



Li Ning Company Limited
(李寧有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)



Inspiring

life with passion

Annual Report 2008

Mission

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

Vision

A world's leading brand in the sports goods industry

Core Values

Athleticism, Integrity, Professionalism, Passion, Breakthroughs, Trust

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 include footwear, apparel, accessories and equipment for sport and leisure uses. The Group has established an extensive supply chain management system, and a distribution and retail network in the PRC primarily through outsourcing of manufacturing operations and distribution via franchised agents. The Group also directly manages retail stores for the LI-NING brand.

The Group adopts a multi-brand business development strategy. In addition to its core LI-NING brand, the Group distributes sports products under its Z-DO brand via hypermarket channel. The Group has established a joint venture with AIGLE under which the joint venture has been granted an exclusive right by AIGLE to manufacture, market, distribute and sell outdoor sports products under the French brand AIGLE for 50 years in the PRC. In 2008, the Group acquired a controlling interest in Double Happiness, which together with its subsidiaries, are principally engaged in manufacturing, research and development, marketing and sale of table tennis and other sports equipment under the Double Happiness brand. In 2008, the Group also entered into an exclusive 20-year license agreement with Lotto to develop, manufacture, market, distribute and sell the licensed products under the Italian sports fashion brand Lotto in the PRC.



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Highlights of the Year 2008

Feb



Entered into an agreement to sponsor the United States National Table Tennis Team

Jan



Grand opening of a LI-NING brand flagship store on Nanjing East Road, Shanghai

Mar



Announced collaboration with Michelin for the research and development of sports footwear products

Mar



Launched the "Hero's Assembly - LI-NING China Tour 2008"

Jul



Completed the acquisition of a controlling interest in Double Happiness

Jul



Entered into a 20-year license agreement with Lotto

Aug



Mr. Li Ning, in his capacity as the representative of leading Chinese athletes, lighted the cauldron for the Beijing Olympics



Aug



China's four national teams, which the Group sponsored, won 27 gold medals in the Beijing Olympics

Oct



Opening ceremony of the new operational headquarters in Beijing

Oct



Mr. Zhang Zhi Yong, Executive Director & CEO, was honoured the "China Business Leaders Awards 2008"

Nov



Li Ning Sports Science R&D Centre commenced operations

Nov



Signed up NBA star, Baron Davis

Nov

"Badminton World Federation Super Series – LI-NING China Open 2008"

LI-NING brand was awarded the "2008 Most Favourite Brand among University Students"

Dec



Named as the "Best 50 Workplaces in 2008"

Dec



Commenced construction of the Li Ning (Jingmen) Industrial Park



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. Stuart SCHONBERGER
Mr. CHU Wah Hui
Mr. James Chun-Hsien WEI

Independent non-executive Directors

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

Executive Committee

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

Audit Committee

Mr. KOO Fook Sun, Louis
(*Committee Chairman*)
Mr. Stuart SCHONBERGER
Ms. WANG Ya Fei

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

Corporate Information

Principal Place of Business in Hong Kong

Suites 2804–5, Shell Tower
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
Telephone: +8610 8080 0808
Fax: +8610 8080 0000

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
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
Beijing Haisi Law Firm

Principal Bankers

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

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

Five-year Financial Highlights

(All amounts in RMB thousands unless otherwise stated)

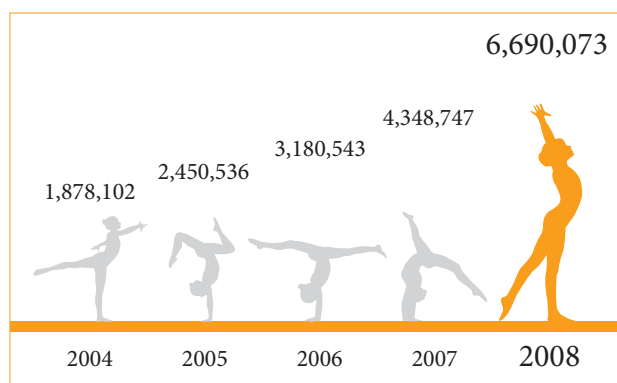
| | | Year ended 31 December | | | |
|--|------------------|------------------------|-----------|-----------|-----------|
| | 2008 | 2007 | 2006 | 2005 | 2004 |
| Revenue | 6,690,073 | 4,348,747 | 3,180,543 | 2,450,536 | 1,878,102 |
| Operating profit | 960,213 | 609,855 | 402,518 | 271,497 | 180,418 |
| Profit before income tax | 929,238 | 618,532 | 401,153 | 273,451 | 181,239 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 1,070,516 | 681,764 | 438,407 | 296,435 | 200,839 |
| Profit attributable to equity holders | 721,267 | 473,606 | 294,846 | 186,800 | 122,414 |
| Non-current assets | 1,518,985 | 607,052 | 276,476 | 119,615 | 102,819 |
| Current assets | 2,817,944 | 2,173,799 | 1,888,809 | 1,463,196 | 1,378,612 |
| Current liabilities | 2,086,843 | 977,429 | 688,452 | 404,515 | 454,206 |
| Net current assets | 731,101 | 1,196,370 | 1,200,357 | 1,058,681 | 924,406 |
| Total assets | 4,336,929 | 2,780,851 | 2,165,285 | 1,582,811 | 1,481,431 |
| Total assets less current liabilities | 2,250,086 | 1,803,422 | 1,476,833 | 1,178,296 | 1,027,225 |
| Equity holders' equity | 1,896,413 | 1,744,601 | 1,399,490 | 1,160,924 | 1,010,017 |
| Gross profit margin (%) | 48.1 | 47.9 | 47.4 | 46.0 | 46.5 |
| Margin of profit attributable to equity holders (%) | 10.8 | 10.9 | 9.3 | 7.6 | 6.5 |
| Earnings per share | | | | | |
| – basic (RMB cents) | 69.63 | 45.83 | 28.65 | 18.25 | 13.78 |
| – diluted (RMB cents) | 68.64 | 45.09 | 28.25 | 18.13 | 13.75 |
| Return on equity holders' equity (%) | 39.6 | 30.1 | 23.0 | 17.2 | 17.5 |
| Net tangible assets per share (RMB cents) | 138.44 | 157.63 | 127.00 | 112.42 | 112.64 |
| Debt to equity ratio (%) (Note) | 118.5 | 59.4 | 53.5 | 35.0 | 45.0 |

Note:

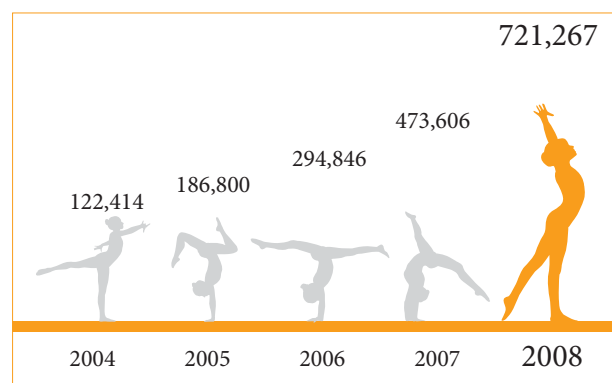
The calculation of debt to equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.

Five-year Financial Highlights

Revenue

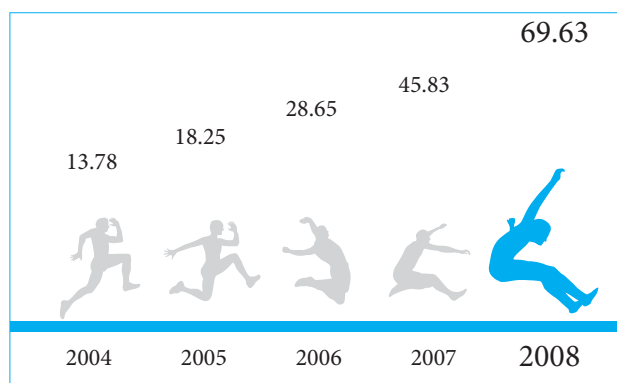


Profit Attributable to Equity Holders



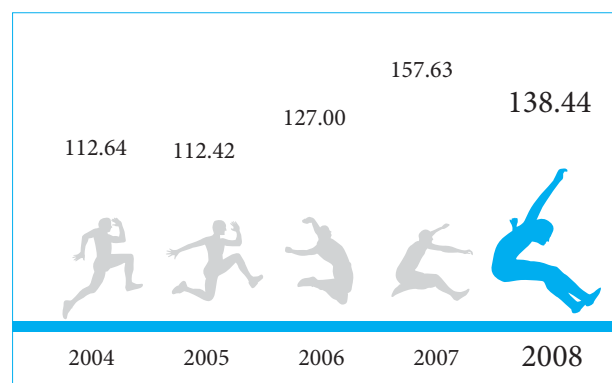
Earnings Per Share – Basic

(RMB cents)

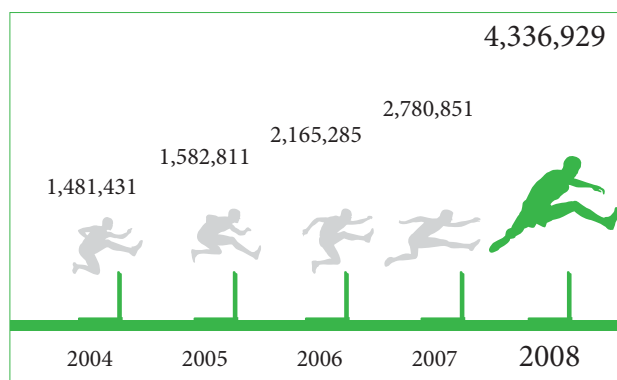


Net Tangible Assets Per Share

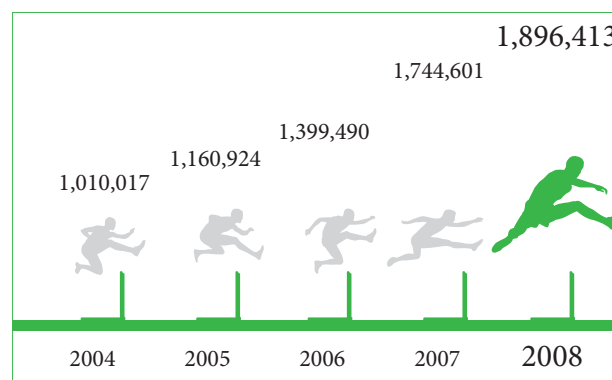
(RMB cents)



Total Assets



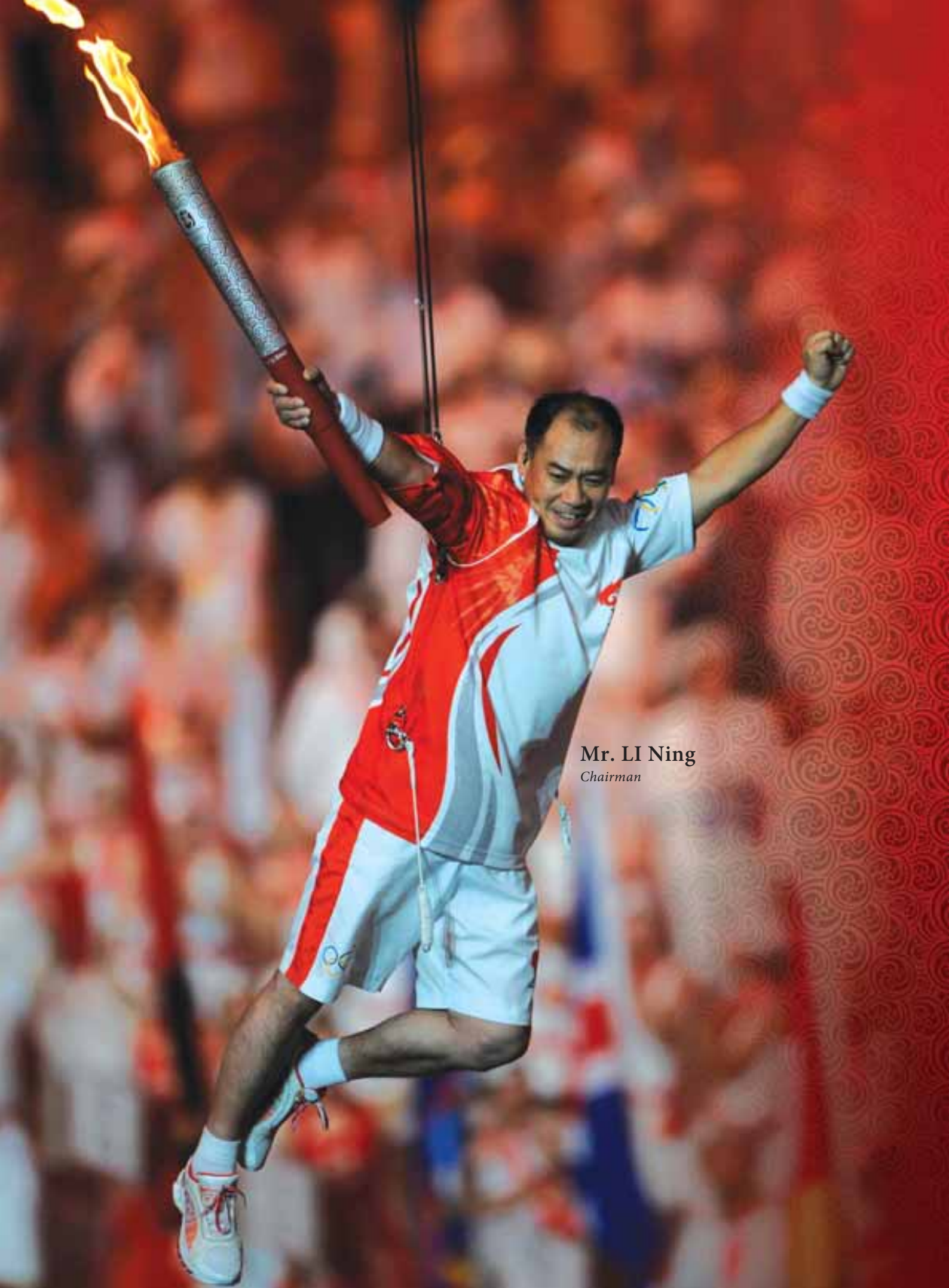
Equity Holders' Equity





Integrity





Mr. LI Ning
Chairman

Chairman's Statement

Dear Shareholders,

Introduction

The year 2008 was a special year for the Group, and also a memorable year to be proud of. During the year, by leveraging our strength, we achieved remarkable results in different areas despite many challenges faced by us.

Beijing Olympics was undoubtedly the highlight of the year 2008. The Group was successful in capturing this historic opportunity through our integrated marketing strategy, which helped boost our brand value significantly. During the year, we continued to implement appropriate branding strategy, successfully expanded our products into a more penetrating distribution network, further strengthened our product design and research and development, and adopted the multi-brand strategy. Meanwhile, our continuous strategic collaboration with renowned sports associations and athletes helped lift the LI-NING brand to a new level.

Last year brought the Company's five year strategy from 2004-2008 to a successful close. In the last five years, we witnessed the increasing purchasing power of the Chinese consumers as well as the changing cultural sense of sport, both of which have brought great opportunities for the Group, as well as the dual competitive pressure from both international and local brands. In pursuit of our long-term target, we have all along been choosing to adopt a model with strategic orientation and capability growth as the foundation. This model has helped us make remarkable achievements in branding, supply chain, distribution network and product research and development. We have invested continually in sports marketing, focusing on the development of footwear products as well as strengthening our product design and research and development, and building rich sports marketing resources in order to increase recognition for the LI-NING brand. Considerable resources have been committed to this process, and the results show that we have chosen the right strategy for the Group's long-term development which has facilitated us to obtain a great balance between financial return and capacity building. This has also enabled us to achieve steady growth while winning the confidence of the industry as well as our partners and investors.

We also faced and tackled many challenges during 2008. During the Chinese New Year in February, certain regions of the country were brought to a standstill by the severe snowstorms. A few months later, Sichuan province was devastated by the earthquake killing tens of thousands and leaving millions homeless. Meanwhile, the global financial crisis continues to affect the world economy including China. Despite all these, we managed to achieve good results by leveraging the Group's capabilities.

Continued Financial Success

For the year ended 31 December 2008, the Group's revenue increased by 53.8% to RMB6,690.1 million. Profit attributable to equity holders increased by 52.3% to RMB721.3 million. Basic earnings per share increased by 51.9% to RMB69.63 cents. The Board has recommended payment of a final dividend of RMB11.14 cents per Share.



Chairman's Statement

Branding for the Future

In 2008, the Group's marketing and brand promotion led the LI-NING brand to a new level. The implementation of integrated marketing strategies for the Beijing Olympics was a great success and immensely strengthened the connection between the LI-NING brand and our consumers, while the products we sponsored for the various national teams during the Games also garnered high and professional recognition.

The Group has continued to be active in building its brand recognition internationally. The various national teams we sponsored helped the LI-NING brand attract a high degree of international recognition. With China opening itself to the world, the Chinese sports brand has also won a seat on the Beijing Olympics stage for its outstanding performance. During the year, we have continued our official tennis partnership with the Association of Tennis Professionals (ATP), as well as our close collaboration with renowned National Basketball Association (NBA) star Shaquille O'Neal for the co-branded "LI-NING-SHAQ" basketball products. In November 2008, the Group signed Baron Davis, a point guard featured in the NBA All-Star team, who will wear the brand new tailor-made LI-NING branded basketball shoes during the NBA season.

In our on-going efforts to cater to different market opportunities, the Group continued its multi-brand business development strategy. In 2008, through completing the acquisition of Double Happiness and entering into a 20-year license agreement with Lotto, our multi-brand portfolio is further enriched.

Expansion of Distribution Network and Improvement of Research and Development

Throughout the year, the Group continuously expanded its distribution network, particularly in second- and third-tier cities, which show the greatest growth potential in China. As of the end of 2008, there were 6,245 LI-NING brand retail stores in China, 76.2% of which were located in second- and third-tier cities.

Meanwhile, our improvement in product design has made an enormous contribution to same store sales growth during the year. The Group also launched fifth generation stores, which introduced a stylish ambiance highlighting professional sports and oriental elements.

We put further emphasis into building our existing research and development capability. In March 2008, the Group announced its cooperation with Michelin for the development of sports footwear products and we continued to apply our patented technology, the "LI-NING BOW" (李宁弓) anti-shock technology, to our footwear products during the year.

Improving Supply Chain Management for Long-term Growth

Through our ongoing efforts to enhance the supply chain management, our cash turnover ratios have been greatly improved. Our supply chain has gradually shifted from a passive to an active mode with special emphasis on enhancing production flexibility to cope with uncertainties. With more challenges ahead, we need to continually improve and adjust the supply chain management to match the ever-changing retail environment.

Maintaining Trust and High Transparency

As a listed company with continuous growth, we have made remarkable achievements in capital market performance, governance structure of the Board and investor relations.

Chairman's Statement

The Group has always been praised for its efforts in maintaining good corporate governance and transparency. The Company was ranked as one of the best companies in China in "The Asset Corporate Governance Awards 2008" held by The Asset Magazine. The Company is committed to improve its corporate governance as we move forward in order to ensure long-term healthy development of the Group.

Well Poised for the Challenges Ahead

Beginning in the latter half of 2008, the global financial crisis started to hit China's economy, especially in certain manufacturing sectors and those cities with a more open economy. The structural shifts in the economy will have a further impact on the business environment in a number of ways. Looking forward to 2009, as the effectiveness of various rescue measures introduced by the developed countries remains to be seen, the risk of plunging the global economy into a deeper recession is increasing. The risk of a broader scale impact on China's economy still exists. Meanwhile, the China Government has announced a spate of stimulus packages which we believe would help boost China's economy.

In view of rising unemployment and deteriorating consumer sentiment, the business environment will be tough and volatile in 2009. The retail sector is expected to encounter significant challenges. Indeed we have already witnessed a worsening consumer sentiment in certain sectors, and aggressive discounting in the marketplace. In addition, in the post-Olympic period, particularly with the slowing economy, only the stronger brands can survive the industry consolidation, and we expect competition to be even more intense.

The management is fully aware of the uncertainties surrounding the macroeconomic environment and is taking steps to manage risk effectively. We have implemented stringent cost control measures and tailored various budget scenarios to contend with different market and economic conditions.

The Group believes the driving fundamentals of the sports goods industry in China in the mid to long term remain robust. We are optimistic that we will weather the storm and come out of the recession a much stronger organization. Our research and analysis shows that China's sports good industry will continue to enjoy a golden era in the next five to ten years and the Group intends to embrace this opportunity and to continually improve our core competencies in order to consolidate and enhance our position as a leading sports brand in China.

To achieve this, we will strive to further increase our market share, adjust our product mix, maintain product innovation, execute our integrated marketing strategy and further improve the supply chain management to enhance efficiency by leveraging the unique positioning of the LI-NING brand. We also plan to tap into more market segments by implementing the multi-product lines and multi-brand strategy and to further engage the indoor sports market so as to enhance the competitiveness of the LI-NING brand.

Finally, I would like to thank each and every staff and business partner for contributing to the success of the Group during 2008. This was a period in which we all made concerted efforts to show perseverance in the face of adversity, which builds a strong base for the Group's long-term success.

Li Ning
Chairman

Hong Kong, 18 March 2009



Professionalism



Management Discussion and Analysis

Mr. ZHANG Zhi Yong
Chief Executive Officer



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



Management Discussion and Analysis

Financial Review

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

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

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

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

Notes:

- The calculation of basic earnings per share is based on the profit attributable to equity holders for the year divided by the weighted average number of ordinary shares in issue less ordinary shares held for the Restricted Share Award Scheme during the year.
- The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by cost of sales and multiplied by 365 days.
- The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables divided by revenue and multiplied by 365 days.
- The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables divided by total purchases and multiplied by 365 days.
- The calculation of debt to equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.

Management Discussion and Analysis

Revenue

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

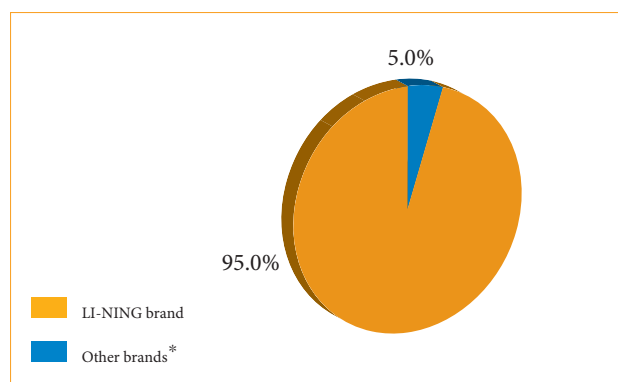
Revenue breakdown by brand and product category

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

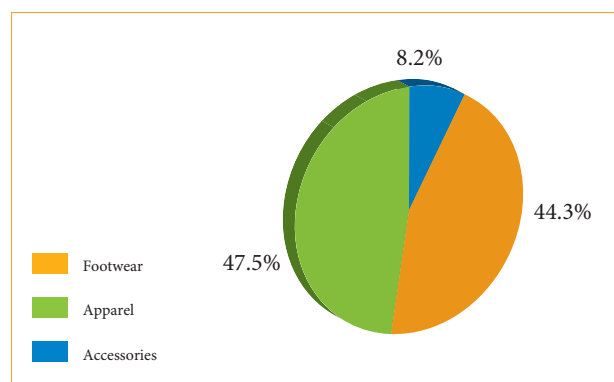
* Including AIGLE, Z-DO, Double Happiness and Lotto.

Including sales revenue from equipment of Double Happiness brand.

Percentage of revenue by brand



Percentage of revenue by product category

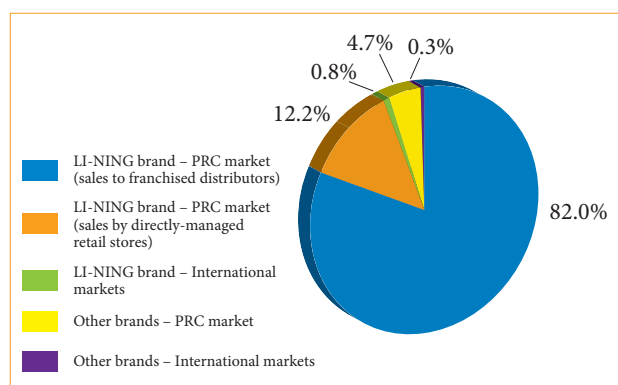


Management Discussion and Analysis

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

efficiency, encompassing aspects from integration of product planning and design to logistics efficiency. All of these initiatives, coupled with the increased consumption driven by the Beijing Olympics, helped to boost sales of all product categories.

