LI NING COMPANY LIMITED
(李寧有限公司)

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2331)

Make the change

Interim Report

Mission

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

Vision

A world's leading brand in the sporting goods industry

Core Values

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

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, equipment and accessories 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 operates 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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Designed & Produced by HeterMedia Services Limited

Contents

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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. ZHANG Hui
Mr. HSU Mao Chun, Morrison

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

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

Principal Place of Business in Hong Kong

Suites 2804–5, Tower Two
Times Square
Causeway Bay
Hong Kong
Telephone: +852 3102 0926
Fax: +852 3102 0927

Operational Headquarters

No. 8 Xing Guang 5th Street
Opto-Mechatronics Industrial Park
Zhongguancun Science & Technology Area
Tongzhou District
Beijing, PRC
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
Standard Chartered Bank (Hong Kong) Limited

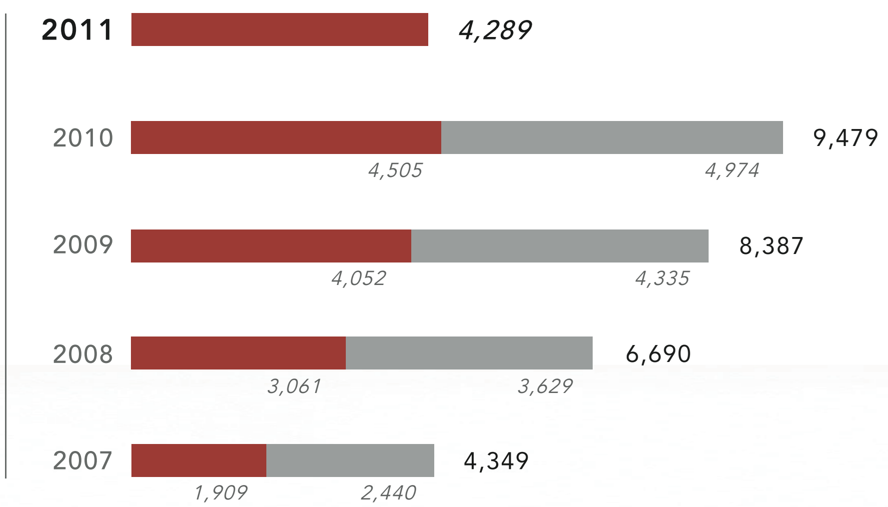
PRC
Industrial & Commercial Bank of China
China Construction Bank
Bank of China
China Merchants Bank
Bank of Beijing
Hang Seng Bank (China) Limited
Standard Chartered Bank (China) Limited
DBS Bank (China) Limited

Five-year Financial Highlights

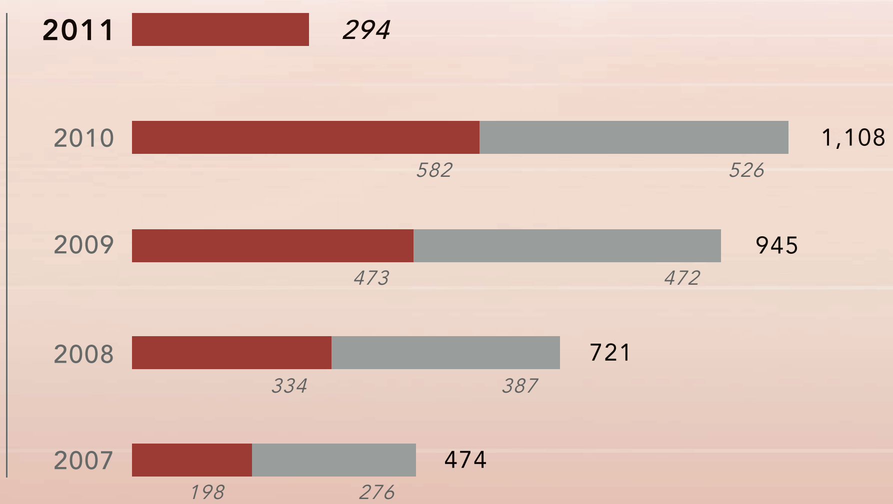
(All amounts in RMB millions)

First half year | Second half year | Full year

Revenue



Profit Attributable to Equity Holders



Highlights of 2011 Interim Results

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

Overview

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

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

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

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

Financial Review

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

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

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

Notes:

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

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

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

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

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

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

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

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

Revenue

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

Revenue breakdown by brand and product category

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

* Including AIGLE, Z-DO and Kason.

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

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

Percentage of revenue of LI-NING brand by sales channel

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

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

Revenue breakdown of LI-NING brand by geographical location

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

Notes:

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

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

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

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

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

Cost of Sales and Gross Profit

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

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

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

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

Distribution Costs

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

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

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

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

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

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

Administrative Expenses

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

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

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

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

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

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

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

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

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

Finance Costs

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

Income Tax Expenses

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

Overall Profitability Indicators

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

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2011 was the same as that in 2010. Inventories are stated at the lower of cost and net realisable value. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers that the aforesaid policy ensures sufficient provision for inventories of the Group.

