat purchases. AIGLE brand achieved satisfactory performance during the period, with substantial increases in same-store sales driving overall sales gains. The growth came in all aspects and exhibited a healthy rising trend.

During the period, the following operation measures for AIGLE brand were implemented:

- Defined a clear product position and built unique competitive edges by developing functional yet fashionable products;

- Enhanced brand image and awareness by appropriate marketing investment and continuous placement of print advertisements in travel and other outdoor magazines;

- Collaborated with Asia product lines of AIGLE France and AIGLE Hong Kong to enhance product mix and to lower the costs as well as worked with suppliers in France and Hong Kong to develop a localised production and supply chain;

- Replicated the management style and experience of the directly-managed retail stores and key strategic stores in metropolitan cities to the stores established by distributors in order to promote channel and market expansion; and

- Upgraded the quality of retail stores by adopting the international standards on store layout promulgated by the AIGLE brand.

The Group envisages a bright future for the high-end outdoor sporting goods market in China. The Group will continue to strengthen the product and retail management of the AIGLE brand while improving same store growth and to expand the sales channel so as to boost sales.

Human Resources

As at 30 June 2010, the Group had 4,373 employees (31 December 2009: 4,432), of whom 2,166 (31 December 2009: 2,248) were from the Group's headquarters and retail subsidiaries, and 2,207 (31 December 2009: 2,184) were from other subsidiaries. During the period, all business divisions continued to improve organisational performance and operation efficiency, and the core team remained stable.

The Group regards its workforce as an important asset for corporate development and has placed special emphasis in the recruitment, training, motivation and retention of staff. The Group adopts a comprehensive capability-based performance management system for its staff, which provides solid support for its pursuit of sustainable development and outstanding performance. With respect to remuneration, the compensation packages for individual staff members are an effective integration of corporate performance, departmental objectives and individual merit. This system serves to reward outstanding staff and motivate staff's passion and creativity in their work, while aligning individual goals to the overall strategic objectives. In addition to the base salary, key employees with outstanding performance will be rewarded by way of cash, restricted shares, share options, individual awards, or a combination of the above, with a view to effectively aligning the interests of the employees with that of the Company.

Outlook

China's macroeconomic environment continues to improve. Against the backdrop where the driver of growth is gradually shifting from investment to domestic consumption, the fast-moving consumer goods industry in which the Group operates will be benefited. Coupled with the euphoria brought about by major sports events such as the Asian Games, the sporting goods industry is expected to continue its growth in the second half of 2010 and 2011. Based on orders from trade fairs that the Group hosted for the third and fourth quarters of 2010, which recorded an increase of 20.3% compared to the same period last year, the Group envisages stronger growth for the second half of 2010 over that of the first half.

While from a macroscopic perspective, the economy is improving, the recovery is still fragile and not without concerns. It also takes time for the economic re-adjustment to be successfully completed. Meanwhile, competition in the sporting goods industry has also been intensifying with industry players competing fiercely for channels, sports resources and media resources. Discrepancy between wholesale and the actual retail sales in the industry will continue for some time and discounted sales will still have an impact.

In light of the challenging environment, the Group will continue to implement its proactive yet prudent strategy to cope with its strategic objectives for 2009-2013 in the second half of 2010, focusing on the following key areas:

- To implement the LI-NING brand revitalisation strategy in full with a view to establish the unique position and character of the LI-NING brand and to enhance its core competences through effective integration of the brand, products and retail-level operations focusing on target consumer segments;

- To accelerate reforms in the sales channel system and boost retail management capabilities to promote same-store performances, while formulating effective channel policy to strengthen customers' confidence and profitability so as to speed up sales network expansion and penetration and to increase the market share of the LI-NING brand;

- To enhance the response, efficiency and flexibility of its supply chain through ongoing system optimisation to cope with the Group's development; and

- To continue to develop and expand strategic business lines. The Group will strive to increase its share in the badminton market by further leveraging its advantages in sales channel management, products and integrated marketing. It is also exploring a fast-growing, healthy and sustainable growth model for its sports lifestyle business.

The Group is confident in the outlook of the sporting goods industry. The Group endeavours to maintain its competitiveness through long-term brand building, with a view to promoting healthy and stable business growth on a long-term basis and creating better returns for shareholders and investors.

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	627,179	638,181
Land use rights	6	385,061	386,705
Intangible assets	7	834,570	869,911
Deferred income tax assets	19	175,331	193,109
Available-for-sale financial assets		12,000	–
Other receivables and prepayments	11	126,642	127,989
Total non-current assets		2,160,783	2,215,895
Current assets			
Inventories	8	610,779	631,528
Trade receivables	10	1,332,503	1,069,404
Other receivables and prepayments – current portion	11	232,670	194,446
Term deposit with initial term of over three months	12	2,500	–
Restricted bank deposits	12	1,542	2,254
Cash and cash equivalents	12	1,436,574	1,264,343
Total current assets		3,616,568	3,161,975
Total assets		5,777,351	5,377,870

Condensed Consolidated Balance Sheet (Continued)

	Note	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	13	111,158	110,898
Share premium	13	272,190	243,553
Shares held for the Restricted Share Award Scheme	13	(53,125)	(53,239)
Other reserves	14	351,275	332,378
Retained profits			
– Dividend declared/proposed	14	232,626	236,049
– Others	14	2,153,963	1,804,869
		3,068,087	2,674,508
Non-controlling interests		199,652	187,603
Total equity		3,267,739	2,862,111
LIABILITIES			
Non-current liabilities			
License fees payable	17	491,471	496,812
Deferred income tax liabilities	19	93,509	90,401
Deferred income	20	62,971	63,618
Total non-current liabilities		647,951	650,831
Current liabilities			
Trade payables	15	976,480	826,433
Other payables and accruals	16	565,256	570,780
License fees payable – current portion	17	71,651	59,330
Current income tax liabilities		16,386	148,415
Borrowings	18	231,888	259,970
Total current liabilities		1,861,661	1,864,928
Total liabilities		2,509,612	2,515,759
Total equity and liabilities		5,777,351	5,377,870
Net current assets		1,754,907	1,297,047
Total assets less current liabilities		3,915,690	3,512,942

The notes on pages 37 to 71 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Income Statement

		Unaudited	
		Six months ended 30 June	
		2010	2009
	Note	RMB'000	RMB'000
Revenue	4	4,504,565	4,051,855
Cost of sales	21	(2,346,125)	(2,115,295)
Gross profit		2,158,440	1,936,560
Distribution costs	21	(1,107,963)	(1,038,764)
Administrative expenses	21	(324,508)	(281,165)
Other income	22	87,288	69,212
Operating profit		813,257	685,843
Finance income	24	4,042	3,340
Finance costs	24	(26,518)	(38,927)
Finance costs – net		(22,476)	(35,587)
Profit before income tax		790,781	650,256
Income tax expense	25	(197,700)	(165,221)
Profit for the period		593,081	485,035
Attributable to:			
Equity holders of the Company		581,566	472,540
Non-controlling interests		11,515	12,495
		593,081	485,035
Earnings per share for profit attributable to equity holders of the Company (RMB cents)			
– basic	26	55.58	45.53
– diluted	26	54.68	44.98
Dividends	27	232,626	141,761

The notes on pages 37 to 71 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Comprehensive Income

	Unaudited	
	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Profit for the period	593,081	485,035
Other comprehensive income:		
Currency translation differences	331	(41)
Total comprehensive income for the period	593,412	484,994
Attributable to:		
Equity holders of the Company	581,897	472,499
Non-controlling interests	11,515	12,495
	593,412	484,994

The notes on pages 37 to 71 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Changes in Equity

	Unaudited		
	Attributable to equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2009	1,896,413	192,535	2,088,948
Total comprehensive income for the period ended 30 June 2009	472,499	12,495	484,994
Transactions with owners:			
Share option schemes:			
– value of services provided	35,902	–	35,902
– proceeds from shares issued	7,876	–	7,876
Shares purchased for the Restricted Share Award Scheme	(219)	–	(219)
Dividends to equity holders of the Company	(114,508)	–	(114,508)
Balance at 30 June 2009	2,297,963	205,030	2,502,993
Balance at 1 January 2010	2,674,508	187,603	2,862,111
Total comprehensive income for the period ended 30 June 2010	581,897	11,515	593,412
Transactions with owners:			
Share option schemes:			
– value of services provided	29,741	–	29,741
– proceeds from shares issued	17,836	–	17,836
Dividends to equity holders of the Company	(235,895)	–	(235,895)
Dividends to non-controlling interests of a subsidiary	–	(826)	(826)
Contribution from non-controlling interests of a subsidiary	–	1,360	1,360
Balance at 30 June 2010	3,068,087	199,652	3,267,739

The notes on pages 37 to 71 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Cash Flow Statement