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



Percentage of revenue by sales channel

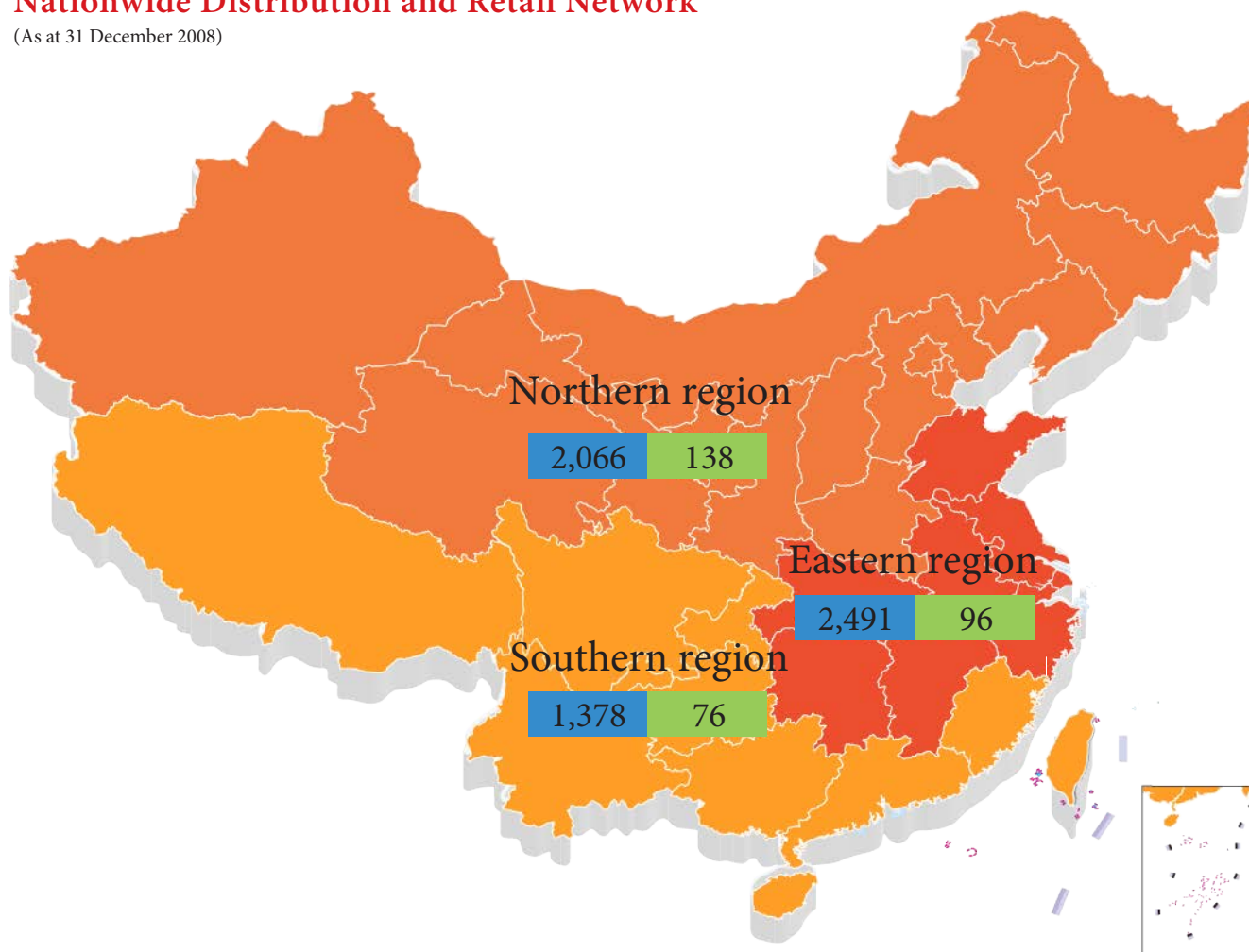
| | Year ended 31 December | |
|---|-------------------------------|-------------------------------|
| | 2008 % of total revenue | 2007 % of total revenue |
| LI-NING brand | | |
| PRC market | | |
| Sales to franchised distributors | 82.0 | 80.0 |
| Sales by directly-managed retail stores | 12.2 | 16.8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

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

The Group's products are mainly sold through franchised distributors and are also sold through directly-managed retail stores.

Nationwide Distribution and Retail Network

(As at 31 December 2008)



| LI-NING brand stores | Franchised retail stores | Directly-managed retail stores | Total number of stores |
|--------------------------|--------------------------|--------------------------------|------------------------|
| Eastern region (Note 1) | 2,491 | 96 | 2,587 |
| Northern region (Note 2) | 2,066 | 138 | 2,204 |
| Southern region (Note 3) | 1,378 | 76 | 1,454 |
| Total | 5,935 | 310 | 6,245 |

Notes:

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi and Shandong.
2. Northern region includes Beijing, Shaanxi, Xinjiang, Gansu, Qinghai, Ningxia, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

Management Discussion and Analysis

Revenue breakdown by geographical location

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

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

Notes:

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi and Shandong.
2. Northern region includes Beijing, Shaanxi, Xinjiang, Gansu, Qinghai, Ningxia, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

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

Cost of Sales and Gross Profit

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

Distribution Costs and Administrative Expenses

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

Management Discussion and Analysis



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

Operating Profit

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

Income Tax Expense

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

Provision for Inventories

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

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

Provision for Doubtful Debts

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

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

Management Discussion and Analysis



Liquidity and Financial Resources

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

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

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

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



Management Discussion and Analysis



Foreign Exchange Risk

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

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

Pledge of Assets

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

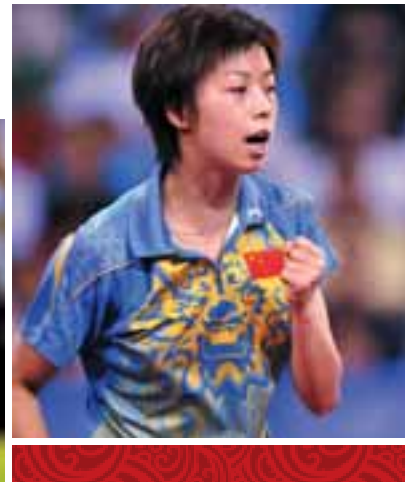
Contingent Liabilities

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

Operation Review

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

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



Brand Promotion and Marketing

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

- The four Chinese national teams sponsored by the LI-NING brand, namely the Gymnastics, Diving, Table Tennis and Shooting Teams, bagged 27 of the 51 gold medals awarded to the Chinese Olympic Delegation at the Beijing Olympic Games. All four teams delivered stunning performances and the LI-NING brand and its products gained high exposure, achieving the marketing objectives successfully;
- On the international front, the Group's sponsored Spanish Men's Basketball Team and Argentina Men's Basketball Team won the silver medal and the bronze medal, respectively, in the Beijing Olympics. The Argentina Women's Basketball Team, the American Table Tennis Team, the Swedish Olympic Delegation and the Spanish Olympic Delegation were clad in LI-NING's sportswear when appearing at the Beijing Olympic Games and various major events, illustrating the high recognition of the LI-NING brand and its products by the international sports teams;
- The Group has a long history of cooperation with the CCTV and further collaborated with the CCTV Sports Channel during the year. All Beijing Olympic Games reporters for the network appeared in LI-NING branded attire. This greatly increased the awareness of the LI-NING brand among the global audience;

Management Discussion and Analysis



- The meticulously planned programme, “Hero’s Assembly – LI-NING China Tour 2008” (英雄會英雄－李寧08中國之旅) was launched in Beijing in March 2008. Aimed at enabling sports enthusiasts to experience the Olympic spirit, two large “LI-NING Hero Vans” (李寧英雄大篷車) travelled across China during the year. The tour covered 70 cities, took 138 days and attracted over 150,000 participants, which stimulated consumer passion and enhanced the brand profile significantly;
- The Group’s Olympics marketing theme “Hero” displayed the Group’s strategic wisdom and vision as a leading PRC sports brand. The prompt and efficient implementation of a series of promotion strategies under the theme of “Hero”, including advertisements, internet marketing, public relations, on the ground activities and store promotion drew tremendous attention. The Group was given a number of acclaimed awards and was the only company to win the “2008 Annual Marketing Prize” of the Asia Pacific region by Media Magazine Group; and
- In April 2008, the Group launched its Beijing Olympics promotion programme targeting major shopping centres in China. The programme comprised three main campaigns, namely, “Heroes Geared to Win” (英雄裝備) (the event for unveiling the Olympic sportswear sponsored by the LI-NING brand) launched in the run-up to the Beijing Olympic Games, “Heroes on Parade” (英雄助威) (the event to cheer for the Beijing Olympic Games) held during the Beijing Olympic Games, and “Return of Heroes” (英雄榮歸) (the event to welcome the return of Beijing Olympic champions) held after the conclusion of the Beijing Olympic Games. The programme was held in 30 major shopping centres covering 25 cities across the country on a route that stretched more than 10,000 km with the participation of 16 Beijing Olympic champions. This strengthened the Group’s association with major shopping centres in the country and further promoted the brand image.

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

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

Management Discussion and Analysis



- In tennis, as an official partner of the Association of Tennis Professionals (ATP) in China, the Group consistently promoted and developed in the field of tennis together with ATP by exploiting its local advantages. During the year, the Group launched a promotion programme during the Shanghai Tennis Masters Cup, “LI-NING – ATP FEEL IT”, to create a new-century tennis concept with power, passion, speed and fierce confrontation;
- In women’s fitness, in July 2008, the Group announced its partnership with Beijing’s Nirvana Yoga. Leveraging the professionalism of Nirvana Yoga in the women’s fitness industry and the leading position of the LI-NING brand in the PRC sports sector, we will continue to develop professional women’s fitness products to a new level;
- In indoor sports, the “Badminton World Federation Super Series – LI-NING China Open 2008” was successfully held in Shanghai in November 2008. In the same month, Ms. Wang Chen, the Group’s sponsored female badminton player, won the Hong Kong championship of the Series;
- The Group also supported community sports through the sponsorship and organization of various events aimed at sports enthusiasts and young people. These included the China University Basketball Association (CUBA), one of the top three basketball associations in the PRC, the Chinese University Football League (CUFL) and nation-wide junior secondary school basketball events. These marketing and promotion activities, targeting our primary group of existing and potential consumers of sports products, had a far-reaching positive impact on brand-building and the Group’s long-term development. During the year, LI-NING brand was named the “2008 Most Favourite Brand among University Students” in the election jointly held by “China Business” and some other media. The LI-NING brand has been awarded this accolade for three consecutive years; and
- In October 2008, the Group signed on as a Diamond Partner, the highest partnership ranking for the Hong Kong 2009 East Asian Games to be held in December 2009. The Group will also be the sole sponsor of sports apparel for this event. The Group believes that this will enhance the brand awareness of the LI-NING brand in Hong Kong and further expand its presence internationally.

Management Discussion and Analysis



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

Product Design and Research and Development

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

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

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

Management Discussion and Analysis



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

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

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

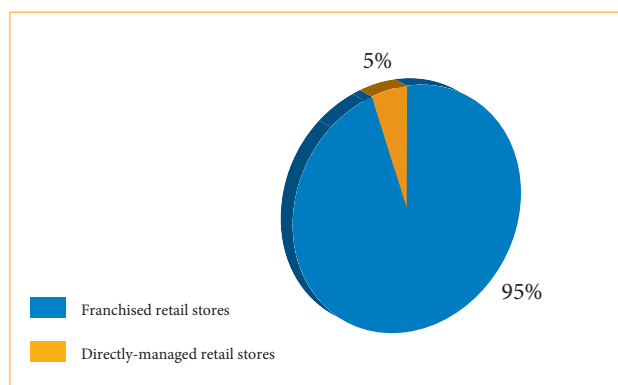


Management Discussion and Analysis



Sales Channel Expansion and Management

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



LI-NING Brand

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

- approximately 146 distributors operating a total of 5,935 franchised retail stores under the LI-NING brand across the PRC; and
- a total of 310 directly-managed retail stores under the LI-NING brand in Beijing, Shanghai and 16 provinces in the PRC.

Number of franchised and directly-managed retail stores

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

Management Discussion and Analysis



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

- continued to expand its sales channel coverage, especially in second- and third-tier cities that have the greatest growth potential. The number of stores in second- and third-tier cities accounted for 76.2% of total stores and 80.6% of total new stores for the year;
- strengthened retail capabilities and enhanced service quality to improve store efficiency. During the year, the efficiency and growth rate of retail stores in all market tiers achieved good results;
- actively identified appropriate locations for establishment of flagship stores, especially in host cities for the Beijing Olympics. This effectively increased the market influence of the LI-NING brand and boosted sales. In January 2008, the largest LI-NING brand flagship store commenced operations on Nanjing East Road in Shanghai's busiest shopping area. The store occupies five storeys with a total floor area of 3,500 sq.m. and is designed around the theme of "sports, technology and dynamism". As at the end of 2008, nine LI-NING brand flagship stores were established; and
- continuously carried out store upgrades and launched fifth-generation stores. The store's design creates a stylish ambiance, while highlighting professional sports and oriental elements to bring out the brand personality, the core beliefs and the spirit of the LI-NING brand, and to provide consumers with better sports and shopping experience.

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

Management Discussion and Analysis



Number of stores by geographical location

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

Notes:

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi and Shandong.
2. Northern region includes Beijing, Shaanxi, Xinjiang, Gansu, Qinghai, Ningxia, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

Other Brands

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

Management Discussion and Analysis



Supply Chain Management

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

- four large scale sales fairs of LI-NING brand and five sales fairs of AIGLE and Z-DO brands were organized for distributors;
- optimized management of supply chain planning that regulates outputs based on demand, and purchases based on outputs in an effort to reduce inventory level and duration of stock keeping units;
- optimized procurement system and cost management, established procurement centre, integrated the supply of durable and interchangeable materials, increased purchase efficiency and reduced purchase cost;
- adopted a delivery logistics model that is able to cater for different retail demands and merchandise nature and integrate logistics resources to enhance efficiency, reduce costs and shorten warehousing and transit time. In addition, the Group is in the course of inviting a number of core suppliers to set up production facilities in Jingmen Industrial City, Hubei in order to ensure that its supply chain adapts to the needs of the market in a timely manner while mitigating the pressure from cost increases. The Group is also planning to set up a logistics centre in the City which will be a one-stop logistics solution that brings together manufacturing and distribution;

Management Discussion and Analysis

- the continuously refined supply chain and more effective inventory management have demonstrated their success on the back of high growth rates in sales. The average inventory turnover cycle was shortened to 61 days from 70 days in 2007. This demonstrates the continuous improvement of the Group's asset turnover; and
- exercised good credit control and improved the management of receivables, which resulted in shortening of the average trade receivables turnover cycle to 48 days from 53 days in 2007.

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

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

Multi-Brand Business Development

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

Z-DO

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

AIGLE

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

Double Happiness

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

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



Management Discussion and Analysis

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

Lotto

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

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

Human Resources

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

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

Management Discussion and Analysis

Strategic Management

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

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

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

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

Information-based management

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

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

Outlook

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

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



Management Discussion and Analysis

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

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

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

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



Breakthroughs

Corporate Governance Report



All members of the Board

The Board recognizes its mission of creating value for and maximizing returns to the Shareholders, while at the same time fulfilling its corporate responsibilities. As such, the Board strives to promote and uphold good corporate governance.

The Company applied all the principles and complied with all the code provisions and most of the recommended best practices of the Code on Corporate Governance Practices (the “Corporate Governance Code”) contained in Appendix 14 to the Listing Rules for the year ended 31 December 2008. The corporate governance practices adopted by the Company are summarized below.

Board of Directors

Accountable to the Shareholders, the Board has the responsibility for providing leadership and managing the Company and is collectively responsible for promoting the success of the Company by directing and supervising the Company’s affairs.

The Directors

As at the date of this report, the Board consists of the following ten Directors:

| Category and name of Director | Date of first becoming Director | Date of last election by Shareholders |
|---|---------------------------------|---------------------------------------|
| <i>Executive Directors</i> | | |
| Mr. Li Ning (<i>Chairman</i>) | 3 April 2004 | 11 May 2007 |
| Mr. Zhang Zhi Yong (<i>Chief Executive Officer</i>) | 6 May 2004 | 11 May 2007 |
| Mr. Chong Yik Kay (<i>Chief Financial Officer</i>) | 9 February 2009 | N/A |
| <i>Non-executive Directors</i> | | |
| Mr. Lim Meng Ann | 6 May 2004 | 11 May 2007 |
| Mr. Stuart Schonberger | 6 May 2004 | 9 May 2008 |
| Mr. Chu Wah Hui | 1 June 2007 | 9 May 2008 |
| Mr. James Chun-Hsien Wei | 1 September 2007 | 9 May 2008 |
| <i>Independent non-executive Directors</i> | | |
| Mr. Koo Fook Sun, Louis | 6 May 2004 | 11 May 2007 |
| Ms. Wang Ya Fei | 6 May 2004 | 12 May 2006 |
| Mr. Chan Chung Bun, Bunny | 6 May 2004 | 9 May 2008 |

Biographical details of the Directors are set out on pages 58 to 60 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group.

All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the successful results of the Group. Every newly appointed Director receives a comprehensive, formal and tailored induction to ensure that he has a proper understanding of the business and operations of the Company and that he is fully aware of his duties and responsibilities as a director under applicable rules and requirements.

To ensure a balance of power and authority, the roles of the Chairman and the Chief Executive Officer are segregated and performed by Mr. Li Ning and Mr. Zhang Zhi Yong, respectively. There is a clear distinction between the Chairman's responsibility for providing leadership for the Board and the Chief Executive Officer's responsibility for managing the day-to-day operations of the Group's business.

Each of the non-executive Directors and independent non-executive Directors has entered into a service contract with the Company for a term of three years. The incumbent non-executive and independent non-executive Directors have extensive professional experience and have participated in the meetings of the Board in a highly conscientious and responsible manner. Non-executive Directors serve actively on Board committees to provide their independent and objective views, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control. They play an important check-and-balance role to safeguard the interests of the Company and the Shareholders as a whole.

The Company has appointed a sufficient number of independent non-executive Directors. The Company has received from each of the independent non-executive Directors an annual confirmation of his or her independence as required under the Listing Rules. Independence of each of the independent non-executive Directors has been assessed by the Board and the Board considers that all independent non-executive Directors are independent as required under the Listing Rules.

In compliance with the Listing Rules and the articles of association of the Company, all Directors are subject to retirement by rotation at least once every three years and are eligible for re-election. A new Director appointed by the Board is subject to election by Shareholders at the first general meeting after his or her appointment.

The Company has arranged for appropriate insurance cover in respect of possible legal actions against its Directors and officers and reviews the scope of coverage of the insurance each year.

Responsibilities of the Board

While delegating authority and responsibility for implementing business strategy and managing the day-to-day operations of the Group's business to the management, the Board is collectively responsible for formulating the strategic business direction of the Group and setting objectives for management, overseeing its performance and assessing the effectiveness of management strategies. The Board reviews the operating performance against agreed targets and budgets on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term objectives and strategies;
- approving strategic, operational and financial plans;
- approving financial statements and public announcements;
- setting the dividend policy; and
- committing to major acquisitions, disposal, formation of joint ventures and capital transactions.

Responsibilities for the Financial Statements

The Directors are responsible for preparation of the financial statements of the Group for each financial year and ensuring that these financial statements give a true and fair view of the state of affairs of the Group, its results and cash flows for that period. The Directors are also responsible for ensuring that proper accounting records which disclose the financial position of the Group are kept at all times.

Board Meetings

The Board holds at least four regular Board meetings a year at approximately quarterly intervals and additional Board meetings are held as and when necessary to discuss significant events or important issues. Regular Board meetings are scheduled one year in advance to facilitate maximum attendance of Directors. The meeting agenda is set after consulting with members of the Board. Directors are required to declare their direct or indirect interests, if any, in any matter to be considered at Board meetings and interested Directors are required to abstain from voting and will not be counted in the quorum present in the Board meetings.

Corporate Governance Report

The Board held five meetings in 2008 and attendance of each Director at the meetings is set out below:

| Members of the Board | Number of Board meetings attended | Attendance rate |
|--|-----------------------------------|-----------------|
| <i>Executive Directors</i> | | |
| Mr. Li Ning | 5 out of 5 | 100% |
| Mr. Zhang Zhi Yong | 5 out of 5 | 100% |
| Mr. Tan Wee Seng (Note 1) | 4 out of 4 | 100% |
| Mr. Chong Yik Kay (Note 2) | N/A | N/A |
| <i>Non-executive Directors</i> | | |
| Mr. Lim Meng Ann | 5 out of 5 | 100% |
| Mr. Stuart Schonberger | 5 out of 5 | 100% |
| Mr. Chu Wah Hui | 5 out of 5 | 100% |
| Mr. James Chun-Hsien Wei | 5 out of 5 | 100% |
| <i>Independent non-executive Directors</i> | | |
| Mr. Koo Fook Sun, Louis | 5 out of 5 | 100% |
| Ms. Wang Ya Fei | 5 out of 5 | 100% |
| Mr. Chan Chung Bun, Bunny | 4 out of 5 | 80% |

Notes:

1. Mr. Tan Wee Seng resigned as an executive Director with effect from 1 December 2008.
2. Mr. Chong Yik Kay has been appointed as an executive Director with effect from 9 February 2009.

Board Committees

The Board is supported by a number of committees, including the Executive Committee, the Nomination Committee, the Remuneration Committee and the Audit Committee. Each Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions. The Committees are provided with sufficient resources to discharge their duties and report regularly to the Board, addressing major issues and findings, and making valuable recommendations to assist the Board in its decision making.

Executive Committee

The Board has established the Executive Committee to enhance management efficiency since December 2004. The Executive Committee currently comprises four members, namely:

| | |
|---|--|
| Mr. Zhang Zhi Yong (Chairman of the Committee) | Executive Director & Chief Executive Officer |
| Mr. Li Ning | Chairman of the Board & Executive Director |
| Mr. Chong Yik Kay | Executive Director & Chief Financial Officer |
| Mr. Guo Jian Xin | Chief Operating Officer |

The Board has delegated the following duties to the Executive Committee:

- setting the Group's strategic, operational and financial plans for approval by the Board;
- examining and approving the strategic business directions at subsidiary level;

Corporate Governance Report

- examining and approving financial arrangements of member companies of the Group within a limit approved by the Board; and
- deciding on the appointment and removal of senior management members of the Group.

The Board reviews the terms of reference of the Executive Committee regularly to ensure that proper and appropriate delegation of authority are achieved.

Nomination Committee

The Nomination Committee has been established since June 2005 and currently consists of the following Directors, namely:

| | |
|---|------------------------------------|
| Mr. Lim Meng Ann (Chairman of the Committee) | Non-executive Director |
| Mr. Koo Fook Sun, Louis | Independent non-executive Director |
| Ms. Wang Ya Fei | Independent non-executive Director |
| Mr. Chu Wah Hui | Non-executive Director |

The Nomination Committee adopts the recommended terms of reference set out in the Corporate Governance Code as its terms of reference which are available on the Company's websites. Its primary role is to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession of Directors based on certain criteria adopted by the Committee, including appropriate professional skills, knowledge and industry experience, personal ethics, integrity and skills and time commitment to the Board's affairs. The process ensures that the Board comprises a sufficient number of Directors and consists of Directors having sound knowledge, experience and/or expertise pertaining to the business operations and development of the Group.

The Nomination Committee met twice in 2008 to discharge its responsibilities. Individual attendance of members at the meetings is set out as follows:

| Members of the Nomination Committee | Number of committee meetings attended | Attendance rate |
|-------------------------------------|---------------------------------------|-----------------|
| Mr. Lim Meng Ann | 2 out of 2 | 100% |
| Mr. Koo Fook Sun, Louis | 2 out of 2 | 100% |
| Ms. Wang Ya Fei | 2 out of 2 | 100% |
| Mr. Chu Wah Hui | 2 out of 2 | 100% |

During the year, the Nomination Committee, through engagement of professional recruitment consultants, identified and recommended to the Board candidates suitably qualified to become a Board member and the Chief Financial Officer of the Group in replacement of Mr. Tan Wee Seng who resigned effective from 1 December 2008. Upon recommendation of the Nomination Committee, Mr. Chong Yik Kay who is experienced in the field of accounting, financial and business management has been appointed as an executive Director and the Chief Financial Officer with effect from 9 February 2009.

Remuneration Committee

The Remuneration Committee has been established since June 2004. The primary responsibility of the Remuneration Committee is to formulate remuneration policies and practices to enable the Company to attract, retain and motivate quality personnel which is essential to the long-term success of the Company.

Corporate Governance Report

The Remuneration Committee currently consists of following three Directors, namely:

| | |
|--|------------------------------------|
| Ms. Wang Ya Fei (Chairman of the Committee) | Independent non-executive Director |
| Mr. Lim Meng Ann | Non-executive Director |
| Mr. Koo Fook Sun, Louis | Independent non-executive Director |

The Remuneration Committee has adopted the terms of reference as outlined under the Corporate Governance Code. The current terms of reference of the Remuneration Committee are available on the Company's websites.

The Remuneration Committee met four times in 2008. Individual attendance of the members at the meetings is set out as follows:

| Members of the Remuneration Committee | Number of committee meetings attended | Attendance rate |
|---------------------------------------|---------------------------------------|-----------------|
| Ms. Wang Ya Fei | 4 out of 4 | 100% |
| Mr. Lim Meng Ann | 4 out of 4 | 100% |
| Mr. Koo Fook Sun, Louis | 4 out of 4 | 100% |

The following is a summary of the major tasks attended by the Remuneration Committee in 2008:

- review and setting of the long-term incentive plan in line with the Group's strategic plan for years 2009-2013, including basic salary, annual bonus, granting of share options and restricted shares under the relevant share schemes of the Company;
- annual review and determining of remuneration packages for Directors and senior executives;
- review and determining of the bonus execution plan for year 2008 according to the key performance indicators for year 2008;
- review and setting of key performance indicators and bonus plan for year 2009; and
- setting of incentive plan for certain new business.

In discharge of its functions, the Remuneration Committee consults and seeks advice from the Chairman, the Chief Executive Officer, the Chief Financial Officer and the head of Human Resources of the Company. External professional consultants are engaged to provide advice on issues when the Remuneration Committee considers necessary.