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

Provision for Doubtful Debts

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

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

Liquidity and Financial Resources

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

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

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

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

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

Foreign Exchange Risk

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

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

Pledge of Assets

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

Contingent Liabilities

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

Business Review

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

LI-NING Brand

Brand Marketing and Promotion

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

Badminton

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

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

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

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

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

Running

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

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

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

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

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

Basketball

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

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

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

Tennis

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

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

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

Women's Fitness

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

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

Community Marketing Events

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

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

One-Year Countdown of London 2012 Olympic Games

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

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

LI-NING Brand Sponsorship Resources

	BADMINTON	TRACK & FIELD/ RUNNING	BASKETBALL	OLYMPIC CHAMPION TEAMS	TENNIS	WOMEN'S FITNESS	FOOTBALL
TOP-NOTCH ATHLETES/ SPORTS TEAMS/ SPORTS CLUBS	Chinese National Badminton Team	Elena Isinbayeva	Baron Davis	Chinese National Table Tennis Team	Marin Cilic	Lesmills China	Espanyol
	Lin Dan	Asafa Powell	Jose Calderon	Chinese National Diving Team	Ivan Ljubicic		Sevilla
		Andreas Thorkildsen	Evan Turner	Chinese National Shooting Team	Peng Shuai		
			Spanish National Basketball Team	Chinese National Gymnastics Team	Yan Zi		
			Argentina National Basketball Team		Tianjing Tennis Team		
TOURNAMENTS	China Open	Beijing Marathon	NBL		ATP		Chinese University Football League
	China Masters		LI-NING Basketball Training Camp				
	China Badminton Club Super League						
	China National Badminton Cup						
	Singapore Badminton Open						
OTHER IMPORTANT SPONSORSHIP RESOURCES	Shanghai Badminton Team	12 Provincial Track & Field Teams	China Youth Olympics National 3x3 Basketball Team	USA National Diving Team	Yang Tsung-Hua	Nirvana Yoga	
	Bayi Badminton Team		China National Men's and Women's Youth Basketball Teams		Zheng Saisai	CSI Bally	
	Guangdong Badminton Team				Pliskova sisters	Physical Club of Shenzhen	
	Singapore National Badminton Team						
	Australia National Badminton Team						
	New Zealand National Badminton Team						
	Boonsak Ponsana						

Sales Channel Expansion and Management

Retail Stores

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

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

Number of franchised and directly-operated retail stores

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

Number of retail stores by geographical location

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

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

E-Commerce

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

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

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

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

Product Design, Research and Development

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

Research and Design Centres

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

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

Products for Professional Sponsorships

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Footwear Products

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

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

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

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

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

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

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

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

Apparel Products

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

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

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

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

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

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

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

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

Supply Chain Management

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

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

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

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

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

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

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

Double Happiness Brand

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

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

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

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

Z-DO Brand and Double Happiness Branded Footwear and Apparel

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

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

Lotto Brand

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

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

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

AIGLE Brand

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

Major operational measures implemented for AIGLE brand are as follows:

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

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

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

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

Kason Brand

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

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

Human Resources

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

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

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

Outlook

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

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

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

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

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

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

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

LI-NING
LI-NING
extreme
HEAD


Sportsmanship
Make the change
Peng Shuai

Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	740,423	720,578
Land use rights	*8*	376,045	380,550
Intangible assets	*9*	777,182	814,080
Deferred income tax assets		342,205	297,860
Available-for-sale financial assets		46,930	46,930
Other receivables and prepayments	*11*	111,508	108,207
Total non-current assets		2,394,293	2,368,205
Current assets			
Inventories		991,554	805,598
Trade receivables	*10*	1,352,961	1,612,690
Other receivables and prepayments – current portion	*11*	328,448	302,819
Restricted bank deposits		1,398	2,045
Cash and cash equivalents		1,647,975	1,470,435
Total current assets		4,322,336	4,193,587
Total assets		6,716,629	6,561,792

Condensed Consolidated Balance Sheet (Continued)

	Note	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	12	111,594	111,364
Share premium	12	311,027	293,988
Shares held for the Restricted Share Award Scheme	12	(64,456)	(64,508)
Other reserves	13	363,177	346,647
Retained profits			
– Dividend declared/proposed	13	117,496	213,827
– Others	13	2,648,983	2,467,984
		3,487,821	3,369,302
Non-controlling interests		206,020	190,080
Total equity		3,693,841	3,559,382
LIABILITIES			
Non-current liabilities			
License fees payable	16	476,158	482,936
Deferred income tax liabilities		83,317	85,508
Deferred income	18	61,677	62,324
Total non-current liabilities		621,152	630,768
Current liabilities			
Trade payables	14	1,260,601	1,190,960
Other payables and accruals	15	544,202	646,024
License fees payable – current portion	16	88,069	70,666
Current income tax liabilities		36,624	151,744
Borrowings	17	472,140	312,248
Total current liabilities		2,401,636	2,371,642
Total liabilities		3,022,788	3,002,410
Total equity and liabilities		6,716,629	6,561,792
Net current assets		1,920,700	1,821,945
Total assets less current liabilities		4,314,993	4,190,150

The notes on pages 42 to 66 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Income Statement

	Note	Unaudited Six months ended 30 June 2011 RMB'000	2010 RMB'000
Revenue	6	4,289,303	4,504,565
Cost of sales		(2,260,168)	(2,346,125)
Gross profit		2,029,135	2,158,440
Distribution costs		(1,323,873)	(1,107,963)
Administrative expenses		(336,605)	(324,508)
Other income – net	20	73,629	87,288
Operating profit	6	442,286	813,257
Finance income	21	7,948	4,042
Finance costs	21	(38,371)	(26,518)
Finance costs – net		(30,423)	(22,476)
Profit before income tax		411,863	790,781
Income tax expense	22	(102,183)	(197,700)
Profit for the period		309,680	593,081
Attributable to:			
Equity holders of the Company		293,740	581,566
Non-controlling interests		15,940	11,515
		309,680	593,081
Earnings per share for profit attributable to equity holders of the Company (RMB cents)			
– basic	23	27.94	55.58
– diluted	23	27.79	54.68
Dividends	24	117,496	232,626