		Unaudited	
		Six months ended 30 June	
		2010	2009
	Note	RMB'000	RMB'000
Net cash generated from operating activities		529,033	723,323
Cash flows from investing activities:			
– acquisition of subsidiaries, net of cash acquired		–	(79,080)
– settlement of payable for acquisition of subsidiaries	16	(16,273)	–
– purchases of property, plant and equipment		(45,605)	(56,594)
– purchases of land use rights		(3,250)	(64,839)
– purchases of intangible assets		(26,717)	(21,067)
– investments in available-for-sale financial assets		(12,000)	–
– increase in term deposit with initial term of over three months		(2,500)	–
– proceeds on disposal of property, plant and equipment		1,484	3,660
– proceeds on disposal of intangible assets		96	1,156
– government grant received for purchase of a land use right	20	–	64,697
– interest received		4,042	3,340
Net cash flows used in investing activities		(100,723)	(148,727)
Cash flows from financing activities:			
– dividends paid to equity holders of the Company	27	(235,895)	(114,508)
– dividends paid to non-controlling interests of a subsidiary		(9,036)	–
– proceeds from issuance of ordinary shares	13	17,836	7,876
– contribution from non-controlling interests of a subsidiary		1,360	–
– proceeds from bank borrowings	18	21,500	321,760
– repayment of bank borrowings	18	(49,582)	(617,790)
– purchase of shares for the Restricted Share Award Scheme	13	–	(219)
– interest paid		(1,726)	(14,410)
– decrease in restricted bank deposits		712	99,227
Net cash used in financing activities		(254,831)	(318,064)
Net increase in cash and cash equivalents		173,479	256,532
Cash and cash equivalents at beginning of period	12	1,264,343	788,040
Exchange losses on cash and cash equivalents		(1,248)	(2,975)
Cash and cash equivalents at end of period	12	1,436,574	1,041,597

The notes on pages 37 to 71 are an integral part of this condensed consolidated interim financial information.

Notes to Condensed Consolidated Interim Financial Information

1. General Information

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

The Company was incorporated on 26 February 2004 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

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

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated, and was approved for issue on 25 August 2010 by the Board of Directors.

This condensed consolidated interim financial information has not been audited.

2. Basis of Preparation

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. Accounting Policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

The following revised standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning on 1 January 2010:

IFRS 1 (Revised)	First-time Adoption of IFRSs
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction
IFRS 3 (Revised)	Business Combinations
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible Hedge Items
IFRIC 17	Distributions of Non-cash Assets to Owners

Notes to Condensed Consolidated Interim Financial Information (Continued)

3. Accounting Policies (continued)

In addition, the International Accounting Standards Board also published a number of amendments to existing standards effective 1 January 2010 under its annual improvement projects.

The adoption of the above revised standards, amendments to standards and interpretations does not have any significant impact to the results and financial position of the Group for the six months ended 30 June 2010.

There are certain other new/revised standards, amendments to standards and interpretations that are not yet effective for the financial year beginning on 1 January 2010 and have not been early adopted. Management is currently assessing their related impacts to the Group.

4. Segment Information

The management of the Company ("Management") reviews the Group's internal reports periodically in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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

Revenue consists of sales from LI-NING brand, Double Happiness brand, Lotto brand and all other brands, which are RMB4,133,855,000, RMB236,202,000, RMB47,336,000 and RMB87,172,000 for the six months ended 30 June 2010 and RMB3,736,874,000, RMB219,037,000, RMB15,436,000 and RMB80,508,000 for the six months ended 30 June 2009 respectively.

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

4. Segment Information (continued)

	Unaudited				
	LI-NING brand RMB'000	Double Happiness brand RMB'000	Lotto brand RMB'000	All other brands RMB'000	Total RMB'000
Six months ended 30 June 2010					
Total revenue	4,133,855	236,474	83,112	103,911	4,557,352
Inter-segment revenue	–	(272)	(35,776)	(16,739)	(52,787)
Revenue from external customers	4,133,855	236,202	47,336	87,172	4,504,565
Operating profit/(loss)	833,092	35,757	(52,719)	(2,873)	813,257
Distribution costs and administrative expenses	1,269,857	55,654	73,379	33,581	1,432,471
Include:					
– depreciation and amortisation	59,453	9,255	10,051	3,388	82,147
Six months ended 30 June 2009					
Total revenue	3,736,874	220,495	23,493	85,820	4,066,682
Inter-segment revenue	–	(1,458)	(8,057)	(5,312)	(14,827)
Revenue from external customers	3,736,874	219,037	15,436	80,508	4,051,855
Operating profit/(loss)	673,516	44,240	(35,474)	3,561	685,843
Distribution costs and administrative expenses	1,214,081	48,086	35,029	22,733	1,319,929
Include:					
– depreciation and amortisation	52,610	7,175	9,933	1,210	70,928

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

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Operating profit	813,257	685,843
Finance income	4,042	3,340
Finance costs	(26,518)	(38,927)
Profit before income tax	790,781	650,256

Notes to Condensed Consolidated Interim Financial Information (Continued)

4. Segment Information (continued)

Geographical Information of Revenue

	Unaudited Six months ended 30 June 2010 RMB'000	2009 RMB'000
The PRC (including the Hong Kong Special Administrative Region)	**4,433,096**	3,996,669
Other regions	**71,469**	55,186
Total	**4,504,565**	4,051,855

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

The Group has a large number of customers. For the six months ended 30 June 2010 and 2009, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

5. Property, Plant and Equipment

	Unaudited						
	Buildings RMB'000	Leasehold improvement RMB'000	Mould RMB'000	Machinery RMB'000	Office equipment and motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
Six months ended 30 June 2009							
As at 1 January 2009	464,879	25,462	37,638	27,457	69,221	4,648	629,305
Additions	2,410	11,710	12,022	1,362	8,628	815	36,947
Acquisition of subsidiaries	–	–	–	2,180	534	–	2,714
Transfer out from construction-in-progress	431	–	–	115	635	(1,181)	–
Disposals	(185)	(9)	(3,050)	(134)	(438)	–	(3,816)
Impairment	–	–	–	(415)	(882)	–	(1,297)
Depreciation	(7,788)	(9,645)	(15,092)	(3,198)	(10,667)	–	(46,390)
As at 30 June 2009	459,747	27,518	31,518	27,367	67,031	4,282	617,463

Notes to Condensed Consolidated Interim Financial Information (Continued)

5. Property, Plant and Equipment (continued)

	Unaudited						
	Buildings	Leasehold improvement	Mould	Machinery	Office equipment and motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2010							
As at 1 January 2010	452,789	29,296	39,790	34,543	77,002	4,761	638,181
Additions	7,382	2,826	12,749	2,768	9,321	5,297	40,343
Transfer out from construction-in-progress	323	–	–	38	–	(361)	–
Disposals	–	(1,048)	–	(6)	(430)	–	(1,484)
Depreciation	(12,752)	(8,490)	(14,000)	(2,339)	(12,280)	–	(49,861)
As at 30 June 2010	447,742	22,584	38,539	35,004	73,613	9,697	627,179

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB10,122,000 (31 December 2009: RMB11,415,000) are built on land which the Group is in the process of applying for the legal title (Note 6).

Depreciation expenses of RMB16,985,000 (30 June 2009: RMB16,485,000) has been charged to cost of sales, RMB15,939,000 (30 June 2009: RMB15,855,000) to distribution costs and RMB16,937,000 (30 June 2009: RMB14,050,000) to administrative expenses.

As at 30 June 2010, buildings with net book value of RMB33,843,000 (31 December 2009: RMB33,851,000) are pledged as securities for the Group's borrowings (Note 18).

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Land Use Rights

	Unaudited RMB'000
Six months ended 30 June 2009	
As at 1 January 2009	324,764
Addition	69,973
Amortisation	(3,306)
As at 30 June 2009	391,431
Six months ended 30 June 2010	
As at 1 January 2010	386,705
Addition	3,250
Amortisation	(4,894)
As at 30 June 2010	385,061

All the Group's land use rights are located in the PRC and are held under leases for periods varying from 20 to 50 years. The Group is in the process of applying for the legal title for land use rights with net book value of RMB127,595,000 as at 30 June 2010 (31 December 2009: RMB129,476,000).

Amortisation of land use rights has been charged to cost of sales and administrative expenses.

As at 30 June 2010, land use rights with net book value of RMB38,768,000 (31 December 2009: RMB39,324,000) are pledged as securities for the Group's borrowings (Note 18).

Notes to Condensed Consolidated Interim Financial Information (Continued)

7. Intangible Assets

	Unaudited					
	Goodwill RMB'000	Trademarks RMB'000	Computer software RMB'000	License rights RMB'000	Customer relationships & non-compete agreements RMB'000	Total RMB'000
Six months ended 30 June 2009						
As at 1 January 2009	106,839	90,668	28,967	102,561	–	329,035
Additions	–	226	5,261	463,248	–	468,735
Acquisition of subsidiaries	72,387	21,537	37	–	41,339	135,300
Disposal	–	–	(1,156)	–	–	(1,156)
Amortisation	–	(3,856)	(4,377)	(28,583)	(901)	(37,717)
As at 30 June 2009	179,226	108,575	28,732	537,226	40,438	894,197
Six months ended 30 June 2010						
As at 1 January 2010	179,226	104,341	38,840	509,770	37,734	869,911
Additions	–	735	253	12,151	–	13,139
Disposal	–	–	(96)	–	–	(96)
Impairment	–	(3,792)	–	–	–	(3,792)
Amortisation	–	(4,031)	(6,254)	(31,603)	(2,704)	(44,592)
As at 30 June 2010	179,226	97,253	32,743	490,318	35,030	834,570

During the six months ended 30 June 2009, the Group acquired a license right in respect of Lotto brand carrying a discounted value of approximately RMB393,798,000 with its related license fees payable increased by the same amount (Note 17).