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance as measured against the Group's corporate objectives and operating results, taking into account also the comparable market conditions. The principal elements of the remuneration package of an executive Director include director's fee, basic salary, discretionary bonus, participation in the Company's share schemes and other benefits and allowances. Remuneration of non-executive Directors (including independent non-executive Directors) includes mainly the director's fee which is a matter for the Board to decide by reference to the duties and responsibilities of non-executive Directors (including independent non-executive Directors) and the comparable market conditions. Non-executive Directors are also invited to participate in the Company's share schemes. The Company reimburses reasonable out-of-pocket expenses incurred by the Directors in the course of performing their duties as Directors.

Directors do not participate in decisions or attend meetings approving their own remuneration. The emoluments of each Director for the year ended 31 December 2008 are set out in note 24 to the consolidated financial statements.

Audit Committee

The Audit Committee has been established since June 2004. Its role is to assist the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, overseeing the Group's financial reporting systems, internal control procedures and the Company's relationship with the external auditor. The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are in compliance with the Corporate Governance Code. The current terms of reference are available on the Company's websites.

The Audit Committee currently consists of the following three Directors, namely:

| | |
|--|------------------------------------|
| Mr. Koo Fook Sun, Louis (Chairman of the Committee) | Independent non-executive Director |
| Mr. Stuart Schonberger | Non-executive Director |
| Ms. Wang Ya Fei | Independent non-executive Director |

All members of the Audit Committee possess appropriate professional qualifications or accounting or related financial management expertise in discharging their responsibilities as members of the Audit Committee.

The Audit Committee met three times in 2008. The external auditor, Chief Executive Officer, Chief Financial Officer and the department heads of the Internal Audit Department and Accounting Management Department attended the meetings and provided necessary information and addressed questions from the Audit Committee. Individual attendance of each Audit Committee member at the meetings held in 2008 is set out as follows:

| Members of the Audit Committee | Number of committee meetings attended | Attendance rate |
|--------------------------------|---------------------------------------|-----------------|
| Mr. Koo Fook Sun, Louis | 3 out of 3 | 100% |
| Mr. Stuart Schonberger | 3 out of 3 | 100% |
| Ms. Wang Ya Fei | 3 out of 3 | 100% |

The following is a summary of the work performed by the Audit Committee in 2008:

- review of and recommendation for the Board's approval of the 2007 annual financial statements and 2008 interim financial statements with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;
- review of the external auditor's statutory audit plan and the nature and scope of audit before commencement of audit work;
- discussion with the external auditor and the management on possible accounting risks;
- review of internal audit findings in 2008 and recommendations and approval of 2009 internal audit plan;
- review of the effectiveness of the Company's internal control system;
- approval of the audit fees and terms of engagement of the external auditor; and
- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor.

External Auditor

For the year ended 31 December 2008, the total remuneration for the audit services provided by the external auditor amounted to RMB4,150,000 (2007: RMB3,700,000). The audit fees were approved by the Audit Committee.

For the year ended 31 December 2008, the total remuneration for permissible non-audit services provided by the external auditor and its affiliates amounted to RMB1,461,000 (2007: RMB1,406,000). The non-audit services mainly comprised tax compliance and other tax advisory services. The Audit Committee had been notified with the non-audit services and fees and was satisfied that such services did not (in terms of the nature of services) affect the independence of the external auditor.

Prior to commencement of the audit of the 2008 accounts of the Company, the Audit Committee had received confirmation from the external auditor on their independence and objectivity.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on page 87 of this annual report.

PricewaterhouseCoopers has been appointed as the external auditor of the Company since the Company's listing on the Hong Kong Stock Exchange in 2004. The re-appointment of PricewaterhouseCoopers as the external auditor of the Company has been recommended by the Audit Committee, endorsed by the Board and is subject to approval by the Shareholders at the forthcoming annual general meeting.

Internal Control

Control System

The Board and the management place great importance on and provide support to internal control. Based on the Group's experience in operations control over the years, the Company has streamlined all major operational procedures by identifying major risks and formulating control measures necessary to reduce such risks, and putting in place an integrated system of internal control. The system adopts the globally recognized framework outlined by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), with the Group's business, operational and financial risks, corporate culture and management philosophy being taken into account. The system is designed to achieve (i) effectiveness and efficiency of operations; (ii) enhanced reliability of internal and external financial reporting; and (iii) compliance with applicable laws and regulations. The system plays a key role in risk management and in safeguarding shareholders' investment and the assets of the Company. It serves to provide reasonable, but not absolute, assurance against material misstatement, fraud or loss.

The Group's internal control system features the following aspects:

- (1) A top-down organizational and management structure with clear-cut responsibilities and authorities, embracing three levels which are responsible for ultimate accountability, supervision and implementation, respectively: (i) the Board has the ultimate accountability and authority in internal control management. It is externally accountable to the Shareholders for corporate governance, whereas internally it acts as the highest authority to foster internal control; (ii) the Audit Committee is responsible for supervising the establishment and operation of the internal control system by the management, monitoring the Group's internal control procedures and advising on the effectiveness thereof. Assessment on the effectiveness of internal control is conducted by the internal audit department which reports directly to the Audit Committee; (iii) the implementation level comprises a decision-making group (which is an executive team led by the Chief Executive Officer and the Chief Financial Officer being responsible for the daily internal control management), a coordination body (namely, the internal control work group, which is responsible for supporting the

planning and establishment of the Group's internal control system, coordinating the promotion and implementation of the internal control structures in different systems, and organizing examination on the effectiveness of internal control and assessment of risks) and operational level (which are the units being responsible for execution of internal control, including various operational and functional systems and departments that are responsible for the establishment, enhancement and effectiveness of internal control system).

- (2) Possession of an effective and forward-looking information system on operational, financial and accounting management, to support the supervision of implementation and performance of business strategies and plans. On-time and regular operational and financial reports are lodged with and reviewed by the senior management, the Board or its designated committees. This allows them to monitor and control situations against the agreed annual operating and financial targets and to consider necessary actions as well as to ensure such actions being carried out promptly to remedy any significant failures or weaknesses.
- (3) Implementation since 1 January 2006 of the Internal Control Manual of Li Ning Company Limited, which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system. At present, the manual covers areas comprising the management procedures in respect of sales and trade receivables, procurement and trade payables, inventories, capital, financial reporting, taxation, management functions of the Group, administration and human resources management, intellectual property rights and fixed assets management systems. The Internal Control Manual of Li Ning Company Limited will be updated at least once annually, depending on the needs for business changes and procedural refinement, so as to further improve and monitor the effectiveness of the internal control system on a continuing basis. With the coordination of the internal control work group, 77 detailed control procedures of the Internal Control Manual were amended by relevant departments during the year 2008, with such amended procedures implemented in the year.
- (4) Establishment of an effective annual self-assessment and evaluation mechanism under the internal control framework, with satisfactory results and attaining the following goals:
 - (i) testing the reasonableness of the existing internal control mechanism, evaluating control risk, so as to provide a way to rectify any inadequacy of internal control in a timely and effective manner;
 - (ii) prompting personnel in key positions to review, evaluate and step up the implementation of internal control regarding their areas of duties; and
 - (iii) assisting the Audit Committee and the Board in assessing the effectiveness of the Group's internal control system.
- (5) Independent reviews of risks associated with and internal control on key operations and financial and compliance functions are performed by the Internal Audit Department. Significant issues, together with recommendations for improvement, are reported in detail to the Audit Committee or the Board.

The Company pays much attention to the internal promotion and implementation of internal control and risk management. Materials related to internal control have been included in the training programs of new staff and the internal control work group regularly issues the internal newsletters "Internal Control Developments", so as to share with department managers material internal control and risk related events in the external environment, and to raise their attention to risk and internal control management.

Annual Review

The Board is fully aware of its accountability to the Company in respect of the Group's internal control system and the responsibility for reviewing the effectiveness of the system. The Board recognizes that its internal control system needs to be responsive and remain relevant over time in a continuously evolving business environment. The Group's internal control system is therefore subject to continuous review and improvement to enable the Group to be responsive to any alteration of risks faced by the Group. A comprehensive review on the effectiveness of the Group's internal control system is conducted annually, covering all material controls, including financial, operational and compliance controls and risk management functions. The review is performed internally on a self-assessment approach with a complete set of reporting forms. Persons-in-charge of each system and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In addition, senior management members are requested to assess the effectiveness of the internal control system against the elements outlined by the COSO internal control system, including control environment, risk assessment, information and communication, and control. Through the review process, the process owner is able to certify whether the internal control system is working as intended or to identify failures or weaknesses and the relevant actions taken or to be taken in order to rectify them. The Internal Audit Department will also carry out independent examination and analysis on the reviewing process and results. Based on the results, the Chief Executive Officer and the Chief Financial Officer will submit a declaration to the Audit Committee and the Board, certifying the adequacy and effectiveness of the Group's internal control system.

The results of the review conducted for the year ended 31 December 2008 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. Deficiencies and weaknesses have been identified and remedial actions have been taken or designated to be taken. No material deficiencies have been identified so far and there were no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board received also the annual review results with regard to the adequacy, professional qualification and practicing experience of accounting and financial reporting staff. In accordance with such results, the Audit Committee and the Board are of the view that the Group has an adequate number of accounting and financial reporting staff, so as to effectively perform the accounting and financial reporting functions, and all accounting and financial reporting staff have the professional qualification and practicing experience needed for their respective functions, and there has been sufficient training programs and related budget for the staff.

The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the code provisions in respect of internal control under the Corporate Governance Code for the year ended 31 December 2008.

Internal Audit

The Internal Audit Department has been established since the listing of the Company on the Hong Kong Stock Exchange in 2004. The main functions of the Internal Audit Department are reviewing operational and financial conditions of the Group, so as to disclose potential risks, and follow up with related remedy measures, with a view to continue to enhance the operation effectiveness and efficiency of the Group. It plays an important role in the Group's internal control framework with an aim to provide objective assurance to the Audit Committee and the Board that a sound internal control system is maintained and operated and that the risks associated with the achievement of business objectives are being managed properly and circumvented.

Corporate Governance Report

The Internal Audit Department formulates the internal audit plan every year in accordance with risk level and importance, and engages in related jobs with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include regular audit and evaluation of the operation effectiveness and efficiency of various business and functional systems. Special reviews may, based on the assessment of risks, be conducted in various concerned areas identified by the management and the Audit Committee. For material audit discoveries and risks, the Internal Audit Department will notify the Audit Committee and the management timely of such risks, and regularly follow up with the improvement progress. The Internal Audit Department reports directly to the Chief Financial Officer and can refer matters to the Audit Committee directly. The head of the Internal Audit Department attends each and every meeting of the Audit Committee and maintains constructive dialogue with the Company's external auditor.

The Internal Audit Department is also responsible for reviewing and assessing of the adequacy and compliance level of the Group's internal control system and formulating an impartial opinion on the effectiveness of the system.

Price Sensitive Information

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is fully aware of its obligations under the Listing Rules and the overriding principle that price-sensitive information should be announced immediately when it is the subject of a decision. The Company's policy contains a strict prohibition on the unauthorised use of confidential or insider information and has established and implemented procedures for responding to external enquiries about the Group's affairs. The Chief Executive Officer and the Chief Financial Officer are identified and authorised to act as the Company's spokespersons to respond to enquiries made in relation to the Group's affairs.

Conduct on Share Dealings

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules regarding securities transactions by its Directors. Directors are reminded of their obligations under the Model Code on a regular basis. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2008.

Employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in year 2008.

Shareholders' Rights

Under the Company's articles of association, any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board to require an extraordinary general meeting to be called by the Board for transactions of any business specified in such requisition. All resolutions put forward at any Shareholders' meeting are voted by poll so that each share is entitled to one vote.

For the year 2008, there was no change made in the Company's articles of association.

Corporate Governance Report

To facilitate communication further, Shareholders may send their enquiries which require the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong. Relevant contact information is set out on page 5 of this annual report and is also available on the Company's websites. Important Shareholders' dates are set out on page 55 of this annual report and posted on the Company's websites.

Shareholders' Meetings

The annual or extraordinary general meeting provides a principal channel of direct communication between the Company and the Shareholders. It provides the best opportunity for Shareholders to better understand the Company's operation, financial performance, business strategies and outlook. To encourage Shareholders to attend the meeting, more than 20 clear business days' notice and circular containing necessary information would be given to Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered in the meeting. A question and answer section is available for Shareholders to raise questions and the Directors would respond to such questions at the meeting.

The last annual general meeting, which was also the last Shareholders' meeting of the Company, was held on 9 May 2008. The Chairman, all executive Directors, independent non-executive Directors and the Company's external auditor were present at the meeting. At the annual general meeting, separate resolutions were proposed for each issue and were voted by poll. Apart from the ordinary business of adopting the audited financial statements for the year ended 31 December 2007, matters including the declaration of final dividend, the re-election of Directors, the re-appointment of auditor and the authorization of the Directors to fix their remuneration were approved in the meeting. Ordinary resolutions providing Directors with general mandates to repurchase and issue and allot shares of the Company subject to the relevant limits under the Listing Rules were also approved. All the resolutions proposed at the meeting were approved by Shareholders and details of the poll results were declared at the meeting and are published on the Company's websites.

The next annual general meeting of Shareholders will be held on 15 May 2009. Details of the meeting and necessary information on issues to be considered in the meeting are set out in the circular dispatched to Shareholders together with the Company's annual report 2008.

Recognition and the Way Forward

The Company's commitment to corporate governance continued to gain market recognition. The Company is ranked as one of the best companies in China in "The Asset Corporate Governance Awards 2008" held by The Asset Magazine.

Going forward, the Board will continue to review and improve its corporate governance regime in response to internal and external changes with an aim to maintain a high degree of transparency, accountability and independence.

By order of the Board

Zhang Zhi Yong

Executive Director & Chief Executive Officer

Chong Yik Kay

Executive Director & Chief Financial Officer

Hong Kong, 18 March 2009

Investor Relations Report



Overview

The Company is committed to continuing to practice high standards of investor relations (“IR”). Under the guidance of the Group’s management, the IR Department strives to communicate with our investors efficiently in an open and accurate manner, to disclose information fairly and to maintain a high level of transparency.

The IR Department places strong emphasis on the effective management of all channels of communications with investors. Only through this strategy can we understand the investment community with respect to the Group’s mission and vision, development strategies, competitive position as well as operating and financial performance. Their views and opinions are crucial in formulating our IR strategies.

Throughout the years, the Company has endeavoured to build strong relationships with investors and these efforts have borne fruit. During 2008, the Company was awarded the following accolades:

- “Best Managed Company (Mid-Cap) for China” awarded by Asiamoney
- Ranked number two in “Shareholder Friendly Company – Sector: Consumer” by Institutional Investors
- The Company’s Annual Report 2007 won a silver award for overall design (retail industry) and a merit prize for cover design (character) at the International Mercury Awards

These awards were all presented by widely-recognized international competition organizations. Judging criteria were based on the overall business performance, management strategy, IR and transparency. All of these acknowledgements are testaments to our sound planning and execution in upholding high standards in IR principles and practices.

IR Program Review – Timely and Precise Information Dissemination

The IR Department not only acts as a channel through which the Company's information is disseminated to the public, it is also an important conduit through which we proactively communicate with investors and, in turn, gain their invaluable feedback in order to bolster our efforts in improving the Company's business strategies. The Group adheres strictly to fair disclosure guidelines to ensure that communication with Shareholders, investors and the media is conducted in a balanced manner and that no material non-public information is made available to any individual on a selective basis.

Below is a summary of the IR activities the Company conducted in 2008.

Informative Financial Reporting

The Group accords a high priority to annual and interim reports as these represent two of the most important documents and major communication tools through which we keep our investors up to date and well-informed. Considerable resources have been deployed to compile these reports, such that they could convey the Group's vision, operating strategies, business and financial performance, as well as future outlook, with a high degree of accuracy and precision.

Diversified Investor Communication Strategy

The Company has made use of a number of channels to interact with investors and keep them abreast of the Group's latest developments.

- **Annual and interim results presentations to investors and analysts**

These are the two most important major occasions where the Chief Executive Officer and the Chief Financial Officer of the Group meet with investors and analysts to share the financial results, updates on business strategies and future outlook.

- **International roadshows and investment forums**

During the year, the Company took part in a number of international roadshows and investment forums organized by investment banks. These events represent another series of occasions where the Group's management has direct dialogue with investors to discuss the latest developments. During 2008, the Group's management also took part in a number of international roadshows and investment forums organized by various leading financial institutions in different parts of the world, including the United States, Europe and Asia.

- **Ongoing communication with the investment community**

The IR Department assigns designated professionals to coordinate regular IR activities, proactively arrange the management to take part in meetings and telephone conferences with the investors and analysts and field the investors' enquiries, in order to give the investment community a better understanding of the Company.

In addition, the Company actively arranged various IR activities, including telephone conferences with analysts and analyst luncheons, in order to keep investors abreast of the Group's latest updates and business operations. For instance, in July 2008, a telephone conference was set up immediately after the announcement of the entering into a license agreement with Lotto where the management fielded questions from the investors. These meetings serve the dual purpose of maintaining close contact with investors and collecting valuable feedback on the Group's business strategies.

- **Store visits**

Personal store visits are one of the best ways our investors can come to better understand our business operations. Upon receiving requests for store visits, the IR Department made prompt arrangements and reception for investors and research analysts to fully utilize the opportunity to gather first-hand information on the Company's products, store display and sales management.

Investor Relations Report

■ Investor opinion audit

The Company puts great value on its relations with investors. Since its listing on the Hong Kong Stock Exchange in 2004, the Company has conducted investor opinion audits four times to gain in-depth knowledge of their views on the effectiveness of the Company's external communications with regard to the Group's operational and development strategies, as well as the quality of its IR activities. These provide valuable insight for guiding the Company in making improvements to its business strategies.

■ Media relations

The Company made use of various channels to communicate its messages to the public, including news releases, press conferences and media interviews. The Company considers media relations as a fundamental part of the Group's IR strategies, through which investment-related information and community-related messages relevant to the Group were disseminated to build the Group's corporate profile.

During the year under review, the Company's management met the press frequently and was interviewed by international, regional and local media. In June 2008, the Company also conducted a media site visit to the Company's flagship store in Shanghai and the "Li Ning Center", the Company's headquarters in Beijing. Participants were able to gain a better understanding of the retail operation of the Shanghai flagship store as well as to experience the advanced facilities and working environment in the Company's headquarters.

Timely Response to Investors, Analysts and Media

The IR Department provides detailed and accurate information in a timely manner in response to various forms of enquiries from Shareholders, investors, analysts and the media via email, fax or telephone. Designated professionals are assigned to handle these enquiries to ensure that all information disclosed is on a fair and non-selective basis and is in line with the Company's policy and the relevant regulatory requirements.

Summary

During the year under review, the Company participated in a number of international roadshows in Hong Kong, Singapore, Europe, Japan and the United States, and investment forums held by the world's leading investment banks and organized other activities, including one-on-one and group investor meetings, conference calls and visits to the Company's stores in the PRC. Details of such activities are listed below:

| Type of event | Number of participation in 2008 |
|--|---|
| International roadshows | 2 rounds, 8 events |
| Investment forums | 7 forums |
| Face-to-face meetings with fund managers and analysts* | 381 meetings |
| Conference calls | 69 conference calls with local and overseas investors |
| Visits to the Company's stores in the PRC | 34 visits |
| Media interviews | 3 sessions by 3 media outlets |
| Media site visits | 13 media outlets |
| Investor opinion audit | 1 time |

* Including the one-on-one and group meetings in the roadshows, forums and company visits.

Investor Relations Report

Corporate Websites

To ensure all Shareholders have equal and timely access to important company information and discloseable updates, the Company has made extensive use of the corporate websites (www.lining.com, www.irasia.com/listco/hk/lining and www.li-ning.com). The websites are updated regularly to enable investors and the public to access information on the Group's activities, corporate governance, management, operating and financial performance, latest business developments and share performance. They also provide a platform to disseminate the Company's announcements, interim and annual reports and other corporate communications to all Shareholders in a timely manner.

Information for Investors

Share Information

Share listing: Main Board of the Hong Kong Stock Exchange since 28 June 2004
Stock code: 2331
Board lot: 500 Shares
Number of issued Shares as at 31 December 2008: 1,040,921,133 Shares
Market capitalization as at 31 December 2008: approximately HK\$12,595,146,000

Dividends for 2008

Interim dividend: RMB9.63 cents per Share
Special dividend: RMB28.9 cents per Share
Proposed final dividend: RMB11.14 cents per Share

Financial Calendar

Announcement of interim results: 27 August 2008
Announcement of annual results: 18 March 2009
Closure of register of members*: 14 May 2009 – 15 May 2009
Record date*: 15 May 2009
Annual general meeting: 15 May 2009
Payment date of final dividend: on or about 25 May 2009

* For the purpose of determination of entitlement to the final dividend and to attend and vote at the annual general meeting.

Corporate Websites

To know more about the Group, please visit the following Company's websites:

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

IR Contact

For enquiries, please 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



Passion



Directors and Senior Management

Directors

Executive Directors

Mr. LI Ning, aged 46, is the founder of the LI-NING brand and the Group's Chairman and an executive Director. Mr. Li is primarily responsible for formulating the Group's overall corporate strategies and planning.

Mr. Li Ning is one of the most outstanding athletes in the 20th century. In the 6th World Cup Competition in 1982, Mr. Li unprecedentedly won six gold medals in men's artistic gymnastics events and was named the "Prince of Gymnastics" ("體操王子") in the PRC. In the 23rd Los Angeles Olympic Games in 1984, Mr. Li won three gold, two silver and one bronze medals, making him the athlete winning the most medals of that Olympic Games. In 1987, Mr. Li became the only Asian member of the Athlete's Commission of the International Olympic Committee. From 1993 to 2000, Mr. Li served as a member of the Men's Artistic Gymnastics Technical Committee of the Federation Internationale De Gymnastique. He is currently an honorary member of the Federation Internationale De Gymnastique. In 1999, Mr. Li was voted one of the "World's Most Excellent Athletes in the 20th Century" by the World Sports Correspondent Association.

After retiring in 1989 from his athlete career, Mr. Li Ning initiated the idea of LI-NING brand with the goal of creating the first national sports goods brand in the PRC. He has dedicated the past 19 years to expanding and promoting the Group's business, as well as developing the PRC's sports goods industry. Mr. Li holds a bachelor's degree in law from School of Law of Peking University (北京大學), an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院), a technical honorary doctorate from Loughborough University in the United Kingdom and a degree of Doctor of Humanities honoris causa from The Hong Kong Polytechnic University.

Mr. ZHANG Zhi Yong, aged 40, is the Chief Executive Officer and an executive Director. Mr. Zhang joined the Group in October 1992 as a finance manager of Beijing Li Ning Footwear Co., Ltd., became the financial controller of Beijing Li Ning Sports Goods Co., Ltd. in April 1999 and was the general manager of the company from February 2001 to June 2004. Since the listing of the Company in June 2004, Mr. Zhang has been the Company's Chief Executive Officer and executive Director, responsible for the overall strategy of the Group, and promoting the development of human resources, information resources and financial resources in line with the Group's brand development. Since 1992 when he began his career in the sports goods industry in China, Mr. Zhang has accumulated 17 years of China experience in the industry with thorough understanding of the change of the PRC consumer market, the building of brand images and change management for Chinese firms. Mr. Zhang holds a bachelor's degree from Beijing College of Economics (北京經濟學院) and an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院).

Mr. CHONG Yik Kay, aged 41, is the Chief Financial Officer and an executive Director. Mr. Chong joined the Group in February 2009. Mr. Chong has 17 years of experience in the field of accounting, financial and business management. Prior to joining the Group, he was the senior finance director of Dell (China) Company Limited responsible for the China, Hong Kong and Taiwan regions. Prior to that, he was the finance head of the customer business development of Procter & Gamble (China) Limited responsible for the China region. Mr. Chong holds a bachelor degree in Economics and Statistics from the National University of Singapore.



Directors and Senior Management

Non-executive Directors

Mr. LIM Meng Ann, aged 45, is a non-executive Director, Chairman of the Nomination Committee and a member of the Remuneration Committee. Mr. Lim joined the Group in July 2003. Mr. Lim is partner and head of Actis China Limited (“Actis”), a leading private equity firm focusing on emerging markets. Mr. Lim is responsible for Actis’ private equity investment in China, which he joined in July 2007. Prior to joining Actis, Mr. Lim was the senior vice president of, and was responsible for the investment activities in Greater China for GIC Special Investments Pte. Ltd., the private equity arm of Government of Singapore Investment Corporation Pte. Ltd., which he joined in 1997. Prior to that, he was an investment officer of International Finance Corporation, the private sector investment arm of the World Bank group, from 1993 to 1997. Currently Mr. Lim is also a director of 2020 ChinaCap Acquirco, Inc., a company listed on the New York Stock Exchange Amex. Mr. Lim holds a bachelor’s degree of engineering (first class honors) from University College of London and an M.B.A. degree from University of Strathclyde. Mr. Lim is also a Chartered Financial Analyst.

Mr. Stuart SCHONBERGER, aged 50, is a non-executive Director and a member of the Audit Committee. Mr. Schonberger joined the Group in January 2003. Mr. Schonberger is a managing director of CDH Investments Management (Hong Kong) Limited, the management company for CDH China Fund, L.P., which is a private equity fund focused on investments in the PRC. Prior to joining CDH Investments Management (Hong Kong) Limited, Mr. Schonberger worked in the private equity group of China International Capital Corporation from 1998 to 2002. Prior to that, Mr. Schonberger worked for the First National Bank of Chicago in New York City. Mr. Schonberger received his M.B.A. degree from New York University’s Graduate School of Business and B.A. degree from Wesleyan University. He is currently a director of GEM Services Inc. and eBIS Company Limited.