The notes on pages 42 to 66 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Statement of Comprehensive Income

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

The notes on pages 42 to 66 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 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
Balance at 1 January 2011	3,369,302	190,080	3,559,382
Total comprehensive income for the period ended 30 June 2011	295,447	15,940	311,387
Transactions with owners:			
Share option schemes:			
– value of services provided	20,870	–	20,870
– proceeds from shares issued	11,274	–	11,274
Dividends to equity holders of the Company	(209,072)	–	(209,072)
Balance at 30 June 2011	3,487,821	206,020	3,693,841

The notes on pages 42 to 66 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Cash Flow Statement

	Note	Unaudited Six months ended 30 June 2011 RMB'000	2010 RMB'000
Net cash generated from operating activities		373,574	529,033
Cash flows from investing activities:			
– settlement of payable for acquisition of subsidiaries		–	(16,273)
– purchases of property, plant and equipment		(135,400)	(45,605)
– purchases of land use rights		–	(3,250)
– purchases of intangible assets		(15,674)	(26,717)
– 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		373	1,484
– proceeds on disposal of intangible assets		–	96
– interest received		2,678	4,042
Net cash flows used in investing activities		(148,023)	(100,723)
Cash flows from financing activities:			
– dividends paid to equity holders of the Company	24	(209,072)	(235,895)
– dividends paid to non-controlling interests of a subsidiary		–	(9,036)
– proceeds from issuance of ordinary shares	12	11,274	17,836
– contribution from non-controlling interests of a subsidiary		–	1,360
– proceeds from bank borrowings	17	863,616	21,500
– repayment of bank borrowings	17	(697,548)	(49,582)
– interest paid		(13,365)	(1,726)
– decrease in restricted bank deposits		647	712
Net cash used in financing activities		(44,448)	(254,831)
Net increase in cash and cash equivalents		181,103	173,479
Cash and cash equivalents at beginning of period		1,470,435	1,264,343
Exchange losses on cash and cash equivalents		(3,563)	(1,248)
Cash and cash equivalents at end of period		1,647,975	1,436,574

The notes on pages 42 to 66 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 approved for issue on 24 August 2011 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 2011 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

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 2010, as described in those annual financial statements.

(a) New and amended standards adopted by the Group

The following new standard and amendment to standard are mandatory for the first time for the financial year beginning 1 January 2011.

- IAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

    - The name of the government and the nature of their relationship;
    - The nature and amount of any individually significant transactions; and
    - The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party.

Notes to Condensed Consolidated Interim Financial Information (Continued)

3. Accounting policies (continued)

(a) New and amended standards adopted by the Group (Continued)

- Amendment to IAS 34 'Interim financial reporting' is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in IAS 34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

(b) Amendments and interpretations to existing standards effective in 2011 but not relevant to the Group

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

In addition, the International Accounting Standards Board also issued a number of amendments to existing standards and interpretations of IAS 1, IAS 27, IFRS 1, IFRS 3, IFRS 7 and IFRIC 13 effective for the first time for the year commencing on 1 January 2011 under its annual improvement project.

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

(c) There are certain other new standards and amendments to standards that are not yet effective for the financial year beginning on 1 January 2011 and have not been early adopted. Management is currently assessing their related impacts to the Group.

4. Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010.

Notes to Condensed Consolidated Interim Financial Information (Continued)

5. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow/fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

There have been no changes in the risk management department since year end or in any risk management policies.

(b) Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

6. 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 RMB3,895,453,000, RMB259,779,000, RMB53,995,000 and RMB80,076,000 for the six months ended 30 June 2011 and RMB4,133,855,000, RMB236,202,000, RMB47,336,000 and RMB87,172,000 for the six months ended 30 June 2010 respectively.

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. 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 2011					
Total revenue	3,895,453	262,196	76,112	97,110	4,330,871
Inter-segment revenue	–	(2,417)	(22,117)	(17,034)	(41,568)
Revenue from external customers	3,895,453	259,779	53,995	80,076	4,289,303
Operating profit/(loss)	470,284	47,629	(60,163)	(15,464)	442,286
Distribution costs and administrative expenses	1,468,972	61,235	77,335	52,936	1,660,478
Depreciation and amortisation	102,630	8,885	10,235	3,977	125,727
Six months ended 30 June 2010					
Total revenue	4,133,855	236,474	83,112	103,911	4,557,352
Inter-segment revenue	–	(272)	(35,776)	(16,739)	(52,787)
Revenue from external customers	4,133,855	236,202	47,336	87,172	4,504,565
Operating profit/(loss)	833,092	35,757	(52,719)	(2,873)	813,257
Distribution costs and administrative expenses	1,269,857	55,654	73,379	33,581	1,432,471
Depreciation and amortisation	73,880	11,813	10,051	3,603	99,347

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

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Segment information (continued)

Geographical information of revenue

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

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

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

7. 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 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

Notes to Condensed Consolidated Interim Financial Information (Continued)

7. 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 2011							
As at 1 January 2011	438,128	66,192	70,971	48,343	83,946	12,998	720,578
Additions	201	4,517	21,722	5,985	5,905	58,045	96,375
Transfer out from construction-in-progress	–	–	–	636	273	(909)	–
Disposals	–	(9)	(5)	(78)	(374)	–	(466)
Depreciation	(10,970)	(24,616)	(23,730)	(3,212)	(13,536)	–	(76,064)
As at 30 June 2011	427,359	46,084	68,958	51,674	76,214	70,134	740,423

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB7,811,000 (31 December 2010: RMB10,436,000) are built on land which the Group is in the process of applying for the legal title *(Note 8)*.