Amortisation of the license rights has been charged to distribution costs, while amortisation of other intangible assets has been charged to administrative expenses.

Notes to Condensed Consolidated Interim Financial Information (Continued)

8. Inventories

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Raw materials	27,134	36,062
Work in progress	25,212	24,191
Finished goods	674,422	643,801
	726,768	704,054
Less: provision for write-down to net realisable value	(115,989)	(72,526)
	610,779	631,528

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB2,213,226,000 for the six months ended 30 June 2010 (30 June 2009: RMB1,987,945,000).

The Group realised a loss of approximately RMB43,463,000 for the six months ended 30 June 2010 (30 June 2009: RMB6,335,000) in respect of the write-down of inventories to their net realisable value. These amounts have been included in administrative expenses in the condensed consolidated income statement.

9. Interest in Jointly Controlled Entities

The Group has 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 manufacture, marketing and distribution of AIGLE brand apparel and footwear products in the PRC.

The following financial information reflects the Group's 50% share of the consolidated assets and liabilities, and consolidated revenue and results of Li-Ning Aigle Ventures and its subsidiary as at 30 June 2010 and for the six-month period then ended, which have been included in the consolidated balance sheet and consolidated income statement.

Notes to Condensed Consolidated Interim Financial Information (Continued)

9. Interest in Jointly Controlled Entities (continued)

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Assets		
Non-current assets	2,683	2,734
Current assets	15,799	15,411
Total assets	18,482	18,145
Liabilities		
Non-current liabilities	6,147	6,011
Current liabilities	14,534	14,734
Total liabilities	20,681	20,745
Net liabilities	(2,199)	(2,600)

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Revenue	10,000	7,639
Expenses	(9,598)	(9,213)
Net profit/(loss)	402	(1,574)

As at 30 June 2010 and 31 December 2009, the Group did not have any material contingent liabilities in respect of its interest in the jointly controlled entities; nor did the jointly controlled entities have any material contingent liabilities as at 30 June 2010 and 31 December 2009.

Notes to Condensed Consolidated Interim Financial Information (Continued)

10. Trade Receivables

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Accounts receivable	1,315,887	1,028,017
Notes receivable	22,050	42,571
	1,337,937	1,070,588
Less: provision for impairment of receivables	(5,434)	(1,184)
	1,332,503	1,069,404

Customers are normally granted credit terms within 90 days. As at 30 June 2010, trade receivables that were neither past due nor impaired amounted to RMB1,264,461,000 (31 December 2009: RMB1,027,215,000). Trade receivables that were past due but not impaired amounted to RMB68,042,000 (31 December 2009: RMB42,189,000) which relate to a number of independent customers for whom there is no recent history of default and with outstanding receivables aged from 91 to 180 days as at 30 June 2010.

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

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
0 – 30 days	615,602	506,049
31 – 60 days	348,016	314,897
61 – 90 days	300,843	206,269
91 – 180 days	68,042	42,189
181 – 365 days	5,157	1,000
Over 365 days	277	184
	1,337,937	1,070,588

As at 30 June 2010, trade receivables of RMB5,434,000 (31 December 2009: RMB1,184,000) were impaired for which full provision of impairment has been made. The impairment was firstly assessed individually for significant or long ageing balances, and the remaining balances were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk.

Notes to Condensed Consolidated Interim Financial Information (Continued)

10. Trade Receivables (continued)

Movement in provision for impairment of trade receivables is analysed as follows:

	Unaudited	
	2010 RMB'000	2009 RMB'000
As at 1 January	1,184	5,305
Provision for impairment/(reversal of provision) of receivables	4,266	(1,953)
Receivables written off during the period as uncollectible	(16)	(1,109)
As at 30 June	5,434	2,243

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

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

11. Other Receivables and Prepayments

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Advances to suppliers	47,222	14,263
Prepayment for advertising expenses	42,114	68,350
Rental and other deposits	73,776	55,084
Prepaid rentals	165,375	172,067
Staff advances and other payments for employees	4,835	2,471
Others	25,990	10,200
	359,312	322,435
Less: non-current portion	(126,642)	(127,989)
Current portion	232,670	194,446

Other receivables and prepayment do not contain impaired assets. Non-current portion mainly comprised prepaid rentals and deposits.

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

12. Cash, Cash Equivalents and Bank Deposits

As at 30 June 2010, the Group had the following cash, cash equivalents and bank deposits mainly held at banks in the PRC (including the Hong Kong Special Administrative Region):

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Cash at banks and in hand	1,336,574	1,105,343
Short-term bank deposits	100,000	159,000
Cash and cash equivalents	1,436,574	1,264,343
Term deposit with initial term of over three months	2,500	–
Restricted bank deposits	1,542	2,254
	1,440,616	1,266,597

An analysis of cash, cash equivalents and bank deposits by denominated currency is as follows:

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Denominated in RMB	1,394,779	1,200,214
Denominated in HK$	29,221	42,209
Denominated in US$	5,458	13,032
Denominated in EUR	7,617	7,925
Denominated in SGD	3,541	3,217
	1,440,616	1,266,597

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 is subject to the rules and regulations of exchange control promulgated by the PRC government.

Cash at banks and bank deposits are neither past due nor impaired and are deposits with banks which are mainly prominent nation wide state-owned banks or PRC branches of international commercial banks with good credit ratings.

Restricted bank deposits are restricted for bank normal business purposes. The maximum exposure to credit risk at the reporting date is the carrying amounts of the Group's restricted bank deposits mentioned above.

Notes to Condensed Consolidated Interim Financial Information (Continued)

13. Share Capital, Share Premium and Shares Held for the Restricted Share Award Scheme

	Number of shares (Thousands)	Approximate amount HK$'000
Authorised at HK$0.10 each		
As at 30 June 2010 and 31 December 2009	10,000,000	1,000,000

Issued and fully paid

	Unaudited				
	Number of share of HK$0.10 each (Thousands)	Share capital RMB'000	Share premium RMB'000	Shares held for the Restricted Share Award Scheme RMB'000	Total RMB'000
As at 1 January 2009	1,036,633	110,323	200,758	(84,118)	226,963
Net proceeds from shares issued pursuant to share option schemes (Note a)	2,600	229	7,647	–	7,876
Transfer of fair value of share options exercised to share premium	–	–	9,601	–	9,601
Shares vested under the Restricted Share Award Scheme	6	–	–	484	484
Shares purchased for the Restricted Share Award Scheme	(20)	–	–	(219)	(219)
As at 30 June 2009	1,039,219	110,552	218,006	(83,853)	244,705
As at 1 January 2010	1,044,881	110,898	243,553	(53,239)	301,212
Net proceeds from shares issued pursuant to share option schemes (Note a)	2,960	260	17,576	–	17,836
Transfer of fair value of share options exercised to share premium	–	–	11,061	–	11,061
Shares vested under the Restricted Share Award Scheme	6	–	–	114	114
As at 30 June 2010	1,047,847	111,158	272,190	(53,125)	330,223

Notes:

(a) During the six months ended 30 June 2010, the Company issued 2,960,000 shares (30 June 2009: 2,600,000 shares) of HK$0.10 each to certain directors and employees of the Group at weighted average issue price of HK$6.7054 (30 June 2009: HK$3.4096) per share pursuant to the Company's share option schemes (see Note 28).

Notes to Condensed Consolidated Interim Financial Information (Continued)

14. Reserves

	Unaudited						
	Capital reserves (a) RMB'000	Statutory reserve funds (b) RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Subtotal RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2009	45,634	147,111	64,865	–	257,610	1,411,840	1,669,450
Profit for the period	–	–	–	–	–	472,540	472,540
Value of services provided under share schemes	–	–	35,902	–	35,902	–	35,902
Transfer of fair value of share options exercised to share premium	–	–	(9,601)	–	(9,601)	–	(9,601)
Vesting of shares under the Restricted Share Award Scheme	–	–	(484)	–	(484)	–	(484)
Dividends paid	–	–	–	–	–	(114,508)	(114,508)
Translation difference of foreign currency financial statements	–	–	–	(41)	(41)	–	(41)
As at 30 June 2009	45,634	147,111	90,682	(41)	283,386	1,769,872	2,053,258
As at 1 January 2010	45,634	206,612	80,160	(28)	332,378	2,040,918	2,373,296
Profit for the period	–	–	–	–	–	581,566	581,566
Value of services provided under share schemes	–	–	29,741	–	29,741	–	29,741
Transfer of fair value of share options exercised to share premium	–	–	(11,061)	–	(11,061)	–	(11,061)
Vesting of shares under the Restricted Share Award Scheme	–	–	(114)	–	(114)	–	(114)
Dividends paid	–	–	–	–	–	(235,895)	(235,895)
Translation difference of foreign currency financial statements	–	–	–	331	331	–	331
As at 30 June 2010	45,634	206,612	98,726	303	351,275	2,386,589	2,737,864

Notes to Condensed Consolidated Interim Financial Information (Continued)

14. Reserves (continued)

(a) Capital Reserves

Capital reserves comprised the aggregate of contribution by the shareholders of the Group and the merger reserve arose during the reorganisation in preparation for listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 2004.