Mr. CHU Wah Hui, aged 57, is a non-executive Director and a member of the Nomination Committee. Mr. Chu joined the Group in June 2007. Mr. Chu is currently an executive director and chief executive officer of Next Media Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. He is also a director and a nominating and corporate governance committee member of the board of Mettler-Toledo International Inc., a U.S. corporation listed on the New York Stock Exchange. Mr. Chu was a non-executive chairman of PepsiCo International’s Asia Region between 2007 and 2008. He was president of PepsiCo International — China Beverages Business Unit from 1998 to 2007 and concurrently chairman of PepsiCo (China) Investment Company Limited from 1999 to 2007. Before joining PepsiCo International in 1998, Mr. Chu held various management positions in several U.S. multinational companies, namely, Quaker Oats, HJ Heinz, Whirlpool and Monsanto. Mr. Chu obtained his Bachelor of Science degree from the University of Minnesota and M.B.A. degree from Roosevelt University, both in the United States.

Mr. James Chun-Hsien WEI, aged 51, is a non-executive Director. Mr. Wei joined the Group in September 2007. Mr. Wei is the senior vice president of Avon Products, Inc., Asia Pacific (“Avon”) and has been responsible for Avon’s operations in 10 markets, including Japan, Taiwan, Australia, Philippines and India. Before joining Avon in 2003, Mr. Wei spent 19 years at Procter & Gamble where he rose to become the Vice President and General Manager of Procter & Gamble Greater China, overseeing the company’s health and beauty care business in that region. Mr. Wei holds a B.S.E.E. degree from National Taiwan University and an M.B.A. degree from the University of Chicago in the United States.



Directors and Senior Management

Independent non-executive Directors

Mr. KOO Fook Sun, Louis, aged 52, is an independent non-executive Director, Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. Mr. Koo joined the Group in June 2004. Mr. Koo is the managing director of Hercules Capital Limited, a corporate finance advisory firm. Prior to the founding of Hercules Capital Limited, he was the managing director and the head of corporate finance department of a major international bank, a director and chief executive officer of a company listed on the Main Board of the Hong Kong Stock Exchange. Mr. Koo is also currently the vice chairman and chief financial officer of 2020 ChinaCap Acquirco, Inc., a company listed on the New York Stock Exchange Amex. He also serves currently as an independent non-executive director of Weichai Power Company Limited, Midland Holdings Limited, Good Friend International Holdings Inc., China Communications Construction Company Limited and Xingda International Holdings Limited (all of which are listed on the Main Board of the Hong Kong Stock Exchange) and Richfield Group Holdings Limited (listed on the Growth Enterprise Market of the Hong Kong Stock Exchange). Mr. Koo graduated with a bachelor's degree in business administration from University of California, Berkeley in the United States and is a certified public accountant.

Ms. WANG Ya Fei, aged 53, is an independent non-executive Director, Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Ms. Wang joined the Group in January 2003. Ms. Wang has 18 years of experience in management and corporate finance. Ms. Wang has been the director and deputy general manager of Beijing Investment Consultants Inc. since 1996. She has also been an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) since 1995. She holds a bachelor's degree in international politics from Fudan University (復旦大學) in Shanghai and was an exchange scholar in Maryland University, College Park in the United States. Ms. Wang also holds an M.B.A. degree from University of Lancaster in the United Kingdom.

Mr. CHAN Chung Bun, Bunny, aged 51, is an independent non-executive Director. Mr. Chan joined the Group in June 2004. Mr. Chan has more than 27 years of experience in the garment industry and is currently the chairman of Prospective Holdings Ltd.. Mr. Chan is active in community affairs in Hong Kong. He is currently the chairman of Kwun Tong District Council of Hong Kong. Mr. Chan was appointed as Justice of Peace in 2002. In 2004, Mr. Chan was awarded the Bronze Bauhinia Star medal by the Hong Kong Government.

Senior Management

Group and Functional Divisions

Mr. GUO Jian Xin, aged 39, is a Vice President and Chief Operating Officer of the Group. Mr. Guo joined the Group in October 1997. Mr. Guo is primarily responsible for the overall operation management of the Group, including the marketing, products, sales and operation divisions of LI-NING brand. Mr. Guo has over eight years of experience in logistics and procurement management, and was the Deputy General Manager of the operation division of LI-NING brand. Mr. Guo graduated from South China Normal University (華南師範大學) majoring in mathematics, and completed the "Leading for Success Consortium Program of Hong Kong University of Science and Technology" in 2007.



Directors and Senior Management

Mr. FANG Shi Wei, aged 45, is a Vice President and Chief Marketing Officer of the Group and the General Manager of the marketing division of LI-NING brand. Mr. Fang joined the Group in November 2007. Mr. Fang is primarily responsible for the marketing and communications, public relations, sports marketing, event marketing and digital marketing of LI-NING brand. Prior to joining the Group, Mr. Fang worked in various multinational companies and has extensive experience in marketing and product management. Mr. Fang obtained a master's degree in zoology from Taiwan University in 1989 and a master's degree in journalism and telecommunications from Ohio University in the United States in 1994.

Mr. ZHANG Hui, aged 38, is a Vice President of the Group. Mr. Zhang joined the Group in November 2000. Mr. Zhang is primarily responsible for the Group's new business operation management, strategic planning and establishment of control system as well as project management. Mr. Zhang holds a bachelor's degree from Financial and Banking Institute of China (中國金融學院) and a master's degree in international business management from Tsinghua University (清華大學).

Ms. DAI Qian, aged 37, is the General Manager of the human resources division. Ms. Dai joined the Group in June 1997. Ms. Dai is primarily responsible for establishing and improving the strategic human resources system, employees cultivation system, compensation and benefit system, and personnel administration and management. She has more than ten years of experience in human resources management and administration. Ms. Dai holds a bachelor's degree from the Beijing University of Science and Technology (北京科技大學) and a master's degree in business management from Renmin University of China (中國人民大學).

Mr. ZHANG Jun, aged 40, is the General Manager of the information technology division. Mr. Zhang joined the Group in July 2005. Mr. Zhang is primarily responsible for building up the information technology system of the Group, including strategic planning, project development, information operation and resource management. Prior to joining the Group, he held a management position in a reputable information technology group in the PRC. Mr. Zhang holds a bachelor's degree from Beijing University of Posts and Telecommunications (北京郵電大學) and an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院).

Mr. DU Dao Li, aged 39, is the Financial Controller. Mr. Du joined the Group in September 1996. Mr. Du is primarily responsible for the financial management of the Group. He has over ten years of experience in accounting and financial management. Mr. Du holds a bachelor's degree in accounting from Beijing Information Science & Technology University (北京信息科技大學).

Mr. CHEN Shao Wen, aged 37, is the General Manager of the strategic development division. Mr. Chen joined the Group in July 2004. Mr. Chen is primarily responsible for the strategic planning and control as well as establishment of knowledge management system of the Group. Prior to joining the Group, Mr. Chen held management positions in several local and overseas reputable companies. Mr. Chen holds a bachelor's degree in Economics from Tongji University (同濟大學) and an M.B.A. degree from the Universität Stuttgart in Germany.



Directors and Senior Management

LI-NING Brand

Mr. HU Nan, aged 43, is the General Manager of the sales division of LI-NING brand. Mr. Hu joined the Group in March 1993. Mr. Hu is primarily responsible for the formulation and implementation of the nationwide sales plan of LI-NING brand, overall operation management of the sales subsidiaries, overall development of sales channels as well as formulation and execution of customer development strategies. Mr. Hu has over ten years of experience in sales management. He graduated from Anhui University (安徽大學), majoring in Chinese language. He also graduated at the Department of Human Sociology of Sports at Huazhong Normal University (華中師範大學) in November 2006.

Mr. HSU Mao Chun, Morrison, aged 44, is the General Manager of the apparel products division of LI-NING brand. Mr. Hsu joined the Group in November 2007. Mr. Hsu is primarily responsible for the product planning, research and development and design of apparel products and also the accessories products of LI-NING brand. Prior to joining the Group, Mr. Hsu worked in well-known international sports brand companies and has extensive experience in marketing and product management in Asia Pacific Region. Mr. Hsu graduated from University of California, Berkeley in the United States, with a bachelor's degree in international business marketing.

Mr. Jay LI, aged 39, is the Chief Representative of the US Creativity Centre and the General Manager of the footwear products division of LI-NING brand. Mr. Li joined the Group in December 2007. Mr. Li is primarily responsible for the establishment and operation of the US Creativity Centre and planning and management of footwear products of LI-NING brand, which include strategic planning, research and development and design of footwear products. Prior to joining the Group, Mr. Li held management consulting position in a corporate management consulting company in the U.S.A.. Mr. Li holds a bachelor's degree in arts from Middlebury College in the United States.

Mr. DONG Jun, aged 41, is the General Manager of supply chain management division of LI-NING brand. Mr. Dong joined the Group in December 2002. Mr. Dong is primarily responsible for the procurement, manufacturing, quality control and logistics management of the LI-NING branded products. Prior to joining the Group, he worked in a number of local and overseas large-scale manufacturing enterprises and has over 15 years of experience in management of leading manufacturing enterprises and six years of enterprise resources planning counseling experience. Mr. Dong graduated from the Faculty of Materials at Central South University of Technology (中南工業大學) with a bachelor's degree in metallic science.

Other Business Units

Mr. WU Xian Yong, aged 37, is the General Manager of the Lotto brand business division. Mr. Wu joined the Group in February 2004. Mr. Wu is primarily responsible for market development, product planning and design, research and development, comprehensive analysis and sales of Lotto branded products. Mr. Wu has over ten years of experience in marketing and brand management, and was the Deputy General Manager of the marketing division, Deputy General Manager of the footwear products division and Deputy General Manager of the apparel products division of LI-NING brand successively. Prior to joining the Group, he held various positions in various PRC subsidiaries of a multinational consumer goods company. He obtained a bachelor's degree from Xi'an Jiaotong University (西安交通大學) and a bachelor's degree in international commerce from Renmin University of China (中國人民大學).



Directors and Senior Management

Mr. WU Wei Guo, aged 49, is the General Manager of international marketing department of LI-NING brand. Mr. Wu joined the Group in January 2005. Mr. Wu is primarily responsible for the operations of the international marketing department, as well as the formulation and partial implementation of the internationalization strategies of LI-NING brand. Mr. Wu was the Deputy General Manager of the footwear products division and the Deputy General Manager of the marketing division of LI-NING brand successively. Prior to joining the Group, Mr. Wu worked in the PRC subsidiaries of various multinational companies and has extensive experience in marketing and product management. He holds a bachelor's degree in business administration from University of Wisconsin in the United States.

Mr. HONG Yu Ru, aged 43, is the General Manager of the indoor sports business department of LI-NING brand. Mr. Hong joined the Group in 1990. Mr. Hong is primarily responsible for the formulation of brand strategies and operation management of badminton and table tennis products of LI-NING brand. Prior to joining the Group, Mr. Hong was a professional badminton player.

Mr. Elson ZHANG, aged 44, is the General Manager of AIGLE brand business. Mr. Zhang joined the Group in November 2007. He is responsible for the strategy formulation and operations management of AIGLE brand. Prior to joining the Group, Mr. Zhang held senior management positions in the PRC subsidiaries of various multinational companies and has over ten years of experience in marketing and product promotion management. Mr. Zhang graduated from National Chengchi University, Taiwan with a master's degree in marketing.

Mr. HUANG Yong Wu, aged 57, is the Chairman and General Manager of Shanghai Double Happiness Co., Ltd., which has become a non-wholly owned subsidiary of the Group since July 2008. Mr. Huang has been engaged in manufacturing of sports equipment for almost 40 years and has his unique ideas and practical experiences in management relating to the industry. Mr. Huang has experience and understanding in corporate strategic management, brand operation and product promotion strategies particularly. Mr. Huang is qualified as one of the First Batch of National Grade One Professional Managers (國家一級職業經理人) in the PRC.

Mr. LOU Shi He, aged 52, is a Director and Executive General Manager of Shanghai Double Happiness Co., Ltd., which has become a non-wholly owned subsidiary of the Group since July 2008. Mr. Lou has been engaged in manufacturing of sports equipment for more than 30 years, has extensive experience in quality management, marketing and sales, product research and development and public relations. Mr. Lou is qualified as one of the First Batch of National Grade One Professional Managers (國家一級職業經理人) in the PRC.

Corporate Social Responsibilities



The Group places great emphasis on its corporate social responsibilities and continuously advances the concept of sustainable development. While striving for corporate growth, it also actively seeks to promote ongoing social improvements.

Employees

The Group attaches great importance to the well-being, skill building and career development of its employees. It constantly strives to enhance employee solidarity, create a greater sense of belonging, and improve their individual ability in order to pursue growth and development for both the Group and its employees.

It is a long-standing tradition of the Group to promote sports, which is not only for the well-being of its employees but also underscores the LI-NING brand's essence, i.e. the "Sportsmanship". During the year, staff sports day was held and 11 employee sports clubs continued to operate. Apart from internal sports events, the Company also launched a local community programme which offers product sponsorship to staff taking part in external sports activities, with a view to encourage them to participate more in sports activities.

In September 2008, the Group's headquarters, named the "Li Ning Center", was established in Beijing. In the same month, a new office commenced operations in the Double Happiness Mansion in Shanghai. Both of these office locations have a well-equipped gym. The 50,000-plus sq. m. "Li Ning Center" houses sports grounds such as standard swimming pool, basketball, badminton and table tennis courts, occupying 40% of the area of the complex. The Group's efforts in providing these facilities demonstrate fully the Group's corporate culture of advocating sport.

Seizing the opportunity that the Olympics were held in Beijing, the Group arranged employees to buy tickets and watch the performance at the Beijing Olympics, and encouraged them to join the Olympics volunteer team to have a greater involvement and experience of the Games. During the Beijing Olympics, the Group also invited officials of the Beijing Organizing Committee for the Olympic Games and the Company's sponsored athletes and sports teams to meet with the employees at the "Li Ning Center" in order to share the sportsmanship as well as to experience the passion and energy of sport.

The Group places great emphasis on staff training. A comprehensive training system is in place which includes leadership training programmes, general skill training programmes and professional training programmes. Leadership training focuses on reinforcing the management's strategic thinking, and its ability to influence and develop staff members. Professional and general skill training programmes cover a wide-ranging scope designed to elevate employees' professional and general skills through training courses, workshops and group events. The Group has also designed the MINI-EMBA and TOP talents intensive training camps to identify and develop talents for the future.

In 2008, 74 projects designed to improve employees' professional skills were organized, including 58 professional courses, eight workshops and eight group events. The average training time per employee was 5.5 days. The Group currently has a total of 55 internally recognized lecturers, 23 of whom are from the management, both exceeding the targets set at the beginning of the year.



Corporate Social Responsibilities



The management has been actively involved in the use and promotion of Key Development Indicator (KDI), a programme which requires every member of the management to train at least two employees with potential during the year. Each member of the management is required to meet a minimum amount of time spent in the counseling of employees with potential and sharing of knowledge with subordinates. The idea is to encourage managers to help employees develop their skills in daily work, increase work satisfaction as well as impart company knowledge to the employees. In addition, the Company publishes internal publications especially for the managers to communicate the management concept, exchange ideas on management methods and share practical cases. This also helps facilitate communication among members of the management and enhance management ability.

The Company's care for its employees is also expressed through organizing various activities, including annual conference and Christmas party for employees and their children. "CEO Communication Day" and "HR Open Day" are organized regularly, providing a platform for employees to voice their ideas, suggestions and concerns. Without affecting work efficiency, the Company implements a three-month winter recess which shortens the working hours by 0.5 hour per day. The Company also provides green and healthy work environment and free annual body checks for health protection of the employees.

All of these initiatives exemplify the Group's people-centric ideals and reflect its ongoing efforts to align employee benefits and well-being with the corporate interests.

Community commitment

It has always been the Group's commitment to contribute to society and to pursue social responsibilities of a good corporate citizen.

- At the beginning of 2008, the severe snowstorm in the southern areas in the PRC touched the hearts of the staff. The Company was quick to deliver warm clothes to the disaster-stricken areas.
- In May 2008, the Company and the Li Ning Fund Association (李寧基金會), together with all employees, donated a total of RMB12,490,000 to the areas hit by the Sichuan earthquake. In addition, many employees participated in blood donation and the Company was recognized by the community for its efforts.
- In 2008, the Group continued sponsoring "Lifeline Express" (健康快車), with an aim to improving the medical standard of underdeveloped areas, and helping unfortunate patients in impoverished regions to recover their eyesight. During the year, the Group continued its long-term participation in the charitable "Li Ning Hope Primary School" (李寧希望小學) project, which enables more children to attend formal education and help shape their own future, the community and the nation at large.



Corporate Social Responsibilities



Other than giving support by providing goods to the disadvantaged in the community, the Group strives to explore better ways to link sports closely with the fraternity of humanity led by social spirit, promoting sportsmanship empowered by perseverance and unwavering determination, so as to advocate a healthy life style.

- In the Olympic year 2008, as the forerunner of sports goods enterprises in China, the Company focused not only on promoting its brands, but also transmitting a national image borne by China. Its Olympic strategy, themed “Hero”, highlighted the Company’s drive to instill sportsmanship in the general public. The Company’s sponsorship of international Olympic delegations also helped promote China’s national image.
- In March 2008, Li Ning Sports Park in Beijing, the country’s biggest public sports park, opened its door to the public for free.
- In November 2008, Li Ning Sports Science Research and Development Centre was opened. The centre not only specializes in the research and development of new product technology and the enhancement of product functionality, it will also promote knowledge of sports science and sports injuries prevention to the public.
- In view of the lack of professional sports teachers and sports equipment in impoverished regions in China, the Company, together with the State Council’s Poverty Alleviation Department, launched the “Let’s Do Sports Together” campaign in 2006. This initiative is designed to offer free training to sports teachers in primary and secondary schools in impoverished regions and a lot of students in rural villages have benefited from the campaign. In 2008, the Group stepped up its efforts to expand the program. To date, it covers impoverished regions of Sichuan, Shanxi, Guangxi, Yunnan, Heilongjiang and Shaanxi provinces. The number of teachers that have received training is estimated to be around 1,100.

Whilst pursuing its own corporate development, the Group adheres strictly to business ethics and all related laws and regulations. The Group places great importance on liaising and cooperating with its affiliates and organizes a variety of activities involving its business partners in order to facilitate communication and to achieve a robust win-win situation. When business partners encounter difficulties, the Group is keen to lend a helping hand and weather the hard times together with them.

The Group invests tremendous efforts on research and development and quality control. It makes every effort to provide safe and reliable products demanded by customers. A company hotline is also in place to respond swiftly to consumer inquiries and concerns.



Corporate Social Responsibilities



Recognition

The Group's efforts in performing its corporate social responsibilities have all along been accredited by the society.

- In early 2008, at the third international forum of Corporate Social Responsibilities in China jointly organized by the China Newsweek and China Red Cross Foundation, the Company was awarded the "2007 The Most Responsible Enterprise". It was the only enterprise in the industry to obtain such recognition.
- In early 2008, the Company was awarded the "2007 The Best Enterprise's Public Image Award" organized by various institutions including the Enterprise Research Institute affiliated with the Development Research Center of the State Council. This was the second consecutive year the Company has received this award. Again, it was the only enterprise in the industry to obtain such recognition.
- In October 2008, the Company's Chief Executive Officer, Mr. Zhang Zhi Yong was named the "China Business Leaders Awards 2008". One of the criteria of the award was "social morality and responsibility". The award recognizes not only Mr. Zhang's commitment to social responsibility but also the Group's excellence in this area.
- In December 2008, the Company was named the "Best 50 Workplaces in 2008" by Careers Magazine in collaboration with professional human resources consulting firms. The criteria of the award encompassed leadership skill, career development, team work, working environment and atmosphere, and employee compensation and benefits. The award reflects the strong recognition in the labor market for the Company's people-centric approach, social morality and sense of responsibility.
- In January 2009, the Company's Chairman, Mr. Li Ning was named the "2008 CCTV Businessman of the Year". The criteria of the award were based on the principles of "responsibility, exploration, vision and ability to promote solidarity" beyond the realm of business. As the concept of "responsibility" is mentioned foremost, the award is designed for entrepreneurs that harbour a strong sense of responsibility and a vision that enable them to take a leading role in the development of China's economy. The high sense of social responsibility of the Company's founder and leader influences the corporate values and infiltrates every level of the corporate culture, bringing profound and long-lasting positive impact to the Company.

It has always been a cornerstone of the Group's corporate culture to adhere to social responsibilities. While pursuing brand professionalism and internationalization, the Group will continue to utilize its advantages of sports resources to keep up with its commitment and contribution to the development of a more harmonious society.



Trust



Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2008.

Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries are brand development, research and development, design, manufacturing, sale and distribution of sport-related footwear, apparel, equipment and accessories sold mainly in the PRC under the Group's own brands. The Group also manufactures, markets, distributes and sells outdoor sports products which bear the French brand AIGLE in the PRC through a jointly controlled entity.

On 21 July 2008, the Group completed its acquisition of a 57.5% equity interest in Double Happiness. Double Happiness has become a non-wholly owned subsidiary of the Company. Double Happiness and its subsidiaries are principally engaged in research and development, manufacturing, marketing and sale of table tennis, badminton and other sports equipment under its own brand Double Happiness.

On 31 July 2008, the Group also entered into licensing arrangement for the development, manufacturing, marketing, distribution and sale of licensed products which bear the Italian brand Lotto in the PRC.

Subsidiaries and Jointly Controlled Entities

Particulars of the Company's subsidiaries and its interest in jointly controlled entities as at 31 December 2008 are set out in notes 10 and 11, respectively, to the consolidated financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 91 of this annual report.

During the year, the Company paid an interim dividend of RMB9.63 cents per Share on 26 September 2008 and a special dividend of RMB28.9 cents per Share on 19 December 2008.

The Board has recommended the payment of a final dividend of RMB11.14 cents per Share in respect of the year ended 31 December 2008. The final dividend will be paid in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 15 May 2009, being the date of the annual general meeting ("AGM") on which the final dividend is proposed to the Shareholders for approval. Subject to approval of Shareholders at the AGM, the final dividend will be paid on or about 25 May 2009 to Shareholders whose names appear on the register of members of the Company on 15 May 2009. For the purpose of determination of entitlement to the final dividend and to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 14 May 2009 to Friday, 15 May 2009 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for the final dividend and be entitled to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 13 May 2009.

Reserves

As at 31 December 2008, distributable reserves of the Company amounted to RMB265,623,000 (2007 restated: RMB292,986,000). Details of movements in reserves of the Group during the year are set out in note 16 to the consolidated financial statements.

Report of the Directors

Major Customers and Suppliers

Sales and purchases of the Group attributable to its major customers and suppliers respectively in the financial year were as follows:

| | Year ended 31 December | |
|------------------------|------------------------|----------------------|
| | 2008 | 2007 |
| | % of total revenue | % of total revenue |
| The largest customer | 5.9 | 6.9 |
| Five largest customers | 22.1 | 21.7 |
| | % of total purchases | % of total purchases |
| The largest supplier | 12.4 | 14.0 |
| Five largest suppliers | 37.4 | 40.6 |

All of the above five largest customers and suppliers of the Group are independent third parties. To the best knowledge of the Directors, none of the Directors, their associates or any Shareholder holding more than 5% of the issued share capital of the Company, has any interest in any of the Group's five largest customers or suppliers as disclosed above.

Bank Borrowings

Bank borrowings of the Group as at 31 December 2008 amounted to RMB607,480,000 (2007: RMB100,000,000). Particulars of the borrowings are set out in note 20 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to RMB5,036,000 (2007: RMB300,000).

Property, Plant and Equipment

Details of movements in the Group's property, plant and equipment during the year are set out in note 6 to the consolidated financial statements.

Ordinary Shares

Details of movements in ordinary shares of the Company during the year are set out in note 15 to the consolidated financial statements.

Five-year Financial Highlights

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on pages 6 and 7 of this annual report.

Report of the Directors

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands where the Company is incorporated.

Directors

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Directors

Mr. Li Ning

Mr. Zhang Zhi Yong

Mr. Tan Wee Seng

(resigned effective from 1 December 2008)

Mr. Chong Yik Kay

(appointed effective from 9 February 2009)

Non-executive Directors

Mr. Lim Meng Ann

Mr. Stuart Schonberger

(re-elected on 9 May 2008)

Mr. Chu Wah Hui

(re-elected on 9 May 2008)

Mr. James Chun-Hsien Wei

(re-elected on 9 May 2008)

Independent non-executive Directors

Mr. Koo Fook Sun, Louis

Ms. Wang Ya Fei

Mr. Chan Chung Bun, Bunny

(re-elected on 9 May 2008)

In accordance with article 87 of the Company's articles of association and the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, Mr. Zhang Zhi Yong, Mr. Lim Meng Ann and Ms. Wang Ya Fei shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the AGM.

In accordance with article 86(3) of the Company's articles of association, Mr. Chong Yik Kay, who was appointed by the Board as executive Director effective from 9 February 2009, shall hold office until the AGM and shall then be eligible for re-election.

Biographies of Directors and Senior Management

Biographies of Directors and senior management of the Group are set out on pages 58 to 63 of this annual report.