Depreciation expenses of RMB27,117,000 (30 June 2010: RMB16,985,000) has been charged to cost of sales, RMB 32,211,000 (30 June 2010: RMB15,939,000) to distribution costs and RMB16,736,000 (30 June 2010: RMB16,937,000) to administrative expenses.

As at 30 June 2011, buildings with net book value of RMB21,049,000 (31 December 2010: RMB24,239,000) are pledged as securities for the Group's borrowings *(Note 17)*.

Notes to Condensed Consolidated Interim Financial Information (Continued)

8. Land use rights

	Unaudited RMB'000
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
Six months ended 30 June 2011	
As at 1 January 2011	**380,550**
Amortisation	**(4,505)**
As at 30 June 2011	**376,045**

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 RMB124,321,000 as at 30 June 2011 (31 December 2010: RMB126,696,000).

As at 30 June 2011, land use rights with net book value of RMB15,104,000 (31 December 2010: RMB15,442,000) are pledged as securities for the Group's borrowings *(Note 17)*.

9. 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 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
Six months ended 30 June 2011						
As at 1 January 2011	179,226	94,872	48,355	459,300	32,327	814,080
Additions	–	390	1,341	6,529	–	8,260
Amortisation	–	(2,781)	(7,497)	(32,176)	(2,704)	(45,158)
As at 30 June 2011	179,226	92,481	42,199	433,653	29,623	777,182

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)

10. Trade receivables

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

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

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

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

As at 30 June 2011, trade receivables of RMB4,609,000 (31 December 2010: RMB1,382,000) were impaired 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	
	2011 RMB'000	2010 RMB'000
As at 1 January	1,382	1,184
Provision for impairment of receivables	3,227	4,266
Receivables written off during the period as uncollectible	–	(16)
As at 30 June	4,609	5,434

The creation and release of provision for impaired trade receivables have been included in administrative expenses in the condensed 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 2011 RMB'000	Audited 31 December 2010 RMB'000
Advances to suppliers	32,448	10,426
Prepayment for advertising expenses	50,921	47,137
Rental and other deposits	116,559	109,516
Prepaid rentals	194,978	198,315
Staff advances and other payments for employees	6,247	3,302
Others	38,803	42,330
	439,956	411,026
Less: non-current portion	(111,508)	(108,207)
Current portion	328,448	302,819

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. 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 2011 and 31 December 2010	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 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
As at 1 January 2011	1,049,845	111,364	293,988	(64,508)	340,844
Net proceeds from shares issued pursuant to share option schemes *(Note a)*	2,755	230	11,044	–	11,274
Transfer of fair value of share options exercised to share premium	–	–	5,995	–	5,995
Shares vested under the Restricted Share Award Scheme	3	–	–	52	52
As at 30 June 2011	1,052,603	111,594	311,027	(64,456)	358,165

Note:

(a) During the six months ended 30 June 2011, the Company issued 2,755,000 shares (30 June 2010: 2,960,000 shares) of HK$0.10 each to certain directors and employees of the Group at weighted average issue price of HK$4.9415 (30 June 2010: HK$6.7054) per share pursuant to the Company's share option schemes (see Note 25).

Notes to Condensed Consolidated Interim Financial Information (Continued)

13. Reserves

	Unaudited						
	Capital reserves RMB'000	Statutory reserve funds 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 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
As at 1 January 2011	45,634	208,743	91,076	1,194	346,647	2,681,811	3,028,458
Profit for the period	–	–	–	–	–	293,740	293,740
Value of services provided under share schemes	–	–	20,870	–	20,870	–	20,870
Transfer of fair value of share options exercised to share premium	–	–	(5,995)	–	(5,995)	–	(5,995)
Vesting of shares under the Restricted Share Award Scheme	–	–	(52)	–	(52)	–	(52)
Dividends paid	–	–	–	–	–	(209,072)	(209,072)
Translation difference of foreign currency financial statements	–	–	–	1,707	1,707	–	1,707
As at 30 June 2011	45,634	208,743	105,899	2,901	363,177	2,766,479	3,129,656

Notes to Condensed Consolidated Interim Financial Information (Continued)

14. Trade payables

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

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

15. Other payables and accruals

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Accrued sales and marketing expenses	286,428	242,808
Advances from customers	59,600	57,341
Wages and welfare payables	92,645	114,323
Other tax payables	22,384	102,876
Payable for property, plant and equipment	2,799	32,202
Other payables	80,346	96,474
	544,202	646,024

Notes to Condensed Consolidated Interim Financial Information (Continued)