(b) Statutory Reserve Funds

Under the relevant PRC laws and regulations, the Company's subsidiaries in the PRC (the "PRC Companies") are required to appropriate a portion of their net profit determined in accordance with the PRC accounting regulations to statutory reserve funds before profit distribution to investors.

Statutory reserve funds include Statutory Surplus Reserve and Reserve Fund.

PRC Companies incorporated under the "Company Law of the PRC" are required to allocate at least 10% of the companies' net profit determined in accordance with the PRC accounting regulations to the Statutory Surplus Reserve until such fund reaches 50% of the companies' registered capital. The Statutory Surplus Reserve can be utilised, upon approval by the relevant authorities, to offset accumulated losses or to increase registered capital of the Company, provided that such fund is maintained at a minimum of 25% of the companies' registered capital.

Pursuant to applicable PRC laws and regulations, PRC Companies incorporated under the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" may appropriate a percentage of net profit determined in accordance with the PRC accounting regulations to Reserve Fund after offsetting accumulated losses from prior years. The percentage of appropriation is determined by the board of directors of the companies.

Pursuant to applicable PRC laws and regulations, PRC Companies incorporated under the "Law of the PRC on Enterprise Operated Exclusively with Foreign Capital" are required to allocate at least 10% of the companies' net profit determined in accordance with the PRC accounting regulations to the Reserve Fund until such fund reaches 50% of the companies' registered capital. The Reserve Fund, upon approval by relevant authorities, may be used to offset accumulated losses or to increase registered capital of the Company.

Notes to Condensed Consolidated Interim Financial Information (Continued)

15. Trade Payables

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

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
0 – 30 days	726,340	786,082
31 – 60 days	214,916	9,340
61 – 90 days	18,393	18,851
91 – 180 days	6,735	9,726
181 – 365 days	9,096	1,053
Over 365 days	1,000	1,381
	976,480	826,433

16. Other Payables and Accruals

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Accrued sales and marketing expenses	224,839	175,523
Advances from customers	49,051	73,172
Wages and welfare payables	122,067	132,581
Other tax payables	61,669	71,560
Payable for property, plant and equipment	10,612	15,874
Payable for acquisition of subsidiaries	–	16,273
Other payables	97,018	85,797
	565,256	570,780

Notes to Condensed Consolidated Interim Financial Information (Continued)

17. License Fees Payable

The Group entered into several license agreements with sports organisations and athletes to obtain exclusive product development and marketing rights. Pursuant to the agreements, consideration shall be paid by the Group in tranches during the lives of the licenses.

Movement in license fees payable during the period is analysed as follows:

	Unaudited RMB'000
Six months ended 30 June 2009	
As at 1 January 2009	110,744
Acquisition of license rights	449,338
Payment of license fees	(16,723)
Amortisation of discount (Note 24)	20,019
Adjustment for exchange difference	(1,346)
As at 30 June 2009	562,032
Six months ended 30 June 2010	
As at 1 January 2010	**556,142**
Acquisition of license rights	**12,166**
Payment of license fees	**(25,100)**
Amortisation of discount (Note 24)	**20,558**
Adjustment for exchange difference	**(644)**
As at 30 June 2010	**563,122**

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Analysis of license fees payable:		
Non-current		
– over five years	**319,011**	320,590
– the second to fifth year	**172,460**	176,222
Current	**71,651**	59,330
	563,122	556,142

The license fees payable are mainly denominated in RMB, US$ and EUR.

Notes to Condensed Consolidated Interim Financial Information (Continued)

17. License Fees Payable (continued)

The maturity profile of the Group's license fees based on contractual undiscounted cash flows is as follows:

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Less than 1 year	**75,274**	61,923
Between 1 and 5 years	**210,046**	214,336
Over 5 years	**800,850**	822,000
	1,086,170	1,098,259

18. Borrowings

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Current		
Bank borrowings denominated in		
– RMB	**39,960**	66,260
– HK$	**191,928**	193,710
	231,888	259,970
Borrowings		
– secured	**19,500**	66,260
– unsecured	**212,388**	193,710
	231,888	259,970

The carrying amounts of the borrowings at the respective balance sheet dates approximate their fair value as the impact of discounting is not significant.

The weighted average effective interest rates per annum of the borrowings were 4.89% (30 June 2009: 5.91%) for bank borrowings denominated in RMB and 1.45% (30 June 2009: 2.02%) for bank borrowings denominated in HK$ for the six months ended 30 June 2010.

Bank borrowings amounting to RMB19,500,000 (31 December 2009: RMB66,260,000) were secured by the Group's buildings and land use rights as at 30 June 2010 (Notes 5 and 6).

Notes to Condensed Consolidated Interim Financial Information (Continued)

18. Borrowings (continued)

As at 30 June 2010, the Group had undrawn borrowing facilities within one year amounting to RMB714,112,000 (31 December 2009: RMB1,396,540,000). These facilities have been arranged to help financing the Group's working capital.

Movement in borrowings is analysed as follows:

	Unaudited RMB'000
Six months ended 30 June 2009	
As at 1 January 2009	607,480
Additions	321,760
Repayments	(617,830)
As at 30 June 2009	311,410
Six months ended 30 June 2010	
As at 1 January 2010	259,970
Additions	21,500
Repayments	(49,582)
As at 30 June 2010	231,888

Notes to Condensed Consolidated Interim Financial Information (Continued)

19. Deferred Income Tax

Movements in deferred income tax assets/(liabilities) are analysed as follows:

Deferred Income Tax Assets

	Unaudited						
	Provisions	Share Schemes	Unrealised profit on intra-group sales	Accumulated tax losses	Accruals	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2009							
As at 1 January 2009	14,684	11,660	41,688	–	–	1,409	69,441
Credited/(charged) to income statement	1,620	3,779	(3,544)	–	–	1,607	3,462
Acquisition of subsidiaries	–	–	–	–	–	103	103
As at 30 June 2009	16,304	15,439	38,144	–	–	3,119	73,006
Six months ended 30 June 2010							
As at 1 January 2010	20,532	12,681	48,901	37,470	66,732	6,793	193,109
Credited/(charged) to income statement	12,859	2,645	5,883	21,117	(60,356)	74	(17,778)
As at 30 June 2010	33,391	15,326	54,784	58,587	6,376	6,867	175,331

Deferred Income Tax Liabilities

	Unaudited			
	Fair value gains	Undistributed profits (Note 25(d))	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2009				
As at 1 January 2009	(77,490)	–	(1,651)	(79,141)
Credited to income statement	3,043	–	1,476	4,519
Acquisition of subsidiaries	(20,138)	–	–	(20,138)
As at 30 June 2009	(94,585)	–	(175)	(94,760)
Six months ended 30 June 2010				
As at 1 January 2010	(90,227)	–	(174)	(90,401)
Credited/(charged) to income statement	2,058	(5,270)	104	(3,108)
As at 30 June 2010	(88,169)	(5,270)	(70)	(93,509)

Notes to Condensed Consolidated Interim Financial Information (Continued)

19. Deferred Income Tax (continued)

The amounts expected to be recovered for deferred income tax assets/(liabilities) are as follows:

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	97,447	139,602
– to be recovered after more than 12 months	77,884	53,507
	175,331	193,109
Deferred income tax liabilities		
– to be recovered within 12 months	(9,385)	(3,040)
– to be recovered after more than 12 months	(84,124)	(87,361)
	(93,509)	(90,401)

20. Deferred Income

	Unaudited RMB'000
Six months ended 30 June 2009	
As at 1 January 2009	–
Addition	64,697
Credited to income statement	(108)
As at 30 June 2009	64,589
Six months ended 30 June 2010	
As at 1 January 2010	63,618
Credited to income statement	(647)
As at 30 June 2010	62,971

During the six months ended 30 June 2009, the Group received government grant amounting to RMB64,697,000 for purchase of a land use right in the PRC. Such government grant was recorded as deferred income and would be credited to income statement over the lease period of the corresponding land use right of 50 years using straight-line method. An amount of RMB647,000 (30 June 2009: RMB108,000) has been credited to other income during the six months ended 30 June 2010.

Notes to Condensed Consolidated Interim Financial Information (Continued)

21. Expenses by Nature

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Cost of inventories recognised as expenses included in cost of sales	**2,213,226**	1,987,945
Depreciation on property, plant and equipment	**49,861**	46,390
Amortisation of land use rights and intangible assets	**49,486**	41,023
Advertising and marketing expenses	**595,394**	622,697
Director and employee benefit expenses	**344,957**	314,776
Operating lease rentals in respect of land and buildings	**163,248**	118,739
Research and product development expenses	**111,353**	94,089
Transportation and logistics expenses	**76,595**	56,327
Provision/(reversal of provision) for impairment charge of receivables	**4,266**	(1,953)
Write-down of inventories to net realisable value	**43,463**	6,335
Auditor's remuneration	**2,205**	2,032
Management consulting expenses	**32,360**	42,065
Travelling and entertainment expenses	**59,504**	50,813
Other expenses	**32,678**	53,946
Total of cost of sales, distribution costs and administrative expenses	**3,778,596**	3,435,224

22. Other Income

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Government grants (Note a)	**87,288**	69,212

Note:

(a) This represented subsidies received from various local governments in the PRC during the period.