Directors' Service Contracts

None of the Directors proposed for re-election at the AGM has an unexpired service contract which is not determinable by the Company or its subsidiaries within one year without payment of compensation (other than statutory compensation).

Report of the Directors

Directors' Interest in Contracts

Save as disclosed in this report, no contracts of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

Pension Schemes

In the PRC, the Group contributes on a monthly basis to various defined contribution retirement benefit plans established and operated by relevant Chinese municipal and provincial governments (the "Pension Schemes"). The municipal and provincial governments have undertaken to assume the obligations to pay all the retirement benefits accrued to employees under the Pension Schemes upon their retirement. The Group has no further obligation for payment of post-retirement benefits to employees beyond the contributions made by the Group to the Pension Schemes.

The Group also participates in the provident fund plan mandated by the Hong Kong Government (the "MPF Scheme") which is a defined contribution retirement benefit plan.

None of the Pension Schemes or the MPF Scheme has provision for the forfeiture of contributions made to the provident fund. Contributions to these plans are expensed as incurred. The Group's contributions to retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2008 were RMB32,101,000 (2007: RMB21,576,000).

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Long-term Incentive Schemes

Share Purchase Scheme

As part of the reorganization of the Group prior to the listing of Shares on the Hong Kong Stock Exchange in June 2004, Mr. Li Ning, a substantial shareholder and the Chairman of the Company has, through Alpha Talent, established the Share Purchase Scheme. The Share Purchase Scheme was adopted by Alpha Talent on 5 June 2004 and shall be valid and effective for a period of ten years from that date. Under the Share Purchase Scheme, Mr. Li Ning has transferred 35,250,000 Shares beneficially owned by him to Alpha Talent. The objective of the Share Purchase Scheme is to grant rights to purchase Shares beneficially owned by Mr. Li Ning through Alpha Talent to key individuals who have contributed to the economic achievement of the Group. A committee established by the board of directors of Alpha Talent shall determine, among other things, the directors and employees of the Group who shall be selected to receive the options, the exercise price, the terms and conditions of the options.

Details of movements of the options granted under the Share Purchase Scheme for the year ended 31 December 2008 are set out in note 30 to the consolidated financial statements.

Report of the Directors

Pre-IPO Share Option Scheme

The Company has adopted the Pre-IPO Share Option Scheme for the purpose of giving the participants an opportunity to have a personal stake in the Company and recognizing the contribution of, and providing a reward to directors and eligible employees of the Group who, in the sole discretion of the Board, have contributed or will contribute to the success of the Company. The Pre-IPO Share Option Scheme was adopted on 5 June 2004. Options to subscribe for 16,219,000 Shares were granted to certain Directors and eligible employees on 5 June 2004 and the exercise price per Share is HK\$1.8275, being 15% discount to the price for each Share upon the initial public offering of Shares on the Hong Kong Stock Exchange in June 2004. HK\$1 was payable by the grantee who accepted the grant of an option. No further options can be offered or granted pursuant to the Pre-IPO Share Option Scheme upon the listing of Shares on the Hong Kong Stock Exchange on 28 June 2004.

Details of movements of the options granted under the Pre-IPO Share Option Scheme for the year ended 31 December 2008 are as follows:

| | Date of grant | Exercise price per Share HK\$ | Number of Shares issuable under the options | | | | as at 31/12/2008 | Exercise period (Note 4) |
|-------------------------------|---------------|-------------------------------|---|---------------------------|------------------------|---------------------------|------------------|--------------------------|
| | | | as at 01/01/2008 | exercised during the year | lapsed during the year | cancelled during the year | | |
| Executive Directors | 05/06/2004 | 1.8275 | 1,193,000 | (33,000) | — | — | 1,160,000 | 28/06/2005 – 05/06/2010 |
| Zhang Zhi Yong | | | | (Note 1) | | | | |
| Tan Wee Seng (Note 5) | 05/06/2004 | 1.8275 | 229,000 | (229,000) | — | — | — | 28/06/2005 – 05/06/2010 |
| | | | | (Note 2) | | | | |
| Employees of the Group | 05/06/2004 | 1.8275 | 3,233,667 | (529,000) | (49,000) | — | 2,655,667 | 28/06/2005 – 05/06/2010 |
| In aggregate | | | | (Note 3) | | | | |
| | | | 4,655,667 | (791,000) | (49,000) | — | 3,815,667 | |

Notes:

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$20.65.
2. The closing price per Share immediately before the date of exercise of the options is HK\$26.45.
3. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$19.13.
4. Options granted are subject to a vesting scale in tranches of one-third each on every anniversary date of 28 June 2004, being the date of the listing of Shares on the Hong Kong Stock Exchange, starting from the first anniversary until the third.
5. Mr. Tan Wee Seng resigned as Director with effect from 1 December 2008.

Post-IPO Share Option Scheme

The Company adopted the Post-IPO Share Option Scheme on 5 June 2004. The Post-IPO Share Option Scheme will remain in force for a period of ten years starting from 5 June 2004.

The purpose of the Post-IPO Share Option Scheme is to provide the Group with a means of retaining, incentivising, rewarding, remunerating and compensating high-calibre individuals who have demonstrated high level of performance, loyalty and dedication and have made valuable contribution towards the success of the Group. Eligible participants are directors, employees, officers, agents, consultants or representatives of any member of the Group who, as the Board may determine in its absolute discretion, have made valuable contribution to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, industry knowledge and other relevant factors.

Participants of the Post-IPO Share Option Scheme are required to pay HK\$1 for each option granted upon acceptance of the grant. The exercise price of the option is determined by the Directors and being not less than the highest of: (a) the closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets on the date of grant of the option; (b) the average closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (c) the nominal value of the Shares.

The maximum number of Shares available for issue upon exercise of all options granted and yet to be exercised under the Post-IPO Share Option Scheme and other share option schemes in aggregate shall not exceed 30% of the number of issued shares of the Company from time to time. In addition, subject to the restrictions imposed by the Listing Rules, the total number of Shares which may be available for issue upon exercise of all options to be granted under the Post-IPO Share Option Scheme, together with all options to be granted under any other share option schemes of any member of the Group, must not represent more than 10% of the nominal amount of issued shares of the Company as at 28 June 2004, being the date of the listing of Shares on the Hong Kong Stock Exchange. Therefore, the Company may grant options in respect of up to 98,606,200 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 98,606,200 Shares from time to time) to eligible participants under the Post-IPO Share Option Scheme. As at the date of this report, the total number of Shares available for issue under the scheme, save for those granted and yet to be exercised, amounted to 63,611,869 Shares, representing approximately 6.1% of the issued share capital of the Company as at the date of this report. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be notified by the Board, which must not be more than ten years from the date of grant. Any Share allotted and issued on the exercise of options will rank *pari passu* with other shares of the Company in issue on the date of allotment.

Details of movements of the options granted under the Post-IPO Share Option Scheme for the year ended 31 December 2008 are as follows:

Report of the Directors

| | Date of grant | Exercise price per Share HK\$ | as at 01/01/2008 | Numbers of Shares issuable under the options | | | | as at 31/12/2008 | Exercise period (Note 9) |
|-------------------------------------|---------------|-------------------------------|------------------|--|---------------------------|------------------------|---------------------------|------------------|--------------------------|
| | | | | granted during the year | exercised during the year | lapsed during the year | cancelled during the year | | |
| Executive Directors | | | | | | | | | |
| Zhang Zhi Yong | 04/07/2005 | 3.685 | 730,000 | — | — | — | — | 730,000 | 04/07/2006 – 04/07/2011 |
| | 04/09/2006 | 8.83 | 262,000 | — | (54,000) (Note 1) | — | — | 208,000 | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | — | 121,600 (Note 2) | — | — | — | 121,600 | 04/07/2009 – 04/07/2014 |
| Tan Wee Seng (Note 11) | 04/07/2005 | 3.685 | 728,000 | — | (728,000) (Note 3) | — | — | — | 04/07/2006 – 04/07/2011 |
| | 04/09/2006 | 8.83 | 172,000 | — | (114,666) (Note 4) | (57,334) | — | — | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | — | 96,000 (Note 2) | — | (96,000) | — | — | 04/07/2009 – 04/07/2014 |
| Non-executive Directors | | | | | | | | | |
| Lim Meng Ann | 04/07/2008 | 17.22 | — | 51,400 (Note 2) | — | — | — | 51,400 | 04/07/2009 – 04/07/2014 |
| Stuart Schonberger | 04/07/2005 | 3.685 | 246,000 | — | — | — | — | 246,000 | 04/07/2006 – 04/07/2011 |
| | 04/09/2006 | 8.83 | 90,000 | — | — | — | — | 90,000 | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | — | 51,400 (Note 2) | — | — | — | 51,400 | 04/07/2009 – 04/07/2014 |
| Chu Wah Hui | 04/07/2008 | 17.22 | — | 51,400 (Note 2) | — | — | — | 51,400 | 04/07/2009 – 04/07/2014 |
| James Chun-Hsien Wei | 04/07/2008 | 17.22 | — | 51,400 (Note 2) | — | — | — | 51,400 | 04/07/2009 – 04/07/2014 |
| Independent non-executive Directors | | | | | | | | | |
| Koo Fook Sun, Louis | 04/07/2005 | 3.685 | 82,000 | — | — | — | — | 82,000 | 04/07/2006 – 04/07/2011 |
| | 04/09/2006 | 8.83 | 60,000 | — | — | — | — | 60,000 | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | — | 51,400 (Note 2) | — | — | — | 51,400 | 04/07/2009 – 04/07/2014 |
| Wang Ya Fei | 04/07/2005 | 3.685 | 164,000 | — | — | — | — | 164,000 | 04/07/2006 – 04/07/2011 |
| | 04/09/2006 | 8.83 | 90,000 | — | — | — | — | 90,000 | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | — | 51,400 (Note 2) | — | — | — | 51,400 | 04/07/2009 – 04/07/2014 |
| Chan Chung Bun, Bunny | 04/09/2006 | 8.83 | 90,000 | — | — | — | — | 90,000 | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | — | 51,400 (Note 2) | — | — | — | 51,400 | 04/07/2009 – 04/07/2014 |

Report of the Directors

| | Date of grant | Exercise price per Share HK\$ | as at 01/01/2008 | Numbers of Shares issuable under the options | | | | as at 31/12/2008 | Exercise period (Note 9) |
|------------------------|---------------|-------------------------------|------------------|--|---------------------------|------------------------|---------------------------|------------------|--------------------------|
| | | | | granted during the year | exercised during the year | lapsed during the year | cancelled during the year | | |
| Employees of the Group | | | | | | | | | |
| In aggregate | 04/07/2005 | 3.685 | 7,012,033 | — | (1,339,496) (Note 5) | (72,000) | — | 5,600,537 | 04/07/2006 – 04/07/2011 |
| In aggregate | 03/01/2006 | 5.50 | 275,000 | — | (135,000) (Note 6) | — | — | 140,000 | 03/01/2007 – 03/01/2012 |
| In aggregate | 04/09/2006 | 8.83 | 1,633,998 | — | (192,669) (Note 7) | (42,833) | — | 1,398,496 | 04/09/2007 – 04/09/2012 |
| In aggregate | 04/07/2008 | 17.22 | — | 2,683,700 (Note 2) | — | (37,000) | — | 2,646,700 | 04/07/2009 – 04/07/2014 |
| In aggregate | 05/12/2008 | 10.94 | — | 156,700 (Note 8) | — | — | — | 156,700 | 05/12/2009 – 05/12/2014 |
| Other participants | | | | | | | | | |
| In aggregate | 20/11/2006 | 9.84 | 300,000 | — | — | — | — | 300,000 | (Note 10) |
| 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 (Note 2) | — | — | — | 300,000 | 04/07/2009 – 04/07/2014 |
| | | | 12,285,031 | 3,717,800 | (2,563,831) | (305,167) | — | 13,133,833 | |

Notes:

- The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$23.24.
- The closing price per Share immediately before the date of grant is HK\$16.92.
- The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$20.74.
- The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$21.42.
- The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$17.61.
- The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$16.95.
- The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$16.85.
- The closing price per Share immediately before the date of grant is HK\$10.38.
- Unless otherwise stated in note 10, options granted 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.
- 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 |

- Mr. Tan Wee Seng resigned as Director with effect from 1 December 2008.

Details of valuation of the share options granted during the year ended 31 December 2008 under the Post-IPO Share Option Scheme is set out in note 30 to the consolidated financial statements.

Report of the Directors

Restricted Share Award Scheme

On 14 July 2006 (the “Adoption Date”), the Board adopted the Restricted Share Award Scheme which any individual being a director, employee, officer, agent or consultant of the Company or its subsidiaries is entitled to participate in. The purpose of the scheme is to facilitate the Company’s objectives of attracting new and motivating existing talents and retaining both in the Company. The scheme shall be valid for a term of ten years from the Adoption Date and is administered by the administrative committee and the trustee of the scheme.

Pursuant to the Restricted Share Award Scheme, the Company shall transfer cash to the trustee from time to time for the acquisition of Shares to be held upon trust for the benefits of the selected participants. Shares (the “Restricted Shares”) granted to the selected participants are subject to restrictions and limitations and will become unrestricted upon vesting at the end of each vesting period. Restricted Shares granted under the scheme are subject to a vesting scale in tranches of one-third on every anniversary date of the date of grant starting from the first anniversary date until the third. No Shares will be granted under the scheme if the number of shares granted at any time during the scheme period has exceeded 2% of 1,027,795,001 issued shares of the Company as at the Adoption Date (i.e., 20,555,900 Shares). Apart from the expenses incurred by the trustee attributable or payable in connection with the vesting of the Restricted Shares which shall be borne by the selected participants, vested shares shall be transferred at no cost to the selected participants.

During the year ended 31 December 2008, 2,617,200 Restricted Shares were granted to eligible participants pursuant to the Restricted Share Award Scheme. The total payout, including related expenses, amounted to RMB56,630,000. 944,410 Restricted Shares were vested and 221,379 Restricted Shares lapsed during the year. As at 31 December 2008, the number of Restricted Shares granted under the scheme, except for those lapsed, amounted to 5,373,619 Shares, representing approximately 0.5% of the issued shares of the Company as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2008 are as follows:

| Date of grant | Fair value per Restricted Share (Note) HK\$ | as at 01/01/2008 | Number of Restricted Shares | | | as at 31/12/2008 | Vesting period |
|---------------|--|---------------------|-------------------------------|------------------------------|------------------------------|---------------------|-------------------------|
| | | | granted during the year | lapsed during the year | vested during the year | | |
| 22/09/2006 | 9.01 | 445,737 | — | (23,939) | (211,302) | 210,496 | 22/09/2007 – 22/09/2009 |
| 04/12/2006 | 10.26 | 36,001 | — | (36,001) | — | — | 04/12/2007 – 04/12/2009 |
| 12/01/2007 | 11.90 | 5,500 | — | (3,667) | (1,833) | — | 12/01/2008 – 12/01/2010 |
| 08/05/2007 | 15.32 | 10,000 | — | — | (3,333) | 6,667 | 08/05/2008 – 08/05/2010 |
| 02/07/2007 | 18.96 | 1,136,500 | — | (87,405) | (361,376) | 687,719 | 02/07/2008 – 02/07/2010 |
| 16/07/2007 | 19.90 | 18,000 | — | — | (6,000) | 12,000 | 16/07/2008 – 16/07/2010 |
| 29/08/2007 | 20.85 | 66,000 | — | — | (22,000) | 44,000 | 29/08/2008 – 29/08/2010 |
| 28/09/2007 | 26.85 | 1,000 | — | (1,000) | — | — | 28/09/2008 – 28/09/2010 |
| 11/10/2007 | 26.25 | 15,700 | — | (10,467) | (5,233) | — | 11/10/2008 – 11/10/2010 |
| 07/12/2007 | 26.75 | 1,000,000 | — | — | (333,333) | 666,667 | 07/12/2008 – 07/12/2010 |
| 06/03/2008 | 23.90 | — | 8,000 | — | — | 8,000 | 06/03/2009 – 06/03/2011 |
| 04/07/2008 | 16.70 | — | 2,589,200 | (58,900) | — | 2,530,300 | 04/07/2009 – 04/07/2011 |
| 16/12/2008 | 11.30 | — | 20,000 | — | — | 20,000 | 16/12/2009 – 16/12/2011 |
| | | 2,734,438 | 2,617,200 | (221,379) | (944,410) | 4,185,849 | |

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 year 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.

Report of the Directors

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

As at 31 December 2008, 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 | 332,117,750 (Long position) | 1 | Interests of controlled corporations | 31.906 |
| | 6,935,900 (Short position) | 1(c) | Interests of controlled corporation | 0.666 |
| Zhang Zhi Yong | 9,902,500 (Long position) | 2 | Personal, interest of controlled corporation | 0.951 |
| Lim Meng Ann | 153,700 (Long position) | 3 | Personal | 0.015 |
| Stuart Schonberger | 457,700 (Long position) | 4 | Personal | 0.044 |
| Chu Wah Hui | 124,700 (Long position) | 5 | Personal, family | 0.012 |
| James Chun-Hsien Wei | 85,700 (Long position) | 6 | Personal | 0.008 |
| Koo Fook Sun, Louis | 341,700 (Long position) | 7 | Personal | 0.033 |
| Wang Ya Fei | 341,700 (Long position) | 8 | Personal | 0.033 |
| Chan Chung Bun, Bunny | 177,700 (Long position) | 9 | Personal | 0.017 |

* The percentage has been calculated based on 1,040,921,133 Shares in issue as at 31 December 2008.

Report of the Directors

Notes:

1. *Mr. Li Ning is deemed to be interested in an aggregate of 332,117,750 Shares held by Victory Mind Assets Limited ("Victory Mind"), Dragon City Management (PTC) Limited (formerly known as Dragon City Management Limited) ("Dragon City") and Alpha Talent, respectively, as follows:*
 - (a) *173,374,000 Shares are held by Victory Mind in which 57% is owned by Ace Leader Holdings Limited ("Ace Leader") and 38% is owned by Jumbo Top Group Limited ("Jumbo Top"). All shares of Ace Leader are held by Equity Trust Company (Cayman) Ltd. in its capacity as trustee of the Jun Tai Trust, the beneficiaries of which include the respective family members of Mr. Li Ning. Mr. Li Ning is the settlor of the Jun Tai Trust and therefore is 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 therefore is deemed to be interested in the 150,000,000 Shares held by Dragon City. Mr. Li Ning is also a director of Dragon City; and*
 - (c) *8,743,750 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 deemed to be interested in the 8,743,750 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 6,935,900 Shares, among the total of 8,743,750 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 31 December 2008, 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 due to resignation of employees and options to purchase 26,506,250 Shares have been exercised. The total number of outstanding options as at 31 December 2008 is 6,935,900 Shares.

2. *Mr. Zhang Zhi Yong is interested in 4,006,899 Shares, among which 756,899 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 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 (i) purchase 2,924,000 Shares at an exercise price of HK\$0.43 per Share under the Share Purchase Scheme; (ii) subscribe for 1,160,000 Shares at an exercise price of HK\$1.8275 per Share under the Pre-IPO Share Option Scheme; and (iii) subscribe for 730,000 Shares at an exercise price of HK\$3.685 per Share, 208,000 Shares at an exercise price of HK\$8.83 per Share and 121,600 Shares at an exercise price of HK\$17.22 per Share under the Post-IPO Share Option Scheme. Mr. Zhang is also taken to be interested as a grantee of 752,001 restricted shares granted under the Restricted Share Award Scheme.

3. *Mr. Lim Meng Ann is interested in 28,000 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 under the Post-IPO Share Option Scheme. Mr. Lim is also taken to be interested as a grantee of 74,300 restricted shares granted under the Restricted Share Award Scheme.*



Report of the Directors

4. *Mr. Stuart Schonberger is interested in 40,000 Shares and is taken to be interested as a grantee of options to subscribe for 246,000 Shares at an exercise price of HK\$3.685 per Share, 90,000 Shares at an exercise price of HK\$8.83 per Share and 51,400 Shares at an exercise price of HK\$17.22 per Share under the Post-IPO Share Option Scheme. Mr. Schonberger is also taken to be interested as a grantee of 30,300 restricted shares granted under the Restricted Share Award Scheme.*
5. *Mr. Chu Wah Hui is interested in 55,000 Shares, among which 20,000 Shares are held as personal interest and 35,000 Shares are held as family interest. Mr. Chu is also 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 under the Post-IPO Share Option Scheme. Mr. Chu is also taken to be interested as a grantee of 18,300 restricted shares granted under the Restricted Share Award Scheme.*
6. *Mr. James Chun-Hsien Wei is interested in 16,000 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 under the Post-IPO Share Option Scheme. Mr. Wei is also taken to be interested as a grantee of 18,300 restricted shares granted under the Restricted Share Award Scheme.*
7. *Mr. Koo Fook Sun, Louis is interested in 118,000 Shares and is taken to be interested as a grantee of options to subscribe for 82,000 Shares at an exercise price of HK\$3.685 per Share, 60,000 Shares at an exercise price of HK\$8.83 per Share and 51,400 Shares at an exercise price of HK\$17.22 per Share under the Post-IPO Share Option Scheme. Mr. Koo is also taken to be interested as a grantee of 30,300 restricted shares granted under the Restricted Share Award Scheme.*
8. *Ms. Wang Ya Fei is interested in 6,000 Shares and is taken to be interested as a grantee of options to subscribe for 164,000 Shares at an exercise price of HK\$3.685 per Share, 90,000 Shares at an exercise price of HK\$8.83 per Share and 51,400 Shares at an exercise price of HK\$17.22 per Share under the Post-IPO Share Option Scheme. Ms. Wang is also taken to be interested as a grantee of 30,300 restricted shares granted under the Restricted Share Award Scheme.*
9. *Mr. Chan Chung Bun, Bunny is interested in 6,000 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 and 51,400 Shares at an exercise price of HK\$17.22 per Share under the Post-IPO Share Option Scheme. Mr. Chan is also taken to be interested as a grantee of 30,300 restricted shares granted under the Restricted Share Award Scheme.*

Save as disclosed above, so far as was known to any Director, as at 31 December 2008, 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 31 December 2008, 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 | 332,117,750 (Long position) | 1 | Interest of controlled corporations | 31.906 |
| | 6,935,900 (Short position) | 2 | Interest of controlled corporation | 0.666 |
| Li Chun | 323,374,000 (Long position) | 3 | Interest of controlled corporations | 31.066 |
| Victory Mind Assets Limited | 173,374,000 (Long position) | 4 | Beneficial owner | 16.656 |
| Ace Leader Holdings Limited | 173,374,000 (Long position) | 5 | Interest of controlled corporation | 16.656 |
| Jumbo Top Group Limited | 173,374,000 (Long position) | 6 | Interest of controlled corporation | 16.656 |
| Equity Trust Company (Cayman) Ltd. | 173,374,000 (Long position) | 7 | Trustee | 16.656 |
| Dragon City Management (PTC) Limited (formerly known as Dragon City Management Limited) | 150,000,000 (Long position) | 8 | Trustee | 14.410 |
| Cititrust (Cayman) Limited | 150,000,000 (Long position) | 9 | Trustee | 14.410 |
| Tetrad Ventures Pte. Ltd. | 104,543,000 (Long position) | 10 | Beneficial owner | 10.043 |
| Government of Singapore Investment Corporation (Ventures) Pte. Ltd. | 104,543,000 (Long position) | 10 | Interest of controlled corporation | 10.043 |
| GIC Special Investments Pte. Ltd. | 104,543,000 (Long position) | 10 | Interest of controlled corporation | 10.043 |
| Government of Singapore Investment Corporation Pte. Ltd. | 104,543,000 (Long position) | 10 | Interest of controlled corporation | 10.043 |
| Minister of Finance (Incorporated) | 104,543,000 (Long position) | 10 | Interest of controlled corporation | 10.043 |
| JPMorgan Chase & Co. | 95,446,421 (Long position) | 11 | Beneficial owner, investment manager, custodian corporation/ approved lending agent | 9.169 |
| | 35,316,421 (Lending pool) | | Custodian corporation/ approved lending agent | 3.393 |
| Mirae Asset Global Investments (Hong Kong) Limited | 52,407,500 (Long position) | | Investment manager | 5.035 |

* The percentage has been calculated based on 1,040,921,133 Shares in issue as at 31 December 2008.