16. 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 2010	
As at 1 January 2010	556,142
Acquisition of license rights	12,166
Payment of license fees	(25,100)
Amortisation of discount *(Note 21)*	20,558
Adjustment for exchange difference	(644)
As at 30 June 2010	563,122
Six months ended 30 June 2011	
As at 1 January 2011	**553,602**
Acquisition of license rights	**6,529**
Payment of license fees	**(13,943)**
Amortisation of discount *(Note 21)*	**20,105**
Adjustment for exchange difference	**(2,066)**
As at 30 June 2011	**564,227**

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Analysis of license fees payable:		
Non-current		
– over five years	**313,917**	316,880
– the second to fifth year	**162,241**	166,056
Current	**88,069**	70,666
	564,227	553,602

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

16. 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 2011 RMB'000	Audited 31 December 2010 RMB'000
Less than 1 year	93,747	73,495
Between 1 and 5 years	196,983	202,827
Over 5 years	756,750	779,700
	1,047,480	1,056,022

17. Borrowings

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Current		
Bank borrowings denominated in		
– RMB	139,500	39,960
– HK$	332,640	272,288
	472,140	312,248
Borrowings		
– secured	4,500	4,500
– unsecured	467,640	307,748
	472,140	312,248

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 5.93% (30 June 2010: 4.89%) for bank borrowings denominated in RMB and 1.65% (30 June 2010: 1.45%) for bank borrowings denominated in HK$ for the six months ended 30 June 2011.

Bank borrowings amounting to RMB4,500,000 (31 December 2010: RMB4,500,000) were secured by the Group's buildings and land use rights as at 30 June 2011 (Notes 7 and 8).

As at 30 June 2011, the Group had undrawn borrowing facilities within one year amounting to RMB1,299,480,000 (31 December 2010: RMB1,157,502,000). These facilities have been arranged to help financing the Group's working capital.

Notes to Condensed Consolidated Interim Financial Information (Continued)

17. Borrowings (continued)

Movement in borrowings is analysed as follows:

	Unaudited RMB'000
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
Six months ended 30 June 2011	
As at 1 January 2011	312,248
Additions	863,616
Repayments	(697,548)
Adjustment for exchange difference	(6,176)
As at 30 June 2011	472,140

18. Deferred income

	Unaudited RMB'000
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
Six months ended 30 June 2011	
As at 1 January 2011	62,324
Credited to income statement	(647)
As at 30 June 2011	61,677

The Group received government grant amounting to RMB64,697,000 for purchase of a land use right in the PRC in 2009. 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 2010: RMB647,000) has been credited to income statement during the six months ended 30 June 2011.

Notes to Condensed Consolidated Interim Financial Information (Continued)

19. Expenses by nature

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

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

20. Other income – net

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

21. Finance income and costs

	Unaudited Six months ended 30 June 2011 RMB'000	2010 RMB'000
Finance income		
– Interest income on bank balances and deposits	2,678	4,042
– Net foreign currency exchange gain	5,270	–
	7,948	4,042
Finance costs		
– Amortisation of discount – license fees payable *(Note 16)*	(20,105)	(20,558)
– Interest expense on bank borrowings	(13,365)	(1,727)
– Net foreign currency exchange loss	–	(1,579)
– Others	(4,901)	(2,654)
	(38,371)	(26,518)
Finance costs – net	(30,423)	(22,476)

22. Income taxes

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

23. Earnings per share

Basic

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

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

Diluted

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

	Unaudited Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	293,740	581,566
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme (in thousands)	1,051,224	1,046,364
Adjustment for share options and awarded shares (in thousands)	5,791	17,236
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	1,057,015	1,063,600
Diluted earnings per share (RMB cents)	27.79	54.68

Notes to Condensed Consolidated Interim Financial Information (Continued)

24. Dividends

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

In addition, an interim dividend of RMB11.13 cents per ordinary share for the six months ended 30 June 2011 (30 June 2010: RMB22.15 cents) was declared by the Board of Directors on 24 August 2011. It is payable on or around 23 September 2011 to shareholders whose names appear on the Company's register of members on 16 September 2011. This interim dividend, amounting to RMB117,496,000 (30 June 2010: RMB232,626,000), has not been recognised as a liability in this interim financial information. It will be recognised as an appropriation of distributable reserves in the financial statements of the Group and the Company for the year ending 31 December 2011.

25. Share-based compensation

(a) Share Purchase Scheme

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

	Unaudited Six months ended 30 June			
	2011		2010	
	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	638	0.86	1,724
Exercised	0.86	(430)	0.86	(1,056)
As at 30 June	0.86	208	0.86	668
Exercisable as at 30 June	0.86	208	0.86	618

Notes to Condensed Consolidated Interim Financial Information (Continued)

25. Share-based compensation (continued)

(a) Share Purchase Scheme (continued)

Share options outstanding under this scheme as at the 30 June 2011 and 31 December 2010 have the following expiry date and weighted average exercise price:

	Unaudited 30 June 2011		Audited 31 December 2010	
Expiry date	Weighted average exercise price (per share) HK$	Share options (Thousands)	Weighted average exercise price (per share) HK$	Share options (Thousands)
11 November 2011	0.86	75	0.86	75
5 July 2012	0.86	100	0.86	510
16 November 2013	0.86	33	0.86	33
27 November 2013	0.86	–	0.86	20
		208		638