Notes to Condensed Consolidated Interim Financial Information (Continued)

23. Pensions

The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 5% to 22% of the employees' basic salary dependent upon the applicable local regulations.

24. Finance Income and Costs

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Finance income – Interest income on bank balances and deposits	4,042	3,340
Amortisation of discount – license fees payable (Note 17)	(20,558)	(20,019)
Interest expense on bank borrowings	(1,727)	(14,458)
Net foreign currency exchange loss	(1,579)	(1,548)
Others	(2,654)	(2,902)
Finance costs	(26,518)	(38,927)
Finance costs – net	(22,476)	(35,587)

Notes to Condensed Consolidated Interim Financial Information (Continued)

25. Income Taxes

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Current income tax		
– Hong Kong profits tax (Note b)	850	786
– The PRC corporate income tax (Note c)	173,964	172,416
– Withholding income tax on dividends distributed from subsidiaries in PRC (Note d)	2,000	–
	176,814	173,202
Deferred income tax		
– Withholding income tax on undistributed profits from subsidiaries in PRC (Note d)	5,270	–
– Origination and reversal of other temporary differences	15,616	(7,981)
	20,886	(7,981)
	197,700	165,221

Notes:

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

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2010 (30 June 2009: 16.5%).

(c) Provision for the PRC corporate income tax is calculated based on the statutory tax rate of 25% (30 June 2009: 25%) on the assessable income of each of the group companies in the PRC, except that certain subsidiaries of the Company are taxed at preferential tax rates of 22% (30 June 2009: 20%) under the relevant PRC tax rules and regulations.

(d) Dividends derived from the Company's subsidiaries in the PRC earned after 1 January 2008 are subject to withholding tax at the rate of 5%. During the six months ended 30 June 2010, the Group reassessed its needs to make distributions out of its subsidiaries in the PRC. As a result, withholding income tax has been provided for the dividends already distributed during the period and undistributed profits to the extent they are expected to be distributed in future.

Notes to Condensed Consolidated Interim Financial Information (Continued)

25. Income Taxes (continued)

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% as follows:

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Profit before income tax	**790,781**	650,256
Tax calculated at a tax rate of 25% (30 June 2009: 25%)	**197,695**	162,564
Effects of different tax rates outside PRC	**1,830**	(1,034)
Preferential tax rate on the income of certain subsidiaries	**(608)**	(1,143)
Tax losses for which no deferred taxation is recognised	**3,586**	15,330
Expenses not deductible for tax purposes	**10,597**	4,523
Withholding tax on dividends from subsidiaries in PRC	**7,270**	–
Tax credit granted to subsidiaries	**(13,376)**	(12,658)
Income not subject to tax	**(9,294)**	(2,361)
Taxation charge	**197,700**	165,221

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 30 June 2010 is 25.0% (30 June 2009: 25.4%).

26. Earnings Per Share

Basic

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

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Profit attributable to equity holders of the Company	**581,566**	472,540
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme (in thousands)	**1,046,364**	1,037,926
Basic earnings per share (RMB cents)	**55.58**	45.53

Notes to Condensed Consolidated Interim Financial Information (Continued)

26. Earnings Per Share (continued)

Diluted

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

	Unaudited Six months ended 30 June	
	2010 RMB'000	2009 RMB'000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**581,566**	472,540
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme (in thousands)	**1,046,364**	1,037,926
Adjustment for share options and awarded shares (in thousands)	**17,236**	12,641
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**1,063,600**	1,050,567
Diluted earnings per share (RMB cents)	**54.68**	44.98

27. Dividends

The final dividend for the year ended 31 December 2009 amounting to RMB235,895,000 (31 December 2008: RMB114,508,000) was paid in May 2010.

In addition, an interim dividend of RMB22.15 cents per ordinary share for the six months ended 30 June 2010 (30 June 2009: RMB13.58 cents) was declared by the Board of Directors on 25 August 2010. It is payable on or around 24 September 2010 to shareholders whose names appear on the Company's register of members on 17 September 2010. This interim dividend, amounting to RMB232,626,000 (30 June 2009: RMB141,761,000), has not been recognised as a liability in this interim financial information. It will be recognised as an appropriation of distributable reserves in the financial statements of the Group and the Company for the year ending 31 December 2010.

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-Based Compensation

(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 (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.

Currently granted options vest gradually after the individuals complete certain periods of service in the Group's companies ranging from 6 to 36 months.

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

	Unaudited			
	2010		2009	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	0.86	1,724	0.68	6,936
Exercised	0.86	(1,056)	0.56	(3,179)
As at 30 June	0.86	668	0.78	3,757
Exercisable as at 30 June	0.86	618	0.61	2,357

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-Based Compensation (continued)

(a) Share Purchase Scheme (continued)

Share options outstanding as at the 30 June 2010 and 31 December 2009 have the following expiry date and weighted average exercise price:

	Unaudited 30 June 2010		Audited 31 December 2009	
Expiry date	Weighted average exercise price (per share) HK$	Share options (Thousands)	Weighted average exercise price (per share) HK$	Share options (Thousands)
8 June 2010	0.86	–	0.86	439
11 November 2011	0.86	75	0.86	75
5 July 2012	0.86	510	0.86	945
1 January 2013	0.86	–	0.86	100
2 July 2013	0.86	–	0.86	19
16 November 2013	0.86	33	0.86	33
27 November 2013	0.86	50	0.86	113
		668		1,724

(b) Pre-IPO Share Option Scheme

The Company has adopted a pre-IPO share option scheme (the "Pre-IPO Option") on 5 June 2004. HK$1 is payable by the grantee who accepts the grant of an 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 contribution to the Group.

The 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 for 12 to 36 months starting from the date of grant (5 June 2004).

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-Based Compensation (continued)

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

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

	Unaudited			
	2010		2009	
	Exercise price (per share) HK$	Outstanding options (Thousands)	Exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	1.8275	863	1.8275	3,816
Exercised	1.8275	(862)	1.8275	(872)
Lapsed	1.8275	(1)	1.8275	–
As at 30 June	1.8275	–	1.8275	2,944
Exercisable as at 30 June	1.8275	–	1.8275	2,944

Share options outstanding as at 31 December 2009 have the following expiry date and exercise price:

	Audited 31 December 2009	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)
5 June 2010	1.8275	863

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-Based Compensation (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 Post-IPO Option 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 Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are any individuals being employees, 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 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.

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-Based Compensation (continued)

(c) Share Option Scheme (continued)

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

	Unaudited			
	2010		2009	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	12.764	29,634	8.649	13,134
Granted	–	–	11.454	14,801
Exercised	8.710	(2,098)	4.208	(1,728)
Lapsed	13.863	(789)	16.382	(43)
As at 30 June	13.049	26,748	10.517	26,164
Exercisable as at 30 June	8.269	7,892	10.548	21,389

Share options outstanding as at 30 June 2010 and 31 December 2009 have the following expiry date and exercise price:

	Unaudited 30 June 2010		Audited 31 December 2009	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
4 July 2011	3.685	3,469	3.685	4,264
3 January 2012	5.500	–	5.500	14
4 September 2012	8.830	1,131	8.830	1,387
20 November 2012	9.840	300	9.840	300
19 July 2013	19.680	350	19.680	350
4 July 2014	17.220	2,709	17.220	3,014
5 December 2014	10.940	133	10.940	133
19 January 2015	11.370	12,732	11.370	14,112
1 April 2015	13.180	689	13.180	689
22 October 2015	21.870	5,234	21.870	5,371
		26,748		29,634

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-Based Compensation (continued)

(d) Fair Value of Share Options

No options under the above schemes were granted during the six months ended 30 June 2010.

The fair values of Alpha Talent Option and Post-IPO Option are charged to the consolidated income statement over the vesting period of the options. The amounts charged during the six months ended 30 June 2010 were RMB237,000 and RMB23,175,000 respectively (30 June 2009: RMB1,828,000 and RMB16,925,000).

(e) Restricted Share Award Scheme

The Company adopted the Li Ning Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") on 14 July 2006 with a duration of 10 years commencing from the adoption date. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants which include directors, employees, agents and consultants of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals.

The Group has set up the Li Ning Company Limited Restricted Share Award Scheme Trust ("Restricted Share Trust") to administer and hold the Company's shares before they are vested and transferred to selected participants. As the financial and operational policies of the Restricted Share Trust are governed by the Group, and the Group benefits from the Restricted Share Trust's activities, the Restricted Share Trust is consolidated in the Group's financial statements as a special purpose entity.

Upon granting of shares to selected participants ("Restricted Shares"), the Restricted Share Trust purchases the Company's shares awarded from the open market with funds provided by the Company by way of contributions. Restricted Shares vest gradually after selected participants complete a period of service in the Group of 12 to 36 months from the date of grant. The vested shares are transferred to selected participants at nil consideration. Dividends on Restricted Shares are used to purchase additional shares and allocated to selected participants on a pro rata basis.

The maximum number of Restricted Shares shall not exceed 20,556,000 shares, being 2% of the Company's issued share capital as at the adoption date of 14 July 2006. For each selected participant, the maximum number of Restricted Shares granted in aggregate shall not exceed 10,278,000 shares, being 1% of the Company's issued share capital as at the adoption date of 14 July 2006.