Report of the Directors

Notes:

1. See note 1 under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures”.
2. See note 1(c) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures”.
3. Mr. Li Chun is taken to be interested in an aggregate of 323,374,000 Shares held by Victory Mind and Dragon City, respectively, as follows:
 - (a) 173,374,000 Shares are held by Victory Mind in which 57% is owned by Ace Leader and 38% is owned by Jumbo Top. All shares of Jumbo Top are held by Equity Trust Company (Cayman) Ltd. in its capacity as trustee of the Yuan Chang Trust, the beneficiaries of which include the respective family members of Mr. Li Chun. Mr. Li Chun is the settlor of the Yuan Chang Trust and therefore is taken to be interested in the 173,374,000 Shares held by Victory Mind. Mr. Li Chun is a beneficiary of the Yuan Chang Trust and is also a director of each of Victory Mind and Jumbo Top; and
 - (b) 150,000,000 Shares are held by Dragon City in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm 2008 Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko 2008 Trust. Both of the Palm 2008 Trust and the Gingko 2008 Trust are revocable family trusts, the beneficiaries of which include the respective family members of Mr. Li Chun and his brother, Mr. Li Ning. Mr. Li Chun is the 40% shareholder of Dragon City and therefore is taken to be interested in the 150,000,000 Shares held by Dragon City. Mr. Li Chun is also a director of Dragon City.
4. See note 1(a) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(a) above.
5. See note 1(a) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(a) above. Ace Leader is deemed to be interested in the 173,374,000 Shares held by Victory Mind.
6. See note 1(a) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(a) above. Jumbo Top is deemed to be interested in the 173,374,000 Shares held by Victory Mind.
7. See note 1(a) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(a) above. Equity Trust Company (Cayman) Ltd. is deemed to be interested in the 173,374,000 Shares held by Victory Mind.
8. See note 1(b) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(b) above.
9. See note 1(b) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 3(b) above. Cititrust (Cayman) Limited is deemed to be interested in the 150,000,000 Shares held by Dragon City.
10. As informed by Government of Singapore Investment Corporation Pte. Ltd., 104,543,000 Shares are held by Tetrad Ventures Pte. Ltd., a wholly-owned subsidiary of Government of Singapore Investment Corporation (Ventures) Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated). Tetrad Ventures Pte. Ltd. is also an investment vehicle managed by GIC Special Investment Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corporation Pte. Ltd., which in turn is a wholly-owned subsidiary of Minister of Finance (Incorporated).
11. Amongst the total of 95,446,421 Shares held by JPMorgan Chase & Co., 703,500 Shares were held as beneficial owner, 59,426,500 Shares were held as investment manager and 35,316,421 Shares were held as custodian corporation/approved lending agent.

Report of the Directors

Save as disclosed above, as at 31 December 2008, 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.

Connected Transaction and Continuing Connected Transactions

On 21 July 2008 (the “Completion Date”), the Group completed its acquisition of a 57.5% equity interest in Double Happiness. Double Happiness has become an indirect non-wholly owned subsidiary of the Company. Shanghai Double Happiness (Group) Co., Ltd. (“DHSG”), a limited liability company established in the PRC, holds 33% equity interest in Double Happiness. DHSG and its associates are connected persons of the Company under the Listing Rules.

Connected Transaction

On 22 July 2008, Double Happiness, as guarantor, provided a guarantee (the “Guarantee”) for the benefit of Shanghai SIIC Marie Painting Materials Co., Ltd. (“Ma Li”), as borrower, in respect of Ma Li’s obligations under a banking facility including the principal amount of RMB5,400,000, interests, damages and costs incurred in enforcing the rights of the lender (namely, Industrial and Commercial Bank of China, Shanghai City Chang Ning Branch), under the banking facility. The banking facility is for a period of one year from 22 July 2008 to 22 July 2009 and the duration of the Guarantee is for a period of two years starting from 23 July 2009 or the day after the date on which the lender demands early repayment of the indebtedness.

Ma Li is a limited liability company established in the PRC whose 49% equity interest is held by DHSG. Ma Li is an associate of DHSG and therefore a connected person of the Company under the Listing Rules. The provision of the Guarantee constituted a connected transaction for the Company under the Listing Rules. As the applicable percentage ratios represented by the amount of guarantee exceed 0.1% but below 2.5%, the provision of the Guarantee is subject to the reporting and announcement requirements but is exempt from independent shareholders’ approval requirement pursuant to Chapter 14A of the Listing Rules.

The above mentioned connected transaction also constituted a related-party transaction which is set out in note 34(f) to the consolidated financial statements. The Company has complied with the relevant disclosure requirements in respect of such transaction in accordance with Chapter 14A of the Listing Rules.

Continuing Connected Transactions

Sale Transactions

Since the Completion Date, Double Happiness has entered into the following sale transactions (the “Sale Transactions”) with Shanghai Hwa Hing Sport Product Co., Ltd. (“Hwa Hing”) and Shanghai Double Happiness Nittaku Table Tennis Equipment Co., Ltd. (“Nittaku”):

- (1) provision of raw materials and semi-finished table tennis rackets by Double Happiness to Hwa Hing; and
- (2) provision of finished table tennis equipments by Double Happiness to Nittaku.

Purchase Transactions

Since the Completion Date, Double Happiness has entered into the following purchase transactions (the “Purchase Transactions”) with Hwa Hing, Nittaku and DHSG:

- (1) provision of finished table tennis rackets by Hwa Hing to Double Happiness;
- (2) provision of finished table tennis apparels by Nittaku to Double Happiness; and
- (3) provision of badminton equipment by DHSG to Double Happiness.



Report of the Directors

Each of Hwa Hing and Nittaku is a limited liability company established in the PRC whose 50% equity interest is held by DHSG. Hwa Hing and Nittaku are associates of DHSG and therefore connected persons of the Company under the Listing Rules. The Sale Transactions and the Purchase Transactions constitute continuing connected transactions for the Company under the Listing Rules.

For the period between the Completion Date and 31 December 2008, (a) the aggregate revenue generated from the Sale Transactions was approximately RMB2,695,200, which did not exceed the de minimis threshold under Rule 14A.33 of the Listing Rules; and (b) the aggregate expenditure incurred by the Purchase Transactions was approximately RMB20,872,000. The applicable percentage ratios in respect of the Purchase Transactions exceed 0.1% but below 2.5%. Therefore, the Purchase Transactions constituted continuing connected transactions which are subject to the reporting and announcement requirements but are exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

The Sale Transactions and the Purchase Transactions also constituted related-party transactions which, among other transactions, are set out in notes 34(a) and 34(b) to the consolidated financial statements, respectively. The Company has complied with the relevant disclosure requirements in respect of the Sale Transactions and the Purchase Transactions in accordance with Chapter 14A of the Listing Rules.

The Directors, including the independent non-executive Directors, have reviewed the above continuing connected transactions and confirmed that these transactions were entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

PricewaterhouseCoopers, the auditor of the Company, has performed certain agreed-upon procedures in respect of the Purchase Transactions and reported their findings to the Board that the transactions:

- (1) have been approved by the Board;
- (2) have been entered into in accordance with the relevant arrangements governing the transactions during the year; and
- (3) have been properly recorded.

Comprehensive Products Framework Agreements

To regulate the Sale Transactions and the Purchase Transactions, on 13 March 2009, Double Happiness entered into a comprehensive products framework agreement with each of DHSG, Hwa Hing and Nittaku ("DHSG Group Members"), pursuant to which:

- (a) Double Happiness and its subsidiaries may sell to the relevant DHSG Group Members products that the relevant DHSG Group Members may require for their business operation and production; and
- (b) the relevant DHSG Group Members may sell to the Double Happiness and its subsidiaries products that the Double Happiness and its subsidiaries may require for their business operation and production.

Report of the Directors

Annual caps have been set for the Sale Transactions and the Purchase Transactions for the three financial years ending 31 December 2011. As the applicable percentage ratios for the annual caps for the three financial years ending 31 December 2011 in respect of each of the Sale Transactions and the Purchase Transactions exceed 0.1% but are less than 2.5%, these transactions are subject to the reporting and announcement requirements but are exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules.

Details of the Guarantee, the Sale Transactions, the Purchase Transactions, the Comprehensive Products Framework Agreements and the annual caps are set out in the Company's announcement dated 13 March 2009.

Exempt Connected Transaction and Exempt Continuing Connected Transaction

The related-party transactions entered into by the Group and set out in notes 34(c) and 34(g) to the consolidated financial statements also constituted continuing connected transaction and connected transaction, respectively. These transactions are exempt from the reporting, announcement and independent shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Other Related-party Transactions

Apart from the Sale Transactions and the Purchase Transactions, the related-party transactions set out in notes 34(a) and 34(b) to the consolidated financial statements also include transactions which did not constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Details of other related-party transactions entered into by the Group during the year ended 31 December 2008, which did not constitute connected transactions under Chapter 14A of the Listing Rules are set out in notes 34(d) and 34(e) to the consolidated financial statements.

Purchase, Sale or Redemption of the Company's Shares

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

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2008 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

Corporate Governance

Throughout the year 2008, the Company has complied with all the code provisions and most of the recommended best practices of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 40 to 51 of this annual report.

Auditor

PricewaterhouseCoopers will retire as auditor of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the AGM.

By order of the Board

Li Ning

Chairman

Hong Kong, 18 March 2009

Independent Auditor's Report

To the shareholders of Li Ning Company Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Li Ning Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 88 to 143, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2008, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 March 2009



Consolidated Balance Sheet

| | | As at 31 December | |
|---|------|-------------------|-----------------|
| | Note | 2008 RMB'000 | 2007 RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 629,305 | 340,036 |
| Land use rights | 7 | 324,764 | 25,008 |
| Intangible assets | 8 | 329,035 | 87,834 |
| Prepayments for acquisition of subsidiaries | | – | 66,588 |
| Deferred income tax assets | 21 | 69,441 | 29,601 |
| Other non-current assets | 13 | 166,440 | 57,985 |
| Total non-current assets | | 1,518,985 | 607,052 |
| Current assets | | | |
| Inventories | 9 | 650,715 | 513,947 |
| Trade receivables | 12 | 1,090,576 | 684,727 |
| Other receivables and prepayments | 13 | 182,938 | 114,071 |
| Restricted bank deposits | 14 | 105,675 | – |
| Fixed deposits held at banks | 14 | – | 11,167 |
| Cash and cash equivalents | 14 | 788,040 | 849,887 |
| Total current assets | | 2,817,944 | 2,173,799 |
| Total assets | | 4,336,929 | 2,780,851 |



Consolidated Balance Sheet *(Continued)*

| | | As at 31 December | |
|---|------|-------------------|-----------|
| | Note | 2008 | 2007 |
| | | RMB'000 | RMB'000 |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Ordinary shares | 15 | 110,323 | 110,023 |
| Share premium | 15 | 200,758 | 352,830 |
| Shares held for Restricted Share Award Scheme | 15 | (84,118) | (44,089) |
| Other reserves | 16 | 257,610 | 211,889 |
| Retained profits | 16 | | |
| – Proposed final dividend | | 115,941 | 176,915 |
| – Others | | 1,295,899 | 937,033 |
| | | 1,896,413 | 1,744,601 |
| Minority interests in equity | | 192,535 | – |
| Total equity | | 2,088,948 | 1,744,601 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| License fees payable | 19 | 81,997 | 57,604 |
| Deferred income tax liabilities | 21 | 79,141 | 1,217 |
| Total non-current liabilities | | 161,138 | 58,821 |
| Current liabilities | | | |
| Trade payables | 17 | 863,470 | 490,417 |
| Other payables and accruals | 18 | 541,865 | 340,577 |
| License fees payable-current portion | 19 | 28,747 | 13,234 |
| Current income tax liabilities | | 45,281 | 33,201 |
| Borrowings | 20 | 607,480 | 100,000 |
| Total current liabilities | | 2,086,843 | 977,429 |
| Total liabilities | | 2,247,981 | 1,036,250 |
| Total equity and liabilities | | 4,336,929 | 2,780,851 |
| Net current assets | | 731,101 | 1,196,370 |
| Total assets less current liabilities | | 2,250,086 | 1,803,422 |

Zhang Zhi Yong

Executive Director & Chief Executive Officer

Chong Yik Kay

Executive Director & Chief Financial Officer

The notes on pages 94 to 143 are an integral part of these financial statements.



Balance Sheet

| | | As at 31 December | |
|---|------|-------------------|-----------------------|
| | Note | 2008 | 2007 |
| | | RMB'000 | (Restated) RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Investment in subsidiaries | 10 | 453,125 | 377,308 |
| Current assets | | | |
| Other receivables and prepayments | 13 | 2,004 | 1,197 |
| Dividends receivable | | 77,429 | – |
| Fixed deposits held at banks | 14 | – | 10,167 |
| Cash and cash equivalents | 14 | 21,148 | 17,473 |
| | | 100,581 | 28,837 |
| Total assets | | 553,706 | 406,145 |
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Ordinary shares | 15 | 110,323 | 110,023 |
| Share premium | 15 | 200,758 | 352,830 |
| Other reserves | 16 | 64,865 | 44,479 |
| Accumulated losses | 16 | – | (104,323) |
| Total equity | | 375,946 | 403,009 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Other payables and accruals | 18 | 1,380 | 3,136 |
| Borrowings | 20 | 176,380 | – |
| Total liabilities | | 177,760 | 3,136 |
| Total equity and liabilities | | 553,706 | 406,145 |
| Net current (liabilities)/assets | | (77,179) | 25,701 |
| Total assets less current liabilities | | 375,946 | 403,009 |

Zhang Zhi Yong
Executive Director & Chief Executive Officer

Chong Yik Kay
Executive Director & Chief Financial Officer

The notes on pages 94 to 143 are an integral part of these financial statements.

Consolidated Income Statement

| | Note | Year ended 31 December | |
|--|------|------------------------|------------------|
| | | 2008 | 2007 |
| | | RMB'000 | RMB'000 |
| Revenue | 5 | 6,690,073 | 4,348,747 |
| Cost of sales | 22 | (3,469,699) | (2,265,901) |
| Gross profit | | 3,220,374 | 2,082,846 |
| Distribution costs | 22 | (1,883,206) | (1,221,619) |
| Administrative expenses | 22 | (441,842) | (282,357) |
| Other income | 23 | 64,887 | 30,985 |
| Operating profit | | 960,213 | 609,855 |
| Finance income | 25 | 11,691 | 13,901 |
| Finance costs | 25 | (42,666) | (5,224) |
| Finance (costs)/income – net | | (30,975) | 8,677 |
| Profit before income tax | | 929,238 | 618,532 |
| Income tax expense | 26 | (201,938) | (144,535) |
| Profit for the year | | 727,300 | 473,997 |
| Attributable to: | | | |
| Equity holders of the Company | | 721,267 | 473,606 |
| Minority interests | | 6,033 | 391 |
| | | 727,300 | 473,997 |
| Earnings per share for profit attributable to equity holders of the Company (RMB cents) | | | |
| – basic | 27 | 69.63 | 45.83 |
| – diluted | 27 | 68.64 | 45.09 |
| Interim dividend, special dividend and proposed final dividend | 28 | 516,743 | 236,403 |

The notes on pages 94 to 143 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

| | Note | Attributable to equity holders of the Company RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|--|-------|--|----------------------------------|-------------------------|
| As at 1 January 2007 | | 1,399,490 | 17,589 | 1,417,079 |
| Total recognised income for the year ended 31 December 2007 – profit for the year | | 473,606 | 391 | 473,997 |
| Share option schemes: | | | | |
| – value of services provided | 16 | 33,526 | – | 33,526 |
| – proceeds from shares issued | 15 | 16,267 | – | 16,267 |
| Shares purchased for Restricted Share Award Scheme | 15 | (39,878) | – | (39,878) |
| Dividends | 15 | (138,410) | – | (138,410) |
| Acquisition of additional interests in a subsidiary | | – | (17,980) | (17,980) |
| As at 31 December 2007 | | 1,744,601 | – | 1,744,601 |
| As at 1 January 2008 | | 1,744,601 | – | 1,744,601 |
| Total recognised income for the year ended 31 December 2008 – profit for the year | | 721,267 | 6,033 | 727,300 |
| Share option schemes: | | | | |
| – value of services provided | 16 | 51,596 | – | 51,596 |
| – proceeds from shares issued | 15 | 11,788 | – | 11,788 |
| Shares purchased for Restricted Share Award Scheme | 15 | (56,630) | – | (56,630) |
| Dividends | 15,16 | (576,209) | – | (576,209) |
| Acquisition of subsidiaries | 33 | – | 186,805 | 186,805 |
| Acquisition of additional interests in a subsidiary | | – | (303) | (303) |
| As at 31 December 2008 | | 1,896,413 | 192,535 | 2,088,948 |

The notes on pages 94 to 143 are an integral part of these financial statements.



Consolidated Cash Flow Statement

| | | Year ended 31 December | |
|---|------|------------------------|------------------|
| | Note | 2008 | 2007 |
| | | RMB'000 | RMB'000 |
| Cash flows from operating activities | | | |
| Cash generated from operations | 29 | 944,798 | 565,912 |
| Income tax paid | | (245,831) | (172,988) |
| Net cash generated from operating activities | | 698,967 | 392,924 |
| Cash flows from investing activities | | | |
| – acquisition of subsidiaries, net of cash acquired | 33 | (175,102) | – |
| – acquisition of additional interests in a subsidiary | | (303) | (17,817) |
| – prepayments for acquisition of subsidiaries | | – | (66,588) |
| – purchases of property, plant and equipment | | (202,545) | (223,112) |
| – purchases of land use rights | | (17,939) | – |
| – purchases of intangible assets | | (39,934) | (19,946) |
| – proceeds on disposal of property, plant and equipment | | 10,899 | 5,423 |
| – interest received | | 11,691 | 11,147 |
| – decrease/(increase) in fixed deposits at banks | | 11,167 | (863) |
| Net cash used in investing activities | | (402,066) | (311,756) |
| Cash flows from financing activities | | | |
| – dividends paid to equity holders of the Company | | (576,209) | (138,410) |
| – dividends paid to minority interests of a subsidiary | | (14,932) | – |
| – proceeds from issuance of ordinary shares | | 11,788 | 16,267 |
| – proceeds from bank borrowings | | 846,180 | 100,000 |
| – repayments of bank borrowings | | (420,800) | – |
| – purchase of shares for Restricted Share Award Scheme | | (56,630) | (39,878) |
| – interest paid | | (39,260) | (5,224) |
| – increase in restricted bank deposits | | (105,675) | – |
| Net cash used in financing activities | | (355,538) | (67,245) |
| Net (decrease)/increase in cash and cash equivalents | | (58,637) | 13,923 |
| Cash and cash equivalents at beginning of year | | 849,887 | 838,867 |
| Exchange losses on cash and cash equivalents | | (3,210) | (2,903) |
| Cash and cash equivalents at end of year | | 788,040 | 849,887 |

The notes on pages 94 to 143 are an integral part of these financial statements.



Notes to the Consolidated Financial Statements

1. General information

Li Ning Company Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in brand development, design, manufacturing, sale and distribution of sport-related footwear, apparel, equipment and accessories in the People’s Republic of China (the “PRC”). During the year, the Company acquired a 57.5% equity interest in Shanghai Double Happiness Co., Ltd. (“Double Happiness”), a company incorporated in the PRC, which, together with its subsidiaries, are principally engaged in the manufacturing, research and development, marketing and sale of sports equipment in the PRC. Refer to Note 33 for details of such acquisition.

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

The Company’s shares are listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the “Board”) on 18 March 2009.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The accompanying consolidated financial statements of Li Ning Company Limited have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) *Amendment and interpretations effective in 2008*

- IAS 39, ‘Financial instruments: Recognition and measurement’, amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to IFRS 7, ‘Financial instruments: Disclosures’, introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group’s financial statements in current year, as the Group has not reclassified any financial assets.
- IFRIC-Int 11, ‘IFRS 2 – Group and treasury share transactions’, provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent’s shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group’s financial statements. The stand-alone financial statements of the Company have adopted this interpretation in the current year, with the comparative figures restated to conform to the new accounting policy.



2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Amendment and interpretations effective in 2008 (continued)

The impact of IFRIC-Int 11 on the Company's financial statements is as follows:

| | As at 1 January 2007 as previously reported RMB'000 | Effect of new interpretation (decrease)/increase RMB'000 | As at 1 January 2007 restated RMB'000 |
|----------------------------|--|---|---|
| Accumulated losses | 91,840 | (20,938) | 70,902 |
| Investment in subsidiaries | 391,884 | 20,938 | 412,822 |

| | As at 1 January 2008 as previously reported RMB'000 | Effect of new interpretation (decrease)/increase RMB'000 | As at 1 January 2008 restated RMB'000 |
|----------------------------|--|---|---|
| Accumulated losses | 138,191 | (33,868) | 104,323 |
| Investment in subsidiaries | 343,440 | 33,868 | 377,308 |

- IFRIC-Int 13, 'Customer loyalty programmes', clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This interpretation does not have any impact on the Group's financial statements.

(b) Interpretations effective in 2008 but not relevant

- IFRIC-Int 12, 'Service concession arrangements'
- IFRIC-Int 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'
- IFRIC-Int 16, 'Hedges of a net investment in a foreign operation'

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but the Group has not early adopted them:

- IAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply IAS 1 (Revised) from 1 January 2009.



2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

- IAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply IAS 23 (Revised) from 1 January 2009.
- IAS 27 (Revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.
- IAS 32 (Amendment), 'Financial instruments: Presentation', and IAS 1 (Amendment), 'Presentation of financial statements' – 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided that the financial instruments have particular features and meet specific conditions. The Group will apply IAS 32 and IAS 1 amendments from 1 January 2009, but they are not expected to have any impact on the Group's financial statements.
- IFRS 1 (Amendment), 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from IAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply this amendment prospectively from 1 January 2009 in its separate financial statements. It is not expected to have any impact on the Group's financial statements.
- IFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply IFRS 2 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.
- IFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.



2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)*

- IFRS 8, 'Operating segments' (effective from 1 January 2009). IFRS 8 replaces IAS 14 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reports provided to the management.

- IASB's annual improvements project published in May 2008:

IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the IAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

IAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in IAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between IAS 39 and IAS 23. The Group will apply the IAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

IAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to IAS 32 and IFRS 7)' (effective from 1 January 2009). Where an investment in joint venture is accounted for in accordance with IAS 39, only certain rather than all disclosure requirements in IAS 31 need to be made in addition to disclosures required by IAS 32, 'Financial Instruments: Presentation' and IFRS 7 'Financial Instruments: Disclosures'. The amendment does not have an impact on the Group's financial statements as no interests in joint ventures are accounted for in accordance with IAS 39.

IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the IAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

IAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. Also, the amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The Group will apply the IAS 38 (Amendment) from 1 January 2009. This amendment does not have an impact on the Group's financial statements currently.

IFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to IFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to IFRS 1 states that these amendments are applied prospectively from the date of transition to IFRSs. The Group will apply the IFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

There are a number of minor amendments to IFRS 7, 'Financial instruments: Disclosures', IAS 8, 'Accounting policies, changes in accounting estimates and errors', IAS 10, 'Events after the balance sheet date', IAS 18, 'Revenue' and IAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.



2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) ***Interpretations and amendments to existing standards that are not yet effective and not relevant***

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- IFRIC-Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009)
- IFRIC-Int 17, 'Distributions of Non-cash Assets to Owners' (effective from 1 July 2009)
- IFRIC-Int 18, 'Transfers of assets from customers' (effective from 1 July 2009)
- IASB's annual improvements project published in May 2008:

IAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to IAS 7, 'Statement of cash flows') (effective from 1 January 2009)

IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009)

IAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009)

IAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009)

IAS 28 (Amendment), 'Investments in associates' (and consequential amendments to IAS 32, 'Financial Instruments: Presentation' and IFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009)

IAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009)

IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009)

IAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS 16) (effective from 1 January 2009)

IAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(a) ***Subsidiaries***

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.



2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) *Subsidiaries (continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.8). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals of interests of the subsidiaries to minority interests result in gains and losses for the Group and are recorded in the consolidated income statement. Purchases of interests in subsidiaries from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Joint ventures*

The Group's interests in jointly controlled entities ("JCE") are accounted for by proportionate consolidation. The Group combines its share of the JCE's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the JCE that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until the Group resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, investments in JCE are stated at cost less provision for impairment losses (Note 2.8). The results of the JCE are accounted for by the Company on the basis of dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services with risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those segments operating in other economic environments.



2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's functional and the Group's presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ii. income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the translation dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- iii. all resulting exchange differences are recognised as a separate component of equity.

2.5 Property, plant and equipment

Property, plant and equipment (excluding construction-in-progress) is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

| | |
|-------------------------------------|---|
| Buildings | 20 – 40 years |
| Leasehold improvement | 2 years or over the lease term, whichever is a shorter period |
| Mould | 2 years |
| Machinery | 10 – 18 years |
| Motor vehicles and office equipment | 3 – 12 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.



2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the consolidated income statement.

Construction-in-progress represents buildings, plant and/or machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

2.6 Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 20 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2.7 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) License rights

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses. They are initially measured at the fair value of the consideration given to acquire the license at the time of the acquisition, which represents historical cost comprising the capitalised present values of the fixed minimum periodic payments to be made on date of acquisition and in the subsequent years in respect of the acquisition of the license rights.

License rights are amortised using the straight-line method to allocate the cost of the licenses over the period of the respective contractual rights.

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Costs include the employee costs incurred as a result of developing software and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding three years).



2. Summary of significant accounting policies (continued)

2.7 Intangible assets (continued)

(d) Trademarks

Separately acquired trademarks are shown at historical cost. Trademarks acquired in business combination are recognised at fair value at the acquisition date. Trademarks that have a finite useful life are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 10 to 20 years.

2.8 Impairment of investments in subsidiaries, jointly controlled entities and other non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffer impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Financial assets

The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

As at 31 December 2007 and 2008, the Group's financial assets primarily comprise loans and receivables and held-to-maturity investments (fixed deposits held at banks).

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included within trade receivables, other receivables and cash and cash equivalents in the balance sheets (Notes 2.11 and 2.12).

(b) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity investments, the whole category would be tainted and reclassified as available for sale. Held-to-maturity investments are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

Regular purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.



2. Summary of significant accounting policies (continued)

2.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises costs of merchandise, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.11 Trade receivables and other receivables

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for trade receivables and other receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

2.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

2.13 Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2.14 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 License fees payable

License fees payable are initially recorded at the fair value, which represents the present value of the fixed minimum periodic payments to be made in subsequent years. They are subsequently stated at amortised cost using the effective interest method less payments made.