(b) Share Option Scheme

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

	Unaudited Six months ended 30 June			
	2011		2010	
	Weighted average exercise price (per share) HK$	Outstanding options (thousands)	Weighted average exercise price (per share) HK$	Outstanding options (thousands)
As at 1 January	13.360	23,324	12.764	29,634
Exercised	4.941	(2,755)	8.710	(2,098)
Lapsed	14.384	(1,684)	13.863	(789)
As at 30 June	14.497	18,885	13.049	26,748
Exercisable as at 30 June	14.247	8,263	8.269	7,892

Notes to Condensed Consolidated Interim Financial Information (Continued)

25. Share-based compensation (continued)

(b) Share Option Scheme (continued)

Share options outstanding under this scheme as at 30 June 2011 and 31 December 2010 have the following expiry date and exercise price:

	Unaudited 30 June 2011		Audited 31 December 2010	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
4 July 2011	3.685	15	3.685	2,269
4 September 2012	8.830	647	8.830	799
20 November 2012	9.840	300	9.840	300
19 July 2013	19.680	350	19.680	350
4 July 2014	17.220	2,104	17.220	2,225
5 December 2014	10.940	93	10.940	93
19 January 2015	11.370	10,417	11.370	11,913
1 April 2015	13.180	689	13.180	689
22 October 2015	21.870	4,270	21.870	4,686
		18,885		23,324

(c) Fair value of share options

No options under the above schemes were granted during the six months ended 30 June 2011.

The fair values of options are charged to the consolidated income statement over the vesting period of the options. The aggregate amount charged during the six months ended 30 June 2011 was RMB4,988,000 (30 June 2010: RMB23,412,000).

Notes to Condensed Consolidated Interim Financial Information (Continued)

25. Share-based compensation (continued)

(d) Restricted Share Award Scheme

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

	Unaudited Six months ended 30 June			
	2011		2010	
	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	21.97	3,840	18.31	2,359
Vested	23.90	(3)	19.13	(6)
Lapsed	20.65	(315)	17.04	(83)
As at 30 June	22.08	3,522	18.48	2,270

The fair value of Restricted Shares charged to the condensed consolidated income statement was RMB15,882,000 during the six months ended 30 June 2011 (30 June 2010: RMB6,329,000).

26. Commitments

(a) Capital commitments

Capital expenditure contracted for but not paid by the Group at the balance sheet date are as follows:

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Contracted for but not paid		
– property, plant and equipment	117,126	63,453

Notes to Condensed Consolidated Interim Financial Information (Continued)

26. Commitments (continued)

(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 2011 RMB'000	Audited 31 December 2010 RMB'000
Not later than 1 year	288,549	245,593
Later than 1 year and not later than 5 years	623,443	548,072
Later than 5 years	128,404	147,721
	1,040,396	941,386

27. Related party transactions

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

(a) Sales of goods to:

	Unaudited Six months ended 30 June	
	2011 RMB'000	2010 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	1,350	3,183

Notes to Condensed Consolidated Interim Financial Information (Continued)

27. Related party transactions (continued)

(b) Purchases of goods from:

	Unaudited Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Shanghai Double Happiness (Group) Co., Ltd. and related companies	7,110	11,354

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.

(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	
	2011 RMB'000	2010 RMB'000
Salaries and other benefits	6,142	5,439
Contribution to retirement benefit scheme	157	239
Employee share schemes for value of services provided	2,413	6,007
	8,712	11,685

Notes to Condensed Consolidated Interim Financial Information (Continued)

27. Related party transactions (continued)

(d) Period-end/year-end balances arising from sales/purchases of goods

	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
Receivables to related parties:		
– Shanghai Double Happiness (Group) Co., Ltd. and related companies	120	–
Payables to related parties:		
– Shanghai Double Happiness (Group) Co., Ltd. and related companies	1,963	4,600

28. Subsequent events

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

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

Interim Dividend

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

Closure of Register of Members

For the purpose of determination of entitlement to the interim dividend, the register of members of the Company will be closed from Thursday, 15 September 2011 to Friday, 16 September 2011 (both days inclusive), during which no transfer of Shares 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, 14 September 2011.

Long-term Incentive Schemes

Share Purchase Scheme

Details of movements of the options granted under the Share Purchase Scheme for the six months ended 30 June 2011 are set out in note 25 to the condensed consolidated interim financial information.

Post-IPO Share Option Scheme

Details of movements of the options granted under the Post-IPO Share Scheme for the six months ended 30 June 2011 are as follows:

			Number of Shares issuable under the options						
Grantees	Date of grant	Exercise price per Share HK$	as at 01/01/2011	granted during the period	exercised during the period	lapsed during the period	cancelled during the period	as at 30/06/2011	Exercise period *(Note 7)*
Executive Directors									
Zhang Zhi Yong	04/07/2005	3.685	730,000	–	(730,000) *(Note 1)*	–	–	–	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	17,134	–	–	–	–	17,134	04/07/2009 – 04/07/2014
	19/01/2009	11.37	210,720	–	–	–	–	210,720	19/01/2010 – 19/01/2015
Chu Wah Hui	04/07/2008	17.22	34,267	–	–	–	–	34,267	04/07/2009 – 04/07/2014
	19/01/2009	11.37	210,720	–	–	–	–	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