The fair value of Restricted Shares awarded was based on the market value of the Company's shares at the grant date.

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-Based Compensation (continued)

(e) Restricted Share Award Scheme (continued)

Movements in the number of Restricted Shares granted and related fair value are as follows:

	Unaudited			
	2010		2009	
	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)
As at 1 January	18.31	2,359	17.91	4,186
Vested	19.13	(6)	8.51	(6)
Lapsed	17.04	(83)	16.73	(52)
As at 30 June	18.48	2,270	18.26	4,128

The fair value of Restricted Shares charged to the consolidated income statement was RMB6,329,000 during the six months ended 30 June 2010 (30 June 2009: RMB17,149,000).

29. Commitments

(a) Capital Commitments

There is no capital expenditure contracted for but not paid or authorised but not contracted for by the Group as at 30 June 2010 and 31 December 2009.

(b) Operating Lease Commitments – Where Any Group Companies are the Lessees

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 2010 RMB'000	Audited 31 December 2009 RMB'000
Not later than 1 year	219,449	220,795
Later than 1 year and not later than 5 years	549,646	505,509
Later than 5 years	183,828	185,329
	952,923	911,633

Notes to Condensed Consolidated Interim Financial Information (Continued)

30. Related Party Transactions

Related party is a party that is related to the Group if directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group (including the Company or its wholly or non-wholly owned subsidiaries); or the party has an interest in the Group that gives it significant influence over the Group; or the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual who is a member of the key management personnel of the Group.

The Group has the following related-party transactions during the period:

(a) Sales of goods to:

	Unaudited Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Shanghai Double Happiness (Group) Co., Ltd. and related companies, all being controlled by a key management personnel of a non-wholly owned subsidiary	3,183	3,902

(b) Purchases of goods from:

	Unaudited Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Shanghai Double Happiness (Group) Co., Ltd. and related companies	11,354	31,949

In the opinion of the directors, these transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

Notes to Condensed Consolidated Interim Financial Information (Continued)

30. Related Party Transactions (continued)

(c) Key Management Compensation

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

	Unaudited Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Salaries and other benefits	5,439	9,337
Contribution to retirement benefit scheme	239	179
Employee share schemes for value of services provided	6,007	10,436
	11,685	19,952

(d) Period-end/year-end Balances Arising from Sales/Purchases of Goods

	Unaudited 30 June 2010 RMB'000	Audited 31 December 2009 RMB'000
Receivables from related parties:		
– Shanghai Double Happiness (Group) Co., Ltd. and related companies	649	249
Payables to related parties:		
– Shanghai Double Happiness (Group) Co., Ltd. and related companies	4,218	4,137

Interim Dividend

The Board has resolved to declare an interim dividend of RMB22.15 cents per Share for the six months ended 30 June 2010 (2009: RMB13.58 cents), representing an increase of 63.1% over the corresponding period last year. The dividend will be paid in Hong Kong Dollars based on the rate of HK$1.00 = RMB0.87448, being the middle exchange rate of Hong Kong Dollars against Renminbi as quoted by the People's Bank of China as at the date of this report. The dividend will be payable on or around 24 September 2010 to the Shareholders whose names appear on the register of members of the Company on 17 September 2010.

Closure of Register of Members

For the purpose of determination of entitlement to the interim dividend, the register of members of the Company will be closed from Thursday, 16 September 2010 to Friday, 17 September 2010 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 4:30 p.m. on Wednesday, 15 September 2010.

Long-term Incentive Schemes

Share Purchase Scheme

Details of the Share Purchase Scheme and movements of the options granted under the Share Purchase Scheme for the six months ended 30 June 2010 are set out in note 28 to the condensed consolidated interim financial information.

Pre-IPO Share Option Scheme

Details of the Pre-IPO Share Option Scheme are set out in note 28 to the condensed consolidated interim financial information. Details of movements of the options granted under the Pre-IPO Share Option Scheme for the six months ended 30 June 2010 are as follows:

			Number of Shares issuable under the options					
	Date of grant	Exercise price per Share HK$	as at 01/01/2010	exercised during the period	lapsed during the period	cancelled during the period	as at 30/06/2010	Exercise period (Note 2)
Employees of the Group								
In aggregate	05/06/2004	1.8275	863,000	(862,000) (Note 1)	(1,000)	–	–	28/06/2005 – 05/06/2010
			863,000	(862,000)	(1,000)	–	–	

Notes:

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$27.45.

2. Options granted are subject to a vesting scale in tranches of one-third each on every anniversary date of 28 June 2004, being the date of the listing of Shares on the Hong Kong Stock Exchange, starting from the first anniversary until the third.

The Pre-IPO Share Option Scheme terminated on 5 June 2010 upon the expiry of the exercise period of the options granted under the scheme.

Post-IPO Share Option Scheme

Details of the Post-IPO Share Option Scheme are set out in note 28 to the condensed consolidated interim financial information. Details of movements of the options granted under the Post-IPO Share Scheme for the six months ended 30 June 2010 are as follows:

			Number of Shares issuable under the options						
	Date of grant	Exercise price per Share HK$	as at 01/01/2010	granted during the period	exercised during the period	lapsed during the period	cancelled during the period	as at 30/06/2010	Exercise period (Note 9)
Executive Directors									
Zhang Zhi Yong	04/07/2005	3.685	730,000	–	–	–	–	730,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	208,000	–	–	–	–	208,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	121,600	–	–	–	–	121,600	04/07/2009 – 04/07/2014
	19/01/2009	11.37	4,519,400	–	–	–	–	4,519,400	19/01/2010 – 19/01/2015
Chong Yik Kay	01/04/2009	13.18	688,500	–	–	–	–	688,500	01/04/2010 – 01/04/2015
Non-executive Directors									
Lim Meng Ann	04/07/2008	17.22	51,400	–	(17,133) (Note 1)	–	–	34,267	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	(52,680) (Note 2)	–	–	210,720	19/01/2010 – 19/01/2015
Stuart Schonberger (Note 10)	04/07/2005	3.685	246,000	–	–	–	–	246,000	(Note 10)
	04/09/2006	8.83	90,000	–	–	–	–	90,000	(Note 10)
	04/07/2008	17.22	51,400	–	–	(34,267)	–	17,133	(Note 10)
	19/01/2009	11.37	263,400	–	–	(210,720)	–	52,680	(Note 10)

	Date of grant	Exercise price per Share HK$	Number of Shares issuable under the options as at 01/01/2010	granted during the period	exercised during the period	lapsed during the period	cancelled during the period	as at 30/06/2010	Exercise period (Note 9)
Chu Wah Hui	04/07/2008	17.22	34,267	–	–	–	–	34,267	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	(52,680) (Note 3)	–	–	210,720	19/01/2010 – 19/01/2015
James Chun-Hsien Wei	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2015
Independent non-executive Directors									
Koo Fook Sun, Louis	04/07/2005	3.685	82,000	–	–	–	–	82,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	60,000	–	–	–	–	60,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2015
Wang Ya Fei	04/07/2005	3.685	164,000	–	–	–	–	164,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	90,000	–	–	–	–	90,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2015
Chan Chung Bun, Bunny	04/09/2006	8.83	90,000	–	–	–	–	90,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2015

	Date of grant	Exercise price per Share HK$	Number of Shares issuable under the options as at 01/01/2010	granted during the period	exercised during the period	lapsed during the period	cancelled during the period	as at 30/06/2010	Exercise period (Note 9)
Employees of the Group									
In aggregate	04/07/2005	3.685	3,041,668	–	(794,834) (Note 4)	–	–	2,246,834	04/07/2006 – 04/07/2011
In aggregate	03/01/2006	5.50	13,500	–	(13,500) (Note 5)	–	–	–	03/01/2007 – 03/01/2012
In aggregate	04/09/2006	8.83	849,496	–	(256,165) (Note 6)	–	–	593,331	04/09/2007 – 04/09/2012
In aggregate	04/07/2008	17.22	2,249,633	–	(197,902) (Note 7)	(55,466)	–	1,996,265	04/07/2009 – 04/07/2014
In aggregate	05/12/2008	10.94	133,200	–	–	–	–	133,200	05/12/2009 – 05/12/2014
In aggregate	19/01/2009	11.37	7,749,000	–	(712,800) (Note 8)	(350,880)	–	6,685,320	19/01/2010 – 19/01/2015
In aggregate	22/10/2009	21.87	5,071,600	–	–	(137,200)	–	4,934,400	(Note 11)
Other participants									
In aggregate	20/11/2006	9.84	300,000	–	–	–	–	300,000	(Note 12)
In aggregate	19/07/2007	19.68	350,000	–	–	–	–	350,000	19/07/2008 – 19/07/2013
In aggregate	04/07/2008	17.22	300,000	–	–	–	–	300,000	04/07/2009 – 04/07/2014
In aggregate	22/10/2009	21.87	300,000	–	–	–	–	300,000	(Note 11)
			29,634,064	–	(2,097,694)	(788,533)	–	26,747,837	

Notes:

1. The closing price per Share immediately before the date of exercise of the options is HK$28.95.

2. The closing price per Share immediately before the date of exercise of the options is HK$28.95.

3. The closing price per Share immediately before the date of exercise of the options is HK$24.40.

4. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$28.68.