Interest incurred on license fees payable are charged to the consolidated income statement as interest expense. Changes in estimate of the expected cash flows are recognised as distribution costs in the consolidated income statement. The revised expected cash flows are discounted using the original effective rate to arrive at the carrying amount of the liability.

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.



2. Summary of significant accounting policies (continued)

2.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and jointly controlled entities operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation. It establishes practices where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Director and employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

In Hong Kong, the Group make contributions to the scheme under the Mandatory Provident Fund Schemes ("MPF") Ordinance, the assets of which are generally held in separate trustee-administrated funds. The pension plans are generally funded by payments from employees and by the Group.

Contributions to these plans are expensed as incurred. The Group has no other post-employment obligations under the employment contracts.

(b) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans. These plans comprise share option schemes and a share award scheme. The fair value of the employee services received in exchange for the grant of the options or shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options or shares granted as at date of grant, excluding the impact of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of options and shares that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.



2. Summary of significant accounting policies (continued)

2.18 Director and employee benefits (continued)

(c) *Other benefits*

Other directors' and employees' obligations are recorded as a liability and charged to the consolidated income statement when the Group is contractually obliged or when there is a past practice that has created a constructive obligation.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customers, the type of transactions and specifics of each arrangement.

(a) *Sales of goods*

For wholesale business, sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products of the Group are often sold with volume discounts; customers have a right to return faulty products within certain days in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 90 days, which is consistent with the market practice.

For retail business, sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card. Accumulated experience is used to estimate and provide for amount of sales returns at each financial reporting date.

(b) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument and continues unwinding the discount as interest income. Interest income on impaired loan is recognised using the original effective interest rate.

(c) *Dividend income*

Dividend income is recognised when the right to receive payment is established.



2. Summary of significant accounting policies (continued)

2.21 Operating leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.22 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement as other income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the consolidated income statement as other income on a straight-line basis over the expected lives of the related assets.

2.23 Dividend distribution

Dividend distribution to the Company's equity holders, excluding those relating to the Company's own shares held under the restricted share award scheme, is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's equity holders in case of final dividend and the Company's directors in case of interim/special dividend.

2.24 Contingent liability

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

3. Financial risk management

3.1 Financial risk factors

The activities of the Group expose it to a variety of financial risks, including foreign exchange risk, cash flow and fair value interest rate risk, credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by core management team of the Group under policies approved by the board of directors.

(a) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled mainly in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong Dollars (HK\$) or United States Dollars (US\$) or EURO (EUR) (Note 14). In addition, the Company is required to pay dividends and certain license fees and other payables in foreign currencies. Any foreign currency exchange rate fluctuations against RMB may have a financial impact to the Group. The Group did not use any financial instruments to hedge against its foreign currency risk as at 31 December 2008.



3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Foreign exchange risk (continued)

As at 31 December 2008 and 2007, if RMB strengthened/weakened by 5% against HK\$/US\$/EUR with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of HK\$, US\$ and EUR denominated cash and cash equivalents, borrowings, license fees and other payables.

| | 2008 RMB'000 | 2007 RMB'000 |
|-------------------------------------|-----------------|-----------------|
| Post-tax profit increase/(decrease) | | |
| – Strengthened 5% | (5,873) | (1,580) |
| – Weakened 5% | 5,873 | 1,580 |

(b) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. Financial assets and liabilities at fixed rates expose the Group to fair value interest-rate risk. The Group currently does not hedge its exposure to interest rate risk.

Management does not anticipate significant impact resulting from the changes in interest rates because the borrowings are for the short term and bear fixed interest rates. The weighted average effective interest rates per annum of the borrowings were 7.31% (2007: 7.29%) for bank borrowings denominated in RMB and 2.95% (2007: Nil) for bank borrowings denominated in HK\$ as disclosed in Note 20.

(c) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For wholesale customers, the Group assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

The table below shows the balances with the three major counterparties as at the balance sheet date.

| | 2008 RMB'000 | 2007 RMB'000 |
|--------|-----------------|-----------------|
| Banks* | | |
| Bank A | 270,069 | 279,720 |
| Bank B | 138,821 | 248,702 |
| Bank C | 121,694 | 125,368 |
| | 530,584 | 653,790 |

* Bank A and C are prominent nation wide state-owned banks in the PRC with good credit ratings. Bank B is a PRC branch of an international commercial bank with good credit ratings.

Trade receivables were due within 90 days from the date of billing. Most debtors with balances that were 30 days past due are requested to settle all outstanding balances before any further credit is granted. Provisions are made for the balances past due when management considers the loss from non-performance by these counterparties is likely.



3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group's objective is to maintain adequate credit lines to ensure sufficient and flexible funding is available to the Group.

Management monitors rolling forecast of the Group's bank facilities and cash and cash equivalents on the basis of expected cash flows.

The table below analyses the Group's financial liabilities that will be settled into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Group

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | After 5 years RMB'000 |
|-------------------------------|--------------------------------|-------------------------------------|-------------------------------------|--------------------------|
| As at 31 December 2008 | | | | |
| Borrowings | 625,374 | – | – | – |
| License fees payable | 29,731 | 33,831 | 64,928 | – |
| Trade payables | 863,470 | – | – | – |
| Other payables and accruals | 541,865 | – | – | – |
| | 2,060,440 | 33,831 | 64,928 | – |
| As at 31 December 2007 | | | | |
| Borrowings | 100,000 | – | – | – |
| License fees payable | 14,609 | 18,627 | 49,671 | – |
| Trade payables | 490,417 | – | – | – |
| Other payables and accruals | 340,557 | – | – | – |
| | 945,583 | 18,627 | 49,671 | – |

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by equity holders' equity as shown in the consolidated balance sheet.



3. Financial risk management (continued)

3.2 Capital risk management (continued)

The gearing ratios as at 31 December 2008 and 2007 were as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|------------------------|-----------------|-----------------|
| Total borrowings | 607,480 | 100,000 |
| Equity holder's equity | 1,896,413 | 1,744,601 |
| Gearing ratio | 32.0% | 5.7% |

The increase in the gearing ratio as at 31 December 2008 resulted primarily from offsetting effect of (i) increase in short-term bank borrowings; (ii) net profit during the year and (iii) special dividend payment in December 2008.

3.3 Fair value estimation

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

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (See Note 8).

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management reassesses the estimations at each balance sheet date.

(c) Provision for impairment of trade receivables and other receivables

The Group's management determines the provision for impairment of trade receivables and other receivables in accordance with the accounting policy stated in Note 2.11. Such provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Management reassesses the provision at each balance sheet date.

(d) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.



4. Critical accounting estimates and judgements (continued)

Critical accounting estimates and assumptions (continued)

(d) *Income taxes (continued)*

Pursuant to the new Corporate Income Tax Law (the “new CIT Law”), effective from 1 January 2008, certain non-resident enterprises (for instance, those without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC) are subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources within the PRC. In addition, according to the notice Caishui [2008] No.1 released by Ministry of Finance and the State Administration of Taxation, distributions of the retained profits prior to 1 January 2008 of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from corporate income tax. Management is in the process of assessing the impact of such new CIT Law but considers that it does not have material impact on the Group’s financial statements as at 31 December 2008.

5. Revenue and segment information

Revenue comprises the invoiced value for the sale of goods net of value added tax (“VAT”), rebates and discount.

Primary reporting format – business segment

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

Secondary reporting format – geographical segment

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



Notes to the Consolidated Financial Statements (Continued)

6. Property, plant and equipment – Group

| | Buildings RMB'000 | Leasehold improvement RMB'000 | Mould RMB'000 | Machinery RMB'000 | Motor vehicles and office equipment RMB'000 | Construction- in-progress RMB'000 | Total RMB'000 |
|---|----------------------|-------------------------------------|------------------|----------------------|---|---|------------------|
| As at 1 January 2007 | | | | | | | |
| Cost | 66,957 | 33,665 | 20,013 | 19,925 | 68,335 | 36,036 | 244,931 |
| Accumulated depreciation | (29,460) | (20,454) | (3,080) | (7,068) | (27,982) | – | (88,044) |
| Net book amount | 37,497 | 13,211 | 16,933 | 12,857 | 40,353 | 36,036 | 156,887 |
| Year ended 31 December 2007 | | | | | | | |
| Opening net book amount | 37,497 | 13,211 | 16,933 | 12,857 | 40,353 | 36,036 | 156,887 |
| Additions | 9 | 16,065 | 35,224 | 3,467 | 16,654 | 169,209 | 240,628 |
| Transfer out from construction-in-progress | 152,369 | 4,709 | – | 587 | 2,680 | (160,345) | – |
| Disposals | (2,081) | (1,097) | (39) | (966) | (1,255) | – | (5,438) |
| Reclassification | (871) | 871 | 369 | – | (369) | – | – |
| Depreciation charge | (2,923) | (11,769) | (20,227) | (1,806) | (15,316) | – | (52,041) |
| Closing net book amount | 184,000 | 21,990 | 32,260 | 14,139 | 42,747 | 44,900 | 340,036 |
| As at 31 December 2007 | | | | | | | |
| Cost | 216,383 | 54,213 | 55,567 | 23,013 | 86,045 | 44,900 | 480,121 |
| Accumulated depreciation | (32,383) | (32,223) | (23,307) | (8,874) | (43,298) | – | (140,085) |
| Net book amount | 184,000 | 21,990 | 32,260 | 14,139 | 42,747 | 44,900 | 340,036 |
| Year ended 31 December 2008 | | | | | | | |
| Opening net book amount | 184,000 | 21,990 | 32,260 | 14,139 | 42,747 | 44,900 | 340,036 |
| Additions | 25,351 | 23,409 | 38,866 | 1,312 | 36,874 | 112,534 | 238,346 |
| Acquisition of subsidiaries (Note 33) | 11,905 | – | – | 13,020 | 1,872 | 113,053 | 139,850 |
| Transfer out from construction-in-progress | 256,809 | – | – | 2,959 | 6,071 | (265,839) | – |
| Disposals | (1,351) | (5,383) | (1,606) | (1,596) | (1,509) | – | (11,445) |
| Depreciation charge | (11,835) | (14,554) | (31,882) | (2,377) | (16,834) | – | (77,482) |
| Closing net book amount | 464,879 | 25,462 | 37,638 | 27,457 | 69,221 | 4,648 | 629,305 |
| As at 31 December 2008 | | | | | | | |
| Cost | 507,063 | 45,749 | 83,994 | 36,290 | 123,436 | 4,648 | 801,180 |
| Accumulated depreciation | (42,184) | (20,287) | (46,356) | (8,833) | (54,215) | – | (171,875) |
| Net book amount | 464,879 | 25,462 | 37,638 | 27,457 | 69,221 | 4,648 | 629,305 |

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB15,889,000 (2007: RMB151,522,000) are built on land which the Group is in the process of applying for the formal legal title (Note 7).

Depreciation expenses of RMB34,181,000 (2007: RMB15,162,000) has been charged to cost of sales, RMB19,878,000 (2007: RMB17,730,000) to distribution costs and RMB23,423,000 (2007: RMB19,149,000) to administrative expenses.

As at 31 December 2008, buildings with net book value of RMB45,469,000 (2007: Nil) are pledged as securities for the Group's borrowings (Note 20).



Notes to the Consolidated Financial Statements (Continued)

7. Land use rights – Group

| | RMB'000 |
|---------------------------------------|---------|
| As at 1 January 2007 | |
| Cost | 27,322 |
| Accumulated amortisation | (1,739) |
| Net book amount | 25,583 |
| Year ended 31 December 2007 | |
| Opening net book amount | 25,583 |
| Amortisation charge | (575) |
| Closing net book amount | 25,008 |
| As at 31 December 2007 | |
| Cost | 27,322 |
| Accumulated amortisation | (2,314) |
| Net book amount | 25,008 |
| Year ended 31 December 2008 | |
| Opening net book amount | 25,008 |
| Addition | 805 |
| Acquisition of subsidiaries (Note 33) | 302,561 |
| Amortisation charge | (3,610) |
| Closing net book amount | 324,764 |
| As at 31 December 2008 | |
| Cost | 330,688 |
| Accumulated amortisation | (5,924) |
| Net book amount | 324,764 |

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 formal legal title for land use rights with net book value of RMB157,053,000 as at 31 December 2008 (2007: RMB21,413,000).

Amortisation expenses of RMB1,870,000 (2007: Nil) has been charged to cost of sales and RMB1,740,000 (2007: RMB575,000) to administrative expenses.

As at 31 December 2008, land use rights with net book value of RMB79,525,000 (2007:Nil) are pledged as securities for the Group's borrowings (Note 20).



Notes to the Consolidated Financial Statements (Continued)

8. Intangible assets – Group

| | Goodwill RMB'000 | Trademark RMB'000 | Computer Software RMB'000 | License rights RMB'000 | Total RMB'000 |
|---------------------------------------|---------------------|----------------------|---------------------------------|------------------------------|------------------|
| As at 1 January 2007 | | | | | |
| Cost | – | 2,374 | 20,295 | 73,086 | 95,755 |
| Accumulated amortisation | – | (305) | (8,409) | (5,490) | (14,204) |
| Net book amount | – | 2,069 | 11,886 | 67,596 | 81,551 |
| Year ended 31 December 2007 | | | | | |
| Opening net book amount | – | 2,069 | 11,886 | 67,596 | 81,551 |
| Additions | – | 2,683 | 8,737 | 14,281 | 25,701 |
| Disposals | – | – | (125) | – | (125) |
| Amortisation charge | – | (321) | (4,425) | (14,547) | (19,293) |
| Closing net book amount | – | 4,431 | 16,073 | 67,330 | 87,834 |
| As at 31 December 2007 | | | | | |
| Cost | – | 5,057 | 28,307 | 87,367 | 120,731 |
| Accumulated amortisation | – | (626) | (12,234) | (20,037) | (32,897) |
| Net book amount | – | 4,431 | 16,073 | 67,330 | 87,834 |
| Year ended 31 December 2008 | | | | | |
| Opening net book amount | – | 4,431 | 16,073 | 67,330 | 87,834 |
| Additions | – | 693 | 18,433 | 54,883 | 74,009 |
| Acquisition of subsidiaries (Note 33) | 106,839 | 89,564 | – | – | 196,403 |
| Amortisation charge | – | (4,020) | (5,539) | (19,652) | (29,211) |
| Closing net book amount | 106,839 | 90,668 | 28,967 | 102,561 | 329,035 |
| As at 31 December 2008 | | | | | |
| Cost | 106,839 | 95,314 | 46,740 | 142,250 | 391,143 |
| Accumulated amortisation | – | (4,646) | (17,773) | (39,689) | (62,108) |
| Net book amount | 106,839 | 90,668 | 28,967 | 102,561 | 329,035 |

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

Impairment tests for goodwill

Goodwill is allocated to Double Happiness, which is a cash-generating unit (CGU) at the lowest level within the Group at which the goodwill is monitored for internal management purpose.

The recoverable amounts for the CGU have been determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. The weighted average revenue growth rate used for the sixth year to the tenth year is 6% per annum and a growth rate of zero has been applied from the eleventh year to the twentieth year, which is in accordance with the observed annual growth rate for the related industry combined with management's expectations of declining growth. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operates. The pre-tax discount rate used is 16.01% which reflects specific risks relating to Double Happiness. Management's assessment of Double Happiness' value-in-use exceeds its carrying value, therefore no impairment provision was recorded by management.



Notes to the Consolidated Financial Statements (Continued)

9. Inventories – Group

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Raw materials | 31,824 | 8,983 |
| Work in progress | 38,391 | 3,189 |
| Finished goods | 648,651 | 553,262 |
| | 718,866 | 565,434 |
| Less: Provision for write-down to net realisable value | (68,151) | (51,487) |
| | 650,715 | 513,947 |

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB 3,274,036,000 for the year ended 31 December 2008 (2007: RMB2,109,676,000).

The Group realised a loss of approximately RMB 16,447,000 for the year ended 31 December 2008 (2007: RMB 24,618,000) in respect of the write-down of inventories to their net realisable value. These amounts have been included in administrative expenses in the consolidated income statement.

10. Investment in subsidiaries – Company

| | 2008 RMB'000 | 2007 (Restated) RMB'000 |
|---|-----------------|-------------------------------|
| Investment in unlisted shares, at cost | 79,568 | 79,568 |
| Loan to subsidiaries | 288,056 | 242,231 |
| Contribution to the Restricted Share Award Scheme Trust | 85,501 | 55,509 |
| | 453,125 | 377,308 |

Loan to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.



Notes to the Consolidated Financial Statements (Continued)

10. Investment in subsidiaries – Company (continued)

The following is a list of the principal subsidiaries as at 31 December 2008:

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/ paid up capital | Equity interest held by the Company | Principal activities |
|---|--|----------------------------------|---|---|
| <i>Directly held:</i> | | | | |
| RealSports Pte Ltd. | The British Virgin Islands, 8 October 2002 Limited liability company | US\$1,000 | 100% | Investment holding |
| <i>Indirectly held:</i> | | | | |
| Li Ning Sports Technology Development (Hong Kong) Co., Ltd. (李寧體育科技發展(香港)(有限公司)) | Hong Kong, 28 May 2004 Limited liability company | HK\$1 | 100% | Research and development |
| Li Ning Sports (Hong Kong) Co., Ltd. (李寧體育(香港)有限公司) | Hong Kong, 19 March 2003 Limited liability company | HK\$100 | 100% | Provision of administrative services |
| 李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Co., Ltd.) | The PRC, 25 August 1997 Limited liability company | US\$8,000,000 | 100% | Sale of sports goods |
| 北京李寧體育用品有限公司 (Beijing Li Ning Sports Goods., Ltd.) | The PRC, 4 November 1997 Limited liability company | RMB66,670,000 | 100% | Sale of sports goods |
| 上海狐步物流諮詢服務有限公司 (Shanghai Hubu Logistics Consulting Services Co., Ltd.) | The PRC, 15 July 2004 Limited liability company | RMB3,000,000 | 100% | Provision of logistics consulting service |
| 上海狐步信息系統有限公司 (Shanghai Hubu Information System Co., Ltd.) | The PRC, 20 April 2000 Limited liability company | RMB2,000,000 | 100% | Provision of information technology service |
| 上海少昊體育用品研發有限公司 (Shanghai Shao Hao Sports Goods Research and Development Co., Ltd.) | The PRC, 18 December 2001 Limited liability company | RMB3,000,000 | 100% | Product design, research and development |
| 上海悅奧體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.) | The PRC, 5 March 2003 Limited liability company | RMB3,000,000 | 100% | Sale of sports goods |
| 佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastic School Services Co., Ltd.) | The PRC, 31 October 1996 Limited liability company | RMB1,000,000 | 100% | Property management |
| 廣東悅奧體育發展有限公司 (Guangdong Yue Ao Sports Development Co., Ltd.) | The PRC, 13 December 2001 Limited liability company | RMB8,241,000 | 100% | Manufacturing of sports goods |



Notes to the Consolidated Financial Statements (Continued)

10. Investment in subsidiaries – Company (continued)

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/ paid up capital | Equity interest held by the Company | Principal activities |
|--|--|----------------------------------|---|---|
| 李寧體育(中國)有限公司 (Li Ning Sports (China) Co., Ltd.) | The PRC, 6 July 2007 Limited liability company | RMB50,000,000 | 100% | Sale of sports goods |
| 李寧體育美國有限公司 (Li Ning Sports USA, Inc.) | USA, 28 August 2007 Limited liability company | US\$1,000 | 100% | Design of athletic shoes and apparel |
| 李寧西班牙有限公司 (Li Ning Spain, S.L.) | Spain, 16 October 2007 Limited liability company | EUR3,006 | 100% | Sale of sports goods |
| 李寧(北京)體育用品商業有限公司 Li Ning (Beijing) Sports Goods Commercial Co., Ltd. | The PRC, 19 December 2007 Limited liability company | HK\$10,000,000 | 100% | Sale of sports goods |
| 上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.) | The PRC, 9 July 2001 Limited liability company | RMB10,000,000 | 100% | Sale of sports goods |
| 鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.) | The PRC, 25 June 1998 Limited liability company | RMB2,750,000 | 100% | Sale of sports goods |
| 廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.) | The PRC, 6 October 1998 Limited liability company | RMB3,200,000 | 100% | Sale of sports goods |
| 瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.) | The PRC, 10 June 1999 Limited liability company | RMB3,000,000 | 100% | Sale of sports goods |
| 濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.) | The PRC, 15 April 2003 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.) | The PRC, 2 June 1999 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.) | The PRC, 4 November 1997 Limited liability company | RMB5,000,000 | 100% | Sale of sports goods |
| 上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.) | The PRC, 8 August 2000 Limited liability company | RMB5,000,000 | 100% | Sale of sports goods |
| 天津一動體育用品銷售有限公司 (Tianjin Edosports Goods Sales Co., Ltd.) | The PRC, 14 December 1999 Limited liability company | RMB3,500,000 | 100% | Sale of sports goods |



Notes to the Consolidated Financial Statements (Continued)

10. Investment in subsidiaries – Company (continued)

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/ paid up capital | Equity interest held by the Company | Principal activities |
|--|--|----------------------------------|---|---|
| 南京一動體育用品銷售有限公司 (Nanjing Edosports Goods Sales Co., Ltd.) | The PRC, 15 April 2003 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 新疆一動體育用品銷售有限公司 (Xinjiang Edosports Goods Sales Co., Ltd.) | The PRC, 4 February 2005 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 長沙一動體育用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.) | The PRC, 26 August 1998 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.) | The PRC, 29 July 1998 Limited liability company | RMB1,500,000 | 100% | Sale of sports goods |
| 西安一動體育用品銷售有限公司 (Xian Edosports Goods Sales Co., Ltd.) | The PRC, 23 January 2006 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 青島李寧體育用品銷售有限公司 (Qingdao Li Ning Sports Goods Sales Co., Ltd.) | The PRC, 26 October 2007 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 上海心動體育用品有限公司 (Shanghai Z-DO Sports Goods Co., Ltd.) | The PRC, 14 January 2008 Limited liability company | RMB20,000,000 | 100% | Sale of sports goods |
| 成都一動體育用品銷售有限公司 (Chendu Edosports Goods Sales Co., Ltd.) | The PRC, 4 February 2008 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 昆明一動體育用品銷售有限公司 (Kunming Edosports Goods Sales Co., Ltd.) | The PRC, 24 September 2008 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 上海李寧電子商務有限公司 (Shanghai Lining E-business Co., Ltd.) | The PRC, 27 September 2008 Limited liability company | RMB10,000,000 | 100% | Sale of sports goods |
| 李寧體育新加坡有限公司 (Lining Sports Singapore Pte. Ltd.) | Singapore 20 October 2008 Limited liability company | SGD2 | 100% | Sale of sports goods |
| 上海紅雙喜股份有限公司 (Shanghai Double Happiness Co., Ltd.) | The PRC, 26 December 1995 Limited liability company | RMB112,000,000 | 57.5% | Manufacturing and sale of sports goods |
| 上海紅雙喜體育用品銷售有限公司 Shanghai Double Happiness Sports Goods Sales Co., Ltd. | The PRC, 21 August 1996 Limited liability company | RMB15,900,000 | 57.5% | Sale of sports goods |



Notes to the Consolidated Financial Statements (Continued)

10. Investment in subsidiaries – Company (continued)

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/ paid up capital | Equity interest held by the Company | Principal activities |
|--|--|----------------------------------|---|---|
| 蘇州紅雙喜冠都體育用品有限公司 (Suzhou Double Happiness Guan Du Sports Goods Co., Ltd.) | The PRC, 10 August 2002 Limited liability company | RMB9,578,000 | 31.6% (Note a) | Manufacturing and sale of sports goods |
| 上海紅展體育用品有限公司 (Shanghai Hong Zhan Sports Goods Co., Ltd.) | The PRC, 19 March 2001 Limited liability company | RMB500,000 | 57.5% | Sale of sports goods |
| 上海紅冠體育用品有限責任公司 (Shanghai Hong Guan Sports Goods Co., Ltd.) | The PRC, 29 July 1998 Limited liability company | RMB500,000 | 57.5% | Sale of sports goods |

Note:

(a) Suzhou Double Happiness Guan Du Sports Goods Co., Ltd. is a subsidiary of the Company as it is 55% owned by Double Happiness, a non-wholly owned subsidiary of the Company.

11. Interest in jointly controlled entities – Group

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

The following financial information reflects the Group’s 50% share of the consolidated assets and liabilities, and consolidated revenue and results of Li-Ning Aigle Ventures and its subsidiary as at 31 December 2008 and for the year then ended, which have been included in the consolidated balance sheet and income statement.

| | 2008 RMB’000 | 2007 RMB’000 |
|---------------------------------|-----------------|-----------------|
| Assets | | |
| Non-current assets | 642 | 417 |
| Current assets | 15,164 | 20,714 |
| Total assets | 15,806 | 21,131 |
| Liabilities | | |
| Non-current liabilities | 13,190 | 10,359 |
| Current liabilities | 3,773 | 4,497 |
| Total liabilities | 16,963 | 14,856 |
| Net (liabilities)/assets | (1,157) | 6,275 |



Notes to the Consolidated Financial Statements (Continued)

11. Interest in jointly controlled entities – Group (continued)

| | 2008 RMB'000 | 2007 RMB'000 |
|-----------------|-----------------|-----------------|
| Revenue | 15,842 | 12,203 |
| Expenses | (23,922) | (23,418) |
| Net loss | (8,080) | (11,215) |

As at 31 December 2007 and 2008, the Group did not have any material contingent liabilities in respect of its interest in the jointly controlled entities; nor did the jointly controlled entities have any material contingent liabilities as at 31 December 2007 and 2008.