Grantees	Date of grant	Exercise price per Share HK$	Number of Shares issuable under the options as at 01/01/2011	granted during the period	exercised during the period	lapsed during the period	cancelled during the period	as at 30/06/2011	Exercise period (Note 7)
Independent non-executive Directors									
Koo Fook Sun, Louis	04/07/2005	3.685	82,000	–	(82,000) (Note 2)	–	–	–	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) (Note 3)	–	–	–	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	04/07/2008	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
Employees of the Group									
In aggregate	04/07/2005	3.685	1,293,500	–	(1,278,500) (Note 4)	–	–	15,000	04/07/2006 – 04/07/2011
In aggregate	04/09/2006	8.83	441,499	–	(152,333) (Note 5)	–	–	289,166	04/09/2007 – 04/09/2012
In aggregate	04/07/2008	17.22	1,546,535	–	–	(120,700)	–	1,425,835	04/07/2009 – 04/07/2014
In aggregate	05/12/2008	10.94	92,700	–	–	–	–	92,700	05/12/2009 – 05/12/2014
In aggregate	19/01/2009	11.37	5,918,100	–	(348,500) (Note 6)	(1,146,960)	–	4,422,640	19/01/2010 – 19/01/2015
In aggregate	22/10/2009	21.87	4,386,324	–	–	(416,107)	–	3,970,217	(Note 8)
Other participants									
In aggregate	20/11/2006	9.84	300,000	–	–	–	–	300,000	(Note 9)
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 8)
			23,324,199	–	(2,755,333)	(1,683,767)	–	18,885,099	

Notes:

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$13.49.

2. The closing price per Share immediately before the date of exercise of the options is HK$14.00.

3. The closing price per Share immediately before the date of exercise of the options is HK$13.10.

4. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$14.14.

5. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$14.62.

6. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$15.26.

7. Unless otherwise stated in notes 8 and 9: (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.

8. 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

9. 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

During the six months ended 30 June 2011, no restricted shares were granted to eligible participants pursuant to the Restricted Share Award Scheme. 2,668 restricted shares were vested and 314,934 restricted shares lapsed during the period. As at 30 June 2011, the number of restricted shares granted under the scheme, except for those lapsed, amounted to 7,943,132 Shares, representing approximately 0.77% 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 2011 are as follows:

		Number of restricted shares					
Date of grant	Fair value per restricted share HK$ *(Note)*	as at 01/01/2011	granted during the period	vested during the period	lapsed during the period	as at 30/06/2011	Vesting period
06/03/2008	23.90	2,668	–	(2,668)	–	–	06/03/2009 – 06/03/2011
04/07/2008	16.70	714,032	–	–	(118,934)	595,098	04/07/2009 – 04/07/2011
16/12/2008	11.30	6,666	–	–	–	6,666	16/12/2009 – 16/12/2011
22/10/2009	21.55	4,000	–	–	–	4,000	01/07/2010 – 01/07/2012
03/09/2010	23.30	2,064,000	–	–	(188,800)	1,875,200	01/07/2011 – 31/08/2013
03/09/2010	23.30	1,000,000	–	–	–	1,000,000	01/07/2011 – 01/07/2016
30/12//2010	16.62	49,000	–	–	(7,200)	41,800	30/12/2011 – 28/02/2014
		3,840,366	–	(2,668)	(314,934)	3,522,764	

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 2011, 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	325,390,184 (Long position)	*1*	Interests of controlled corporations	30.826
	208,334 (Short position)	*1(c)*	Interests of controlled corporation	0.020
Zhang Zhi Yong	11,338,400 (Long position)	*2*	Personal and interest of controlled corporation	1.074
Chong Yik Kay	688,500 (Long position)	*3*	Personal	0.065
Lim Meng Ann	443,100 (Long position)	*4*	Personal	0.042
Chu Wah Hui	398,100 (Long position)	*5*	Personal and 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	0.057
Wang Ya Fei	605,100 (Long position)	*8*	Personal	0.057
Chan Chung Bun, Bunny	441,100 (Long position)	*9*	Personal	0.042

* The percentage has been calculated based on 1,055,556,169 Shares in issue as at 30 June 2011.

Notes:

1. Mr. Li Ning is deemed to be interested in an aggregate of 325,390,184 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 TMF (Cayman) Ltd. (formerly known as 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) 2,016,184 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 2,016,184 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 208,334 Shares, among the total of 2,016,184 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 2011, 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 33,233,816 Shares have been exercised. The total number of outstanding options as at 30 June 2011 is 208,334 Shares.

2. Mr. Zhang Zhi Yong is interested in 6,475,000 Shares, among which 3,225,000 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 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 14,400 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 209,146 Shares and is taken to be interested as a grantee of options to subscribe for 17,134 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 6,100 restricted shares granted under the Restricted Share Award Scheme.

5. Mr. Chu Wah Hui is interested in 147,013 Shares, among which 102,013 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 6,100 restricted shares granted under the Restricted Share Award Scheme.

6. Mr. James Chun-Hsien Wei is interested in 28,200 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 6,100 restricted shares granted under the Restricted Share Award Scheme.

7. Mr. Koo Fook Sun, Louis is interested in 224,200 Shares and is taken to be interested as a grantee of options to subscribe for 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 6,100 restricted shares granted under the Restricted Share Award Scheme.

8. Ms. Wang Ya Fei is interested in 194,200 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. Ms. Wang is also taken to be interested as a grantee of 6,100 restricted shares granted under the Restricted Share Award Scheme.