5. The closing price per Share immediately before the date of exercise of the options is HK$29.70.

6. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$28.88.

7. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$28.54.

8. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$28.21.

9. Unless otherwise stated in notes 10 and 11: (i) options granted in years 2005, 2006, 2007 and 2008 are subject to a vesting scale in tranches of one-third each on every anniversary date of the date of grant starting from the first anniversary date until the third; and (ii) options granted on 19 January 2009 are subject to a vesting scale in tranches of one-fifth each on every anniversary date of the date of grant starting from the first anniversary date until the fifth.

10. Mr. Stuart Schonberger ceased to be a non-executive Director with effect from 28 June 2010. All options granted to Mr. Schonberger which have been vested before 28 June 2010 are exercisable before 28 December 2010. All options granted to Mr. Schonberger which have not been vested before 28 June 2010 became lapsed on 28 June 2010.

11. The options are subject to vesting schedules and exercise periods as follows:

% of the options granted	Vesting date	Exercise period
1/3	01/07/2010	01/07/2010–22/10/2015
1/3	01/07/2011	01/07/2011–22/10/2015
1/3	01/07/2012	01/07/2012–22/10/2015

12. The options are subject to vesting schedules and exercise periods as follows:

% of the options granted	Vesting date	Exercise period
1/3	26/07/2007	26/07/2007–20/11/2012
1/3	26/07/2008	26/07/2008–20/11/2012
1/3	26/07/2009	26/07/2009–20/11/2012

Restricted Share Award Scheme

Details of the Restricted Share Award Scheme are set out in note 28 to the condensed consolidated interim financial information. During the six months ended 30 June 2010, no restricted shares were granted to eligible participants pursuant to the Restricted Share Award Scheme. 6,000 restricted shares were vested and 83,148 restricted shares lapsed during the period. As at 30 June 2010, the number of restricted shares granted under the scheme, except for those lapsed, amounted to 5,212,862 Shares, representing approximately 0.5% of the issued share capital of the Company as at the adoption date of the scheme. Details of movements of the restricted shares granted under the Restricted Share Award Scheme for the six months ended 30 June 2010 are as follows:

		Number of Restricted Shares					
Date of grant	Fair value per restricted share (Note) HK$	as at 01/01/2010	granted during the period	vested during the period	lapsed during the period	as at 30/06/2010	Vesting period
08/05/2007	15.32	3,334	–	(3,334)	–	–	08/05/2008 – 08/05/2010
02/07/2007	18.96	334,932	–	–	(12,174)	322,758	02/07/2008 – 02/07/2010
16/07/2007	19.90	6,000	–	–	–	6,000	16/07/2008 – 16/07/2010
29/08/2007	20.85	22,000	–	–	–	22,000	29/08/2008 – 29/08/2010
07/12/2007	26.75	333,334	–	–	–	333,334	07/12/2008 – 07/12/2010
06/03/2008	23.90	5,334	–	(2,666)	–	2,668	06/03/2009 – 06/03/2011
04/07/2008	16.70	1,634,672	–	–	(70,974)	1,563,698	04/07/2009 – 04/07/2011
16/12/2008	11.30	13,333	–	–	–	13,333	16/12/2009 – 16/12/2011
22/10/2009	21.55	6,000	–	–	–	6,000	01/07/2010 – 22/10/2012
		2,358,939	–	(6,000)	(83,148)	2,269,791	

Note:
The fair values of the restricted shares were based on the closing price per Share at the date of grant.

Save as disclosed above, at no time during the period was the Company or its subsidiaries 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 means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2010, the interests and short positions of the Directors and chief executives 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 Issuers (the "Model Code") contained in the Listing Rules, are as follows:

Name of Director	Number of Shares/ underlying Shares held	Note	Capacity	% of issued Shares*
Li Ning	325,850,184 (Long position)	1	Interests of controlled corporations	31.021
	668,334 (Short position)	1(c)	Interests of controlled corporation	0.064
Zhang Zhi Yong	11,338,400 (Long position)	2	Personal, interest of controlled corporation	1.079
Chong Yik Kay	688,500 (Long position)	3	Personal	0.066
Lim Meng Ann	443,100 (Long position)	4	Personal	0.042
Chu Wah Hui	398,100 (Long position)	5	Personal, family	0.038
James Chun-Hsien Wei	349,100 (Long position)	6	Personal	0.033
Koo Fook Sun, Louis	605,100 (Long position)	7	Personal	0.058
Wang Ya Fei	605,100 (Long position)	8	Personal	0.058
Chan Chung Bun, Bunny	441,100 (Long position)	9	Personal	0.042

* The percentage has been calculated based on 1,050,405,195 Shares in issue as at 30 June 2010.

Notes:

1. Mr. Li Ning is deemed to be interested in an aggregate of 325,850,184 Shares held by Victory Mind Assets Limited ("Victory Mind"), Dragon City Management (PTC) Limited ("Dragon City") and Alpha Talent, respectively, as follows:

   (a) 173,374,000 Shares are held by Victory Mind in which 57% is owned by Ace Leader Holdings Limited ("Ace Leader") and 38% is owned by Jumbo Top Group Limited ("Jumbo Top"). All shares of Ace Leader are held by Equity Trust Company (Cayman) Ltd. in its capacity as trustee of the Jun Tai Trust, the beneficiaries of which include the respective family members of Mr. Li Ning. Mr. Li Ning is the settlor of the Jun Tai Trust and is therefore deemed to be interested in the 173,374,000 Shares held by Victory Mind. Mr. Li Ning is a beneficiary of the Jun Tai Trust and a director of each of Victory Mind and Ace Leader;

(b) 150,000,000 Shares are held by Dragon City 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 2008 Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko 2008 Trust. Both of the Palm 2008 Trust and the Gingko 2008 Trust are revocable family trusts, the beneficiaries of which include the respective family members of Mr. Li Ning and his brother, Mr. Li Chun. Mr. Li Ning is the 60% shareholder of Dragon City and is therefore deemed to be interested in the 150,000,000 Shares held by Dragon City. Mr. Li Ning is a director of Dragon City; and

(c) 2,476,184 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 therefore deemed to be interested in the 2,476,184 Shares held by Alpha Talent. Mr. Li Ning is a director of Alpha Talent.

Mr. Li Ning is deemed to have a short position in 668,334 Shares, among the total of 2,476,184 Shares held by Alpha Talent. 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 2010, Alpha Talent had granted options to purchase 35,117,900 Shares pursuant to the Share Purchase Scheme, among which options to purchase for 1,675,750 Shares have been cancelled or lapsed and options to purchase 32,773,816 Shares have been exercised. The total number of outstanding options as at 30 June 2010 is 668,334 Shares.

2. Mr. Zhang Zhi Yong is interested in 5,376,198 Shares, among which 2,126,198 Shares are held as personal interest and 3,250,000 Shares are held by Smart Step Management Limited ("Smart Step") which is 100% owned by Mr. Zhang. Mr. Zhang therefore is deemed to be interested in the 3,250,000 Shares held by Smart Step. Mr. Zhang is a director of Smart Step.

   Mr. Zhang is also taken to be interested as a grantee of options to subscribe for 730,000 Shares at an exercise price of HK$3.685 per Share, 208,000 Shares at an exercise price of HK$8.83 per Share, 121,600 Shares at an exercise price of HK$17.22 per Share and 4,519,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Zhang is also taken to be interested as a grantee of 383,202 restricted shares granted under the Restricted Share Award Scheme.

3. Mr. Chong Yik Kay is taken to be interested as a grantee of options to subscribe for 688,500 Shares at an exercise price of HK$13.18 per Share under the Post-IPO Share Option Scheme.

4. Mr. Lim Meng Ann is interested in 157,913 Shares and is taken to be interested as a grantee of options to subscribe for 34,267 Shares at an exercise price of HK$17.22 per Share and 210,720 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Lim is also taken to be interested as a grantee of 40,200 restricted shares granted under the Restricted Share Award Scheme.

5. Mr. Chu Wah Hui is interested in 140,913 Shares, among which 95,913 Shares are held as personal interest and 45,000 Shares are held as family interest. Mr. Chu is also taken to be interested as a grantee of options to subscribe for 34,267 Shares at an exercise price of HK$17.22 per Share and 210,720 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Chu is also taken to be interested as a grantee of 12,200 restricted shares granted under the Restricted Share Award Scheme.

6. Mr. James Chun-Hsien Wei is interested in 22,100 Shares and is taken to be interested as a grantee of options to subscribe for 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Wei is also taken to be interested as a grantee of 12,200 restricted shares granted under the Restricted Share Award Scheme.

7. Mr. Koo Fook Sun, Louis is interested in 130,100 Shares and is taken to be interested as a grantee of options to subscribe for 82,000 Shares at an exercise price of HK$3.685 per Share, 60,000 Shares at an exercise price of HK$8.83 per Share, 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Koo is also taken to be interested as a grantee of 18,200 restricted shares granted under the Restricted Share Award Scheme.

8. Ms. Wang Ya Fei is interested in 18,100 Shares and is taken to be interested as a grantee of options to subscribe for 164,000 Shares at an exercise price of HK$3.685 per Share, 90,000 Shares at an exercise price of HK$8.83 per Share, 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Ms. Wang is also taken to be interested as a grantee of 18,200 restricted shares granted under the Restricted Share Award Scheme.

9. Mr. Chan Chung Bun, Bunny is interested in 18,100 Shares and is taken to be interested as a grantee of options to subscribe for 90,000 Shares at an exercise price of HK$8.83 per Share, 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Chan is also taken to be interested as a grantee of 18,200 restricted shares granted under the Restricted Share Award Scheme.

Save as disclosed above, so far as was known to any Director, as at 30 June 2010, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest 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 2010, 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	Note	Capacity	% of issued Shares*
Li Ning	325,850,184 (Long position)	1	Interest of controlled corporations	31.021
	668,334 (Short position)	2	Interest of controlled corporation	0.064
Li Chun	323,374,000 (Long position)	3	Interest of controlled corporations	30.786
Victory Mind Assets Limited	173,374,000 (Long position)	4	Beneficial owner	16.505
Ace Leader Holdings Limited	173,374,000 (Long position)	5	Interest of controlled corporation	16.505
Jumbo Top Group Limited	173,374,000 (Long position)	6	Interest of controlled corporation	16.505
Equity Trust Company (Cayman) Ltd.	173,374,000 (Long position)	7	Trustee	16.505
Dragon City Management (PTC) Limited	150,000,000 (Long position)	8	Trustee	14.280
Cititrust (Cayman) Limited	150,000,000 (Long position)	9	Trustee	14.280
JPMorgan Chase & Co.	114,914,714 (Long position)	10	Beneficial owner, investment manager, custodian corporation/ approved lending agent	10.940
	23,586,714 (Lending pool)		Custodian corporation/ approved lending agent	2.245
Commonwealth Bank of Australia	83,974,500 (Long position)	11	Interest of controlled corporation	7.994
FIL Limited	82,947,000 (Long position)		Investment manager	7.897
The Capital Group Companies, Inc	74,052,300 (Long position)	12	Investment manager	7.050

* The percentage has been calculated based on 1,050,405,195 Shares in issue as at 30 June 2010.

Notes:

1. See note 1 under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".

2. See note 1(c) under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".

3. Mr. Li Chun is taken to be interested in an aggregate of 323,374,000 Shares held by Victory Mind and Dragon City, respectively, as follows:

   (a) 173,374,000 Shares are held by Victory Mind in which 57% is owned by Ace Leader and 38% is owned by Jumbo Top. All shares of Jumbo Top are held by Equity Trust Company (Cayman) Ltd. in its capacity as trustee of the Yuan Chang Trust, the beneficiaries of which include the respective family members of Mr. Li Chun. Mr. Li Chun is the settlor of the Yuan Chang Trust and therefore is taken to be interested in the 173,374,000 Shares held by Victory Mind. Mr. Li Chun is a beneficiary of the Yuan Chang Trust and is also a director of each of Victory Mind and Jumbo Top; and

   (b) 150,000,000 Shares are held by Dragon City 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 2008 Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko 2008 Trust. Both of the Palm 2008 Trust and the Gingko 2008 Trust are revocable family trusts, the beneficiaries of which include the respective family members of Mr. Li Chun and his brother, Mr. Li Ning. Mr. Li Chun is the 40% shareholder of Dragon City and therefore is taken to be interested in the 150,000,000 Shares held by Dragon City. Mr. Li Chun is also a director of Dragon City.

4. See note 1(a) under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and note 3(a) above.

5. See note 1(a) under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and note 3(a) above. Ace Leader is deemed to be interested in the 173,374,000 Shares held by Victory Mind.

6. See note 1(a) under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and note 3(a) above. Jumbo Top is deemed to be interested in the 173,374,000 Shares held by Victory Mind.

7. See note 1(a) under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and note 3(a) above. Equity Trust Company (Cayman) Ltd. is deemed to be interested in the 173,374,000 Shares held by Victory Mind.

8. See note 1(b) under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and note 3(b) above.

9. See note 1(b) under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and note 3(b) above. Cititrust (Cayman) Limited is deemed to be interested in the 150,000,000 Shares held by Dragon City.

10. Amongst the total of 114,914,714 Shares held by JPMorgan Chase & Co., 752,000 Shares were held as beneficial owner, 90,576,000 Shares were held as investment manager and 23,586,714 Shares were held as custodian corporation/approved lending agent.

11. The interest in these Shares was attributable on account of holding through corporations that are wholly-owned by Commonwealth Bank of Australia.

12. The interest in these Shares was attributable on account of holding through corporations that are wholly-owned by Capital Group Companies, Inc.

Save as disclosed above, as at 30 June 2010, 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 interest and short position 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.

Changes in Directors' Information

The changes in information on Directors since the date of the Annual Report 2009, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

1. Upon review and recommendation of the Remuneration Committee, the Board has approved the adjustment of remuneration of the executive Directors, namely, Mr. Li Ning, Mr. Zhang Zhi Yong and Mr. Chong Yik Kay, under their respective service contracts with the Group with effect from 1 January 2010 as follows:

    a. subject to the annual review by the Board and the Remuneration Committee of the Board, no director's fee or other remuneration shall be paid by the Company to any of the executive Directors and the executive Directors shall be remunerated under their respective service contracts with the Company's subsidiary or subsidiaries for other appointment(s) or position(s); and

    b. the basic annual salary payable to Mr. Li Ning, Mr. Zhang Zhi Yong and Mr. Chong Yik Kay, under their respective service contract(s) with the Company's subsidiary or subsidiaries for the year ending 31 December 2010 shall be approximately RMB2,864,000, RMB3,656,000 and RMB1,413,000, respectively and each of them is also entitled to discretionary bonuses and other benefits and allowances as determined by the Board. Mr. Zhang Zhi Yong and Mr. Chong Yik Kay are also entitled to participate in the Company's long-term incentive schemes as determined by the Board.

2. Mr. Li Ning and Mr. Zhang Zhi Yong have renewed their respective service contracts with the Company to act as executive Directors for a further term of three years commencing from 28 June 2010.

3. Mr. Chu Wah Hui, Mr. Lim Meng Ann and Mr. James Chun-Hsien Wei have renewed their respective service contracts with the Company to act as non-executive Directors for a further term of three years commencing from 1 June 2010, 28 June 2010 and 1 September 2010, respectively.

4. Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei and Mr. Chan Chung Bun, Bunny have renewed their respective service contracts with the Company to act as independent non-executive Directors for a further term of three years commencing from 28 June 2010.

5. Mr. Chan Chung Bun, Bunny, an independent non-executive Director, has been appointed as a member of the Audit Committee with effect from 28 June 2010 in replacement of Mr. Stuart Schonberger who resigned as a non-executive Director and ceased to be a member of the Audit Committee with effect from the same date.

6. Mr. Li Ning has been appointed as chairman and executive director of Coolpoint Energy Limited (listed on the Growth Enterprise Market of the Hong Kong Stock Exchange) with effect from 2 June 2010. In June 2010, Mr. Li was conferred honorary fellowship from The Hong Kong University of Science and Technology.

Purchase, Sale or Redemption of the Company's Shares

The Company had not redeemed any of its Shares during the six months ended 30 June 2010. Apart from the Restricted Share Award Scheme Trust, neither the Company nor any of its subsidiaries had purchased or sold any Shares during the period.

Corporate Governance

During the period, the Company was awarded the "Class of 2010 The Best of Asia" by Corporate Governance Asia, one of the most authoritative publications on corporate governance in Asia. This award is a proof of the Group's continued efforts to ensure that its business is conducted in an ethical, transparent and responsible manner.

Throughout the period under review, the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Annual Report 2009.

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules regarding securities transactions by its Directors. Following specific enquiry by the Company, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2010.

The Audit Committee of the Company, consisting of three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group and has also reviewed auditing, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2010.

The Company's external auditor, PricewaterhouseCoopers, has performed an independent review of the Group's interim financial information for the six months ended 30 June 2010 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

By order of the Board
Li Ning
Chairman

Hong Kong, 25 August 2010

Share Information

Listing: Main Board of Hong Kong Stock Exchange on 28 June 2004
Stock code: 2331
Board lot: 500 Shares
Number of Shares in issue as at 30 June 2010: 1,050,405,195 Shares
Market capitalisation as at 30 June 2010: approximately HK$27,100,454,000

Interim Dividend for 2010

RMB22.15 cents per Share

Financial Calendar

Announcement of 2010 interim results:	25 August 2010
Closure of register of members*:	16 September 2010 – 17 September 2010
Dividend entitlements record date*:	17 September 2010
Payment date of interim dividend:	on or about 24 September 2010
Announcement of 2010 annual results:	March 2011

* For the purpose of determination of entitlement to the interim dividend.

Corporate Websites

http://www.lining.com
http://www.irasia.com/listco/hk/lining
http://www.li-ning.com

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Glossary

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

"Alpha Talent"	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme
"Annual Report 2009"	the Company's annual report for the year ended 31 December 2009
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"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 Main Board of 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 of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Post-IPO Share Option Scheme"	the post-IPO share option scheme of the Company adopted on 5 June 2004
"PRC" or "China"	the People's Republic of China
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme of the Company adopted on 5 June 2004
"Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Share Purchase Scheme"	the share purchase scheme set up by Mr. Li Ning and adopted by Alpha Talent on 5 June 2004
"Shareholders"	shareholders of the Company