9. Mr. Chan Chung Bun, Bunny is interested in 120,200 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. Chan is also taken to be interested as a grantee of 6,100 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 2011, 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 interest 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 2011, 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	325,390,184 (Long position)	*1*	Interest of controlled corporations	30.826
	208,334 (Short position)	*2*	Interest of controlled corporation	0.020
Li Chun	323,374,000 (Long position)	*3*	Interest of controlled corporations	30.635
Victory Mind Assets Limited	173,374,000 (Long position)	*4*	Beneficial owner	16.425
Ace Leader Holdings Limited	173,374,000 (Long position)	*5*	Interest of controlled corporation	16.425
Jumbo Top Group Limited	173,374,000 (Long position)	*6*	Interest of controlled corporation	16.425
TMF (Cayman) Ltd. (formerly known as Equity Trust Company (Cayman) Ltd.)	173,374,000 (Long position)	*7*	Trustee	16.425
Dragon City Management (PTC) Limited	150,000,000 (Long position)	*8*	Trustee	14.211
Cititrust (Cayman) Limited	150,000,000 (Long position)	*9*	Trustee	14.211
Genesis Asset Managers, LLP	98,020,000 (Long position)		Investment manager	9.286
Commonwealth Bank of Australia	94,470,000 (Long position)	*10*	Interest of controlled corporations	8.950
JPMorgan Chase & Co.	74,013,429 (Long position)	*11*	Beneficial owner, investment manager, custodian corporation/ approved lending agent	7.012
	3,365,805 (Short position)	*11*	Beneficial owner	0.319
	32,951,124 (Lending pool)	*11*	Custodian corporation/ approved lending agent	3.122
OppenheimerFunds, Inc.	73,905,500 (Long position)		Investment manager	7.002
Oppenheimer Developing Markets Fund	63,424,500 (Long position)	*12*	Beneficial owner	6.009
Government of Singapore Investment Corporation Pte. Ltd.	53,968,752 (Long position)	*13*	Investment manager	5.113
Minister of Finance Inc.	53,968,752 (Long position)	*13*	Interest of controlled corporations	5.113

* The percentage has been calculated based on 1,055,556,169 Shares in issue as at 30 June 2011.

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 TMF (Cayman) Ltd. (formerly known as 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. TMF (Cayman) Ltd. (formerly known as 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. The interest in these Shares was attributable on account of holding through corporations that are wholly-owned by Commonwealth Bank of Australia.

11. Amongst the total of 74,013,429 Shares held by JPMorgan Chase & Co., 4,972,805 Shares were held as beneficial owner and 3,365,805 Shares of which are held as short position, 36,089,500 Shares were held as investment manager and 32,951,124 Shares were held as custodian corporation/approved lending agent.

12. Oppenheimer Developing Markets Fund acts in accordance with the directions of OppenheimerFunds, Inc..

13. Amongst the total of 53,968,752 Shares, Government of Singapore Investment Corporation Pte. Ltd. is interested in 14,811,752 Shares as investment manager and is deemed to be interested in 39,157,000 Shares held by Tetrad Ventures Pte. Ltd.. Tetrad Ventures Pte. Ltd. is an investment vehicle managed by GIC Special Investments Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corporation Pte. Ltd.. Minister of Finance Inc. as the 100% owner of Government of Singapore Investment Corporation Pte. Ltd. is deemed to be interested in the 53,968,752 Shares.

Save as disclosed above, as at 30 June 2011, 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 2010, 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 following executive Directors for the year ending 31 December 2011:

   a. The basic annual salary payable to Mr. Zhang Zhi Yong, an executive Director and chief executive officer of the Company, is increased to approximately RMB5,099,000. He is also entitled to discretionary bonuses, other benefits and allowances and the Company's long-term incentive scheme as determined by the Board, while the target overall salary for 2011 including the above components has been adjusted downward.

   b. The basic annual salary payable to Mr. Chong Yik Kay, an executive Director and chief financial officer of the Company, is increased to approximately RMB1,818,000. He is also entitled to discretionary bonuses, other benefits and allowances and the Company's long-term incentive scheme as determined by the Board.

2. Mr. Chan Chung Bun, Bunny, an independent non-executive Director, was re-appointed as the chairman of the Commission on Youth of Hong Kong on 1 April 2011.

Purchase, Sale or Redemption of the Company's Shares

The Company did not redeem any of its Shares during the six months ended 30 June 2011. Neither the Company nor any of its subsidiaries had purchased or sold any Shares during the period.

Corporate Governance

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

Throughout the period under review, the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Annual Report 2010.

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 compiled with the required standard set out in the Model Code throughout the six months ended 30 June 2011.

The Audit Committee of the Company, consisting of three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed auditing, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2011.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2011 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

By order of the Board
Li Ning
Chairman

Hong Kong, 24 August 2011

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 2011: 1,055,556,169 Shares
Market capitalisation as at 30 June 2011: approximately HK$14,207,786,000

Interim Dividend for 2011

RMB11.13 cents per Share

Financial Calendar

Announcement of 2011 interim results:	24 August 2011
Closure of register of members*:	15 September 2011 – 16 September 2011
Dividend entitlements record date*:	16 September 2011
Payment date of interim dividend:	on or about 23 September 2011
Announcement of 2011 annual results:	March 2012

* 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

IR Contact

Investor Relations Department
Li Ning Company Limited
3/F, Double Happiness Mansion,
258 Zhizaoju Road, Shanghai, PRC
Postal Code: 200023
Telephone: +8621 2326 7366
Fax: +8621 2326 7492
E-mail: investor@li-ning.com.cn

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 2010"	the Company's annual report for the year ended 31 December 2010
"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
"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