12. Trade receivables – Group

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

Customers are normally granted credit terms within 90 days. As at 31 December 2008, trade receivables that were neither past due nor impaired amounted to RMB941,481,000 (2007: RMB601,966,000). Trade receivables that were past due but not impaired amounted to RMB149,095,000 (2007: RMB82,761,000) 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 31 December 2008.

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

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



Notes to the Consolidated Financial Statements (Continued)

12. Trade receivables – Group (continued)

As at 31 December 2008, trade receivables of RMB5,305,000 (2007: RMB4,809,000) 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.

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

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| As at 1 January | 4,809 | 8,720 |
| Provision for impairment of receivables | 3,467 | 3,268 |
| Receivables written off during the year as uncollectible | (981) | (6,785) |
| Unused amount reversed | (1,990) | (394) |
| As at 31 December | 5,305 | 4,809 |

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

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

13. Other receivables and prepayments – Group and Company

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Advances to suppliers | 24,809 | 16,443 | – | – |
| Prepayment for advertising expenses | 14,840 | 24,325 | – | – |
| Rental and other deposits | 39,045 | 31,433 | – | – |
| Prepaid rentals | 206,137 | 80,815 | – | – |
| Staff advances and other payments for employees | 6,209 | 8,037 | – | – |
| Prepayment for licence rights | 15,053 | – | – | – |
| Prepayment for land use rights | 5,134 | – | – | – |
| Others | 38,151 | 11,003 | 2,004 | 1,197 |
| | 349,378 | 172,056 | 2,004 | 1,197 |
| Less: non-current portion | (166,440) | (57,985) | – | – |
| Current portion | 182,938 | 114,071 | 2,004 | 1,197 |

Other receivables and prepayment do not contain impaired assets. Non-current portion mainly comprised prepaid rentals, and prepayments made for other long-term assets such as licenses and land use rights.

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 the Consolidated Financial Statements (Continued)

14. Cash, cash equivalents and bank deposits – Group and Company

As at 31 December 2008, the Group had the following cash, cash equivalents and bank deposits mainly held at banks in the PRC (including the Hong Kong Special Administrative Region):

| | Group | | Company | |
|--|----------------|----------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Cash at banks and in hand | 778,805 | 817,280 | 21,148 | 13,606 |
| Short-term bank deposits | 9,235 | 32,607 | – | 3,867 |
| Cash and cash equivalents | 788,040 | 849,887 | 21,148 | 17,473 |
| Restricted bank deposits | 105,675 | – | – | – |
| Fixed deposits held at banks with maturities of more than three months | – | 11,167 | – | 10,167 |
| | 893,715 | 861,054 | 21,148 | 27,640 |

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

| | Group | | Company | |
|---------------------|----------------|----------------|----------------|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Denominated in RMB | 814,418 | 773,836 | – | – |
| Denominated in HK\$ | 66,067 | 44,244 | 21,144 | 13,602 |
| Denominated in US\$ | 6,976 | 42,974 | 4 | 14,038 |
| Denominated in EUR | 6,254 | – | – | – |
| | 893,715 | 861,054 | 21,148 | 27,640 |

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

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

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



Notes to the Consolidated Financial Statements (Continued)

15. Ordinary shares, share premium and shares held for Restricted Share Award Scheme

| | | | Number of shares (Thousands) | Approximate amount HK\$'000 | |
|--|---|-------------------------------|------------------------------------|---|------------------|
| Authorised at HK\$0.10 each | | | | | |
| As at 31 December 2007 and 2008 | | | 10,000,000 | 1,000,000 | |
| Issued and fully paid | | | | | |
| | Number of share of HK\$ 0.10 each (Thousands) | Ordinary shares RMB'000 | Share premium RMB'000 | Shares held for Restricted Share Award Scheme RMB'000 | Total RMB'000 |
| As at 1 January 2007 | 1,031,488 | 109,503 | 462,911 | (6,367) | 566,047 |
| Net proceeds from shares issued pursuant to share option schemes (<i>Note a</i>) | 5,369 | 520 | 15,747 | – | 16,267 |
| Transfer of fair value of share options exercised to share premium | – | – | 12,582 | – | 12,582 |
| Shares vested under Restricted Share Award Scheme | 243 | – | – | 2,156 | 2,156 |
| Shares purchased for Restricted Share Award Scheme (<i>Note b</i>) | (1,902) | – | – | (39,878) | (39,878) |
| Dividends paid | – | – | (138,410) | – | (138,410) |
| As at 31 December 2007 | 1,035,198 | 110,023 | 352,830 | (44,089) | 418,764 |
| As at 1 January 2008 | 1,035,198 | 110,023 | 352,830 | (44,089) | 418,764 |
| Net proceeds from shares issued pursuant to share option schemes (<i>Note a</i>) | 3,355 | 300 | 11,488 | – | 11,788 |
| Transfer of fair value of share options exercised to share premium | – | – | 14,609 | – | 14,609 |
| Shares vested under Restricted Share Award Scheme | 944 | – | – | 16,601 | 16,601 |
| Shares purchased for Restricted Share Award Scheme (<i>Note b</i>) | (2,864) | – | – | (56,630) | (56,630) |
| Dividends paid | – | – | (178,169) | – | (178,169) |
| As at 31 December 2008 | 1,036,633 | 110,323 | 200,758 | (84,118) | 226,963 |

Notes:

- During the year ended 31 December 2008, the Company issued 3,355,000 shares (2007: 5,369,000 shares) of HK\$0.10 each to certain directors and employees of the Group at weighted-average issue price of HK\$3.87 (2007: HK\$3.14) per share pursuant to the Company's share option schemes (see Note 30).
- During the year ended 31 December 2008, the Li Ning Company Limited Restricted Share Award Scheme Trust (the "Trust"), a trust established in Hong Kong, purchased 2,864,000 shares (2007: 1,902,000 shares) of the Company's shares from the open market. The total amount of RMB56,630,000 (2007: RMB39,878,000) paid to acquire the shares was financed by the Company by way of contributions made to the Trust.



Notes to the Consolidated Financial Statements (Continued)

16. Reserves – Group and Company

Group

| | Capital reserves (a) RMB'000 | Statutory reserve funds (b) RMB'000 | Share-based compensation reserve RMB'000 | Subtotal RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|------------------------------------|--|---|---------------------|---------------------------------|------------------|
| As at 1 January 2007 | 45,634 | 111,159 | 25,691 | 182,484 | 650,959 | 833,443 |
| Profit for the year | – | – | – | – | 473,606 | 473,606 |
| Value of services provided under share schemes | – | – | 33,526 | 33,526 | – | 33,526 |
| Transfer of fair value of share options exercised to share premium | – | – | (12,582) | (12,582) | – | (12,582) |
| Vesting of shares under Restricted Share Award Scheme | – | – | (2,156) | (2,156) | – | (2,156) |
| Appropriations to statutory reserves | – | 10,617 | – | 10,617 | (10,617) | – |
| As at 31 December 2007 | 45,634 | 121,776 | 44,479 | 211,889 | 1,113,948 | 1,325,837 |
| As at 1 January 2008 | 45,634 | 121,776 | 44,479 | 211,889 | 1,113,948 | 1,325,837 |
| Profit for the year | – | – | – | – | 721,267 | 721,267 |
| Value of services provided under share schemes | – | – | 51,596 | 51,596 | – | 51,596 |
| Transfer of fair value of share options exercised to share premium | – | – | (14,609) | (14,609) | – | (14,609) |
| Vesting of shares under Restricted Share Award Scheme | – | – | (16,601) | (16,601) | – | (16,601) |
| Appropriations to statutory reserves | – | 25,335 | – | 25,335 | (25,335) | – |
| Dividends paid | – | – | – | – | (398,040) | (398,040) |
| As at 31 December 2008 | 45,634 | 147,111 | 64,865 | 257,610 | 1,411,840 | 1,669,450 |



Notes to the Consolidated Financial Statements (Continued)

16. Reserves – Group and Company (continued)

Company

| | Accumulated losses RMB'000 | Share-based compensation reserve RMB'000 | Total RMB'000 |
|---|----------------------------------|---|------------------|
| As at 1 January 2007 | (91,840) | 25,691 | (66,149) |
| Impact of IFRIC-Int 11 (Note 2.1(a)) | 20,938 | – | 20,938 |
| As at 1 January 2007 (Restated) | (70,902) | 25,691 | (45,211) |
| Loss for the year (Restated) | (33,421) | – | (33,421) |
| Value of services provided under share schemes | – | 33,526 | 33,526 |
| Transfer of fair value of share options exercised to share premium | – | (12,582) | (12,582) |
| Vesting of shares under Restricted Share Award Scheme | – | (2,156) | (2,156) |
| As at 31 December 2007 (Restated) | (104,323) | 44,479 | (59,844) |
| As at 1 January 2008 (Restated) | (104,323) | 44,479 | (59,844) |
| Profit for the year | 502,363 | – | 502,363 |
| Value of services provided under share schemes | – | 51,596 | 51,596 |
| Transfer of fair value of share options exercised to share premium | – | (14,609) | (14,609) |
| Vesting of shares under Restricted Share Award Scheme | – | (16,601) | (16,601) |
| Dividends paid | (398,040) | – | (398,040) |
| As at 31 December 2008 | – | 64,865 | 64,865 |

(a) Capital reserves

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

(b) Statutory reserve funds

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

Statutory reserve funds include Statutory Surplus Reserve and Reserve Fund.

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

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

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



Notes to the Consolidated Financial Statements (Continued)

17. Trade payables – Group

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:

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

18. Other payables and accruals – Group and Company

| | Group | | Company | |
|---|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Accrued sales and marketing expenses | 134,392 | 73,740 | – | – |
| Advances from customers | 158,813 | 86,267 | – | – |
| Wages and welfare payables | 119,291 | 97,941 | – | 764 |
| Other tax payables | 14,141 | 30,109 | – | – |
| Payable for property, plant and equipment | 47,614 | 12,963 | – | – |
| Payable for land use rights | – | 12,000 | – | – |
| Other payables | 67,614 | 27,557 | 1,380 | 2,372 |
| | 541,865 | 340,577 | 1,380 | 3,136 |



Notes to the Consolidated Financial Statements (Continued)

19. License fees payable – Group

The Group has 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 life of the licenses.

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

| | Cost RMB'000 | Discount RMB'000 | Total RMB'000 |
|------------------------------------|-----------------|---------------------|------------------|
| As at 1 January 2007 | 85,505 | (14,765) | 70,740 |
| Acquisition of license rights | 16,482 | (2,201) | 14,281 |
| Payment of license fees | (13,423) | – | (13,423) |
| Amortisation of discount | – | 4,897 | 4,897 |
| Adjustment for exchange difference | (5,657) | – | (5,657) |
| As at 31 December 2007 | 82,907 | (12,069) | 70,838 |
| As at 1 January 2008 | 82,907 | (12,069) | 70,838 |
| Acquisition of a license right | 65,899 | (11,016) | 54,883 |
| Payment of license fees | (14,861) | – | (14,861) |
| Amortisation of discount | – | 5,339 | 5,339 |
| Adjustment for exchange difference | (5,455) | – | (5,455) |
| As at 31 December 2008 | 128,490 | (17,746) | 110,744 |

| | 2008 RMB'000 | 2007 RMB'000 |
|---------------------------------------|-----------------|-----------------|
| Analysis of license fees payable: | | |
| Non-current, the second to fifth year | 81,997 | 57,604 |
| Current | 28,747 | 13,234 |
| | 110,744 | 70,838 |

The license fees payable are mainly denominated in US dollars.

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

| | 2008 RMB'000 | 2007 RMB'000 |
|-----------------------|-----------------|-----------------|
| Less than 1 year | 29,731 | 14,609 |
| Between 1 and 5 years | 98,759 | 68,298 |
| | 128,490 | 82,907 |



Notes to the Consolidated Financial Statements (Continued)

20. Borrowings – Group and Company

| | Group | | Company | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Current | | | | |
| Bank borrowings denominated in | | | | |
| – RMB | 431,100 | 100,000 | – | – |
| – HK\$ | 176,380 | – | 176,380 | – |
| | 607,480 | 100,000 | 176,380 | – |
| Borrowings | | | | |
| – secured | 81,100 | – | – | – |
| – unsecured | 526,380 | 100,000 | 176,380 | – |
| | 607,480 | 100,000 | 176,380 | – |

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 7.31% (2007: 7.29%) for bank borrowings denominated in RMB and 2.95% (2007: Nil) for bank borrowings denominated in HK\$ as at 31 December 2008.

Bank borrowings amounting to RMB71,260,000 (2007: Nil) were secured by the Group's land and buildings (Notes 6 and 7) and bank borrowings amounting to RMB9,840,000 (2007: Nil) were guaranteed by a related party of the Group as at 31 December 2008 (Note 34).

As at 31 December 2008, the Group had undrawn borrowing facilities within one year amounting to RMB420,890,000 (2007: Nil). These facilities have been arranged to help financing of the Group's working capital.

Movement in borrowings is analysed as follows:

| | Group RMB'000 | Company RMB'000 |
|---------------------------------------|------------------|--------------------|
| As at 1 January 2007 | – | – |
| Additions | 100,000 | – |
| As at 31 December 2007 | 100,000 | – |
| As at 1 January 2008 | 100,000 | – |
| Additions | 843,794 | 173,994 |
| Effect of change in exchange rate | 2,386 | 2,386 |
| Acquisition of subsidiaries (Note 33) | 82,100 | – |
| Repayments | (420,800) | – |
| As at 31 December 2008 | 607,480 | 176,380 |



Notes to the Consolidated Financial Statements (Continued)

21. Deferred income tax – Group

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

| | Provisions RMB'000 | Share Schemes RMB'000 | Unrealised profit on intra-group sales RMB'000 | Fair value gains RMB'000 | Others RMB'000 | Total RMB'000 |
|---|-----------------------|-----------------------------|--|--------------------------------|-------------------|------------------|
| Deferred income tax assets | | | | | | |
| As at 1 January 2007 | 4,492 | 7,963 | – | – | – | 12,455 |
| Effects of change in tax rate | (559) | (1,571) | – | – | – | (2,130) |
| Credited to income statement | 6,578 | 2,434 | 7,998 | – | 2,266 | 19,276 |
| As at 31 December 2007 | 10,511 | 8,826 | 7,998 | – | 2,266 | 29,601 |
| As at 1 January 2008 | 10,511 | 8,826 | 7,998 | – | 2,266 | 29,601 |
| Credited/(charged) to income statement | 3,762 | 2,834 | 32,604 | – | (857) | 38,343 |
| Acquisition of subsidiaries (Note 33) | 411 | – | 1,086 | – | – | 1,497 |
| As at 31 December 2008 | 14,684 | 11,660 | 41,688 | – | 1,409 | 69,441 |
| Deferred income tax liabilities | | | | | | |
| As at 1 January 2007 | – | – | – | – | – | – |
| Charged to income statement | – | – | – | – | (1,217) | (1,217) |
| As at 31 December 2007 | – | – | – | – | (1,217) | (1,217) |
| As at 1 January 2008 | – | – | – | – | (1,217) | (1,217) |
| Credited/(charged) to income statement | – | – | – | 1,198 | (434) | 764 |
| Acquisition of subsidiaries (Note 33) | – | – | – | (78,688) | – | (78,688) |
| As at 31 December 2008 | – | – | – | (77,490) | (1,651) | (79,141) |

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

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Deferred income tax assets | | |
| – to be recovered within 12 months | 58,319 | 19,613 |
| – to be recovered after more than 12 months | 11,122 | 9,988 |
| | 69,441 | 29,601 |
| Deferred income tax liabilities | | |
| – to be recovered within 12 months | (3,833) | (969) |
| – to be recovered after more than 12 months | (75,308) | (248) |
| | (79,141) | (1,217) |

Notes to the Consolidated Financial Statements (Continued)

22. Expenses by nature

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

23. Other income

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

Note:

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

24. Employee benefit expenses

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Wages and salaries | 238,027 | 185,896 |
| Contributions to retirement benefit plan (Note c) | 32,101 | 21,576 |
| Share options granted to directors and employees | 51,596 | 33,526 |
| Staff quarters and housing benefits | 11,124 | 7,189 |
| Other benefits | 139,567 | 77,760 |
| | 472,415 | 325,947 |

Notes to the Consolidated Financial Statements (Continued)

24. Employee benefit expenses (continued)

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2007 is set out below:

| Name of Director | Fees RMB'000 | Salary RMB'000 | Discretionary bonuses RMB'000 | Other benefits(i) RMB'000 | Employer's contribution to pension scheme RMB'000 | Total RMB'000 |
|---------------------------|-----------------|-------------------|-------------------------------------|---------------------------------|---|------------------|
| Mr. Li Ning | 804 | 1,733 | 2,167 | 130 | 185 | 5,019 |
| Mr. Zhang Zhi Yong | 504 | 1,427 | 4,590 | 2,501 | 177 | 9,199 |
| Mr. Tan Wee Seng | 404 | 506 | – | 5,996 | 78 | 6,984 |
| Ms. Wang Ya Fei | 188 | – | – | 271 | – | 459 |
| Mr. Lim Meng Ann | 188 | – | – | 382 | – | 570 |
| Mr. Stuart Schonberger | 164 | – | – | 271 | – | 435 |
| Mr. Koo Fook Sun, Louis | 188 | – | – | 271 | – | 459 |
| Mr. Chan Chung Bun, Bunny | 164 | – | – | 221 | – | 385 |
| Mr. Chu Wah Hui | 109 | – | – | – | – | 109 |
| Mr. James Chun-Hsien Wei | 62 | – | – | – | – | 62 |

The remuneration of each director for the year ended 31 December 2008 is set out below:

| Name of Director | Fees RMB'000 | Salary RMB'000 | Discretionary bonuses RMB'000 | Other benefits(i) RMB'000 | Employer's contribution to pension scheme RMB'000 | Total RMB'000 |
|---------------------------|-----------------|-------------------|-------------------------------------|---------------------------------|---|------------------|
| Mr. Li Ning | 1,440 | 1,780 | 960 | 454 | 130 | 4,764 |
| Mr. Zhang Zhi Yong | 960 | 5,028 | 1,200 | 16,450 | 115 | 23,753 |
| Mr. Tan Wee Seng (ii) | 550 | 514 | – | 2,261 | 76 | 3,401 |
| Ms. Wang Ya Fei | 223 | – | – | 363 | – | 586 |
| Mr. Lim Meng Ann | 223 | – | – | 910 | – | 1,133 |
| Mr. Stuart Schonberger | 179 | – | – | 363 | – | 542 |
| Mr. Koo Fook Sun, Louis | 223 | – | – | 363 | – | 586 |
| Mr. Chan Chung Bun, Bunny | 179 | – | – | 349 | – | 528 |
| Mr. Chu Wah Hui | 179 | – | – | 160 | – | 339 |
| Mr. James Chun-Hsien Wei | 179 | – | – | 160 | – | 339 |

- (i) Other benefits include insurance premium, housing allowance and the fair value of share options charged to the consolidated income statement during the year.
- (ii) Mr. Tan Wee Seng resigned as director of the Company with effect from 1 December 2008.



24. Employee benefit expenses (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three directors for the year ended 31 December 2008 (2007: three directors), and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining two individuals (2007: two) whose emoluments were the highest in the Group for the year are as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Salaries and allowances | 3,703 | 2,028 |
| Other benefits | 2,660 | 3,324 |
| Contributions to retirement benefit scheme | 28 | 59 |
| | 6,391 | 5,411 |

The emoluments fell within the following bands:

| | Number of individuals | |
|------------------------------|-----------------------|----------|
| | 2008 | 2007 |
| Emoluments bands | | |
| RMB3,000,001 to RMB5,000,000 | 1 | 1 |
| RMB1,000,000 to RMB3,000,000 | 1 | 1 |
| | 2 | 2 |

(c) Pensions – defined contribution plans

The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 19% to 22% of the employees' basic salary dependent upon the applicable local regulations.

25. Finance income and costs

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Interest income on bank balances and deposits | 11,691 | 11,147 |
| Net foreign currency exchange gain | – | 2,754 |
| Finance income | 11,691 | 13,901 |
| Amortisation of discount-license fees payable (Note 19) | (5,339) | (4,897) |
| Interest expense on bank borrowings | (33,921) | (327) |
| Net foreign currency exchange loss | (3,406) | – |
| Finance costs | (42,666) | (5,224) |
| Finance (costs)/income – net | (30,975) | 8,677 |



Notes to the Consolidated Financial Statements (Continued)

26. Income taxes

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

Notes:

- (a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.
- (b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2008 (2007: 17.5%).
- (c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2007: 33%) on the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 18% under the relevant PRC tax rules and regulations.

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

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Profit before income tax | 929,238 | 618,532 |
| Tax calculated at a tax rate of 25% (2007: 33%) | 232,310 | 204,115 |
| Effects of different tax rate in Hong Kong | (335) | (1,616) |
| Preferential tax rate on the income of certain subsidiaries | (31,710) | (59,840) |
| Tax losses for which no deferred taxation is recognised | 8,491 | 5,832 |
| Expenses not deductible for tax purposes | 19,192 | 14,266 |
| Tax credit granted to subsidiaries | (16,127) | (13,525) |
| Income not subject to tax | (9,883) | (6,827) |
| Effects of change in tax rate on deferred income tax | – | 2,130 |
| Taxation charge | 201,938 | 144,535 |

The effective tax rate is 21.7% for the year ended 31 December 2008 (2007: 23.4%).



27. Earnings per share

Basic

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

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

Diluted

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

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



Notes to the Consolidated Financial Statements (Continued)

28. Dividends

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

Note:

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

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

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

29. Cash flow statement

Reconciliation of profit before taxation to net cash flow generated from operating are as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Profit before income tax | 929,238 | 618,532 |
| Adjustments for: | | |
| Depreciation | 77,482 | 52,041 |
| Amortisation | 32,821 | 19,868 |
| Provision for impairment charge of trade receivables | 1,477 | 2,874 |
| Write-down of inventories to net realisable value | 16,447 | 24,618 |
| Share options granted to directors and employees | 51,596 | 33,526 |
| Loss on disposals of property, plant and equipment and intangible assets | 546 | 140 |
| Finance costs/(income)--net | 30,975 | (8,677) |
| Others | - | (163) |
| Operating profit before working capital changes | 1,140,582 | 742,759 |
| Increase in inventories | (107,357) | (188,021) |
| Increase in trade receivables | (339,863) | (108,458) |
| Increase in other receivables and prepayments | (151,579) | (67,808) |
| Increase in trade payables | 306,863 | 65,957 |
| Increase in other payables and accruals | 96,152 | 121,483 |
| Cash inflow generated from operations | 944,798 | 565,912 |



30. Share-based compensation

(a) Share Purchase Scheme

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

The objective of the Share Purchase Scheme (the “Alpha Talent Option”) is to provide for the grant of rights to purchase the Company’s shares beneficially owned by Mr. Li Ning through Alpha Talent to certain key individuals who have contributed to the economic achievement of the Group.

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

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

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

| | 2008 | | 2007 | |
|-------------------------------|---|---------------------------------------|---|---------------------------------------|
| | Weighted average exercise price (per share) HK\$ | Outstanding options (Thousands) | Weighted average exercise price (per share) HK\$ | Outstanding options (Thousands) |
| As at 1 January | 0.68 | 9,744 | 0.66 | 12,627 |
| Granted | – | – | 0.86 | 785 |
| Exercised | 0.67 | (2,808) | 0.63 | (3,361) |
| Lapsed | – | – | 0.86 | (307) |
| As at 31 December | 0.68 | 6,936 | 0.68 | 9,744 |
| Exercisable as at 31 December | 0.59 | 5,402 | 0.54 | 6,825 |

Share options outstanding at the end of the years have the following expiry date and weighted average exercise price:

| | 2008 | | 2007 | |
|------------------|---|------------------------------|---|------------------------------|
| Expiry date | Weighted average exercise price (per share) HK\$ | Share options (Thousands) | Weighted average exercise price (per share) HK\$ | Share options (Thousands) |
| 8 June 2010 | 0.55 | 4,114 | 0.54 | 5,658 |
| 11 November 2011 | 0.86 | 175 | 0.86 | 245 |
| 5 July 2012 | 0.86 | 2,015 | 0.86 | 2,922 |
| 30 August 2012 | 0.86 | 67 | 0.86 | 134 |
| 1 January 2013 | 0.86 | 280 | 0.86 | 300 |
| 2 July 2013 | 0.86 | 19 | 0.86 | 19 |
| 1 September 2013 | 0.86 | – | 0.86 | 200 |
| 16 November 2013 | 0.86 | 116 | 0.86 | 116 |
| 27 November 2013 | 0.86 | 150 | 0.86 | 150 |
| | | 6,936 | | 9,744 |



30. Share-based compensation (continued)

(b) Pre-IPO Share Option Scheme

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

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

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

| | 2008 | | 2007 | |
|-------------------------------|---------------------------------------|------------------------------------|---------------------------------------|------------------------------------|
| | Exercise price (per share) HK\$ | Outstanding options (Thousands) | Exercise price (per share) HK\$ | Outstanding options (Thousands) |
| As at 1 January | 1.8275 | 4,656 | 1.8275 | 7,245 |
| Exercised | 1.8275 | (791) | 1.8275 | (2,567) |
| Lapsed | 1.8275 | (49) | 1.8275 | (22) |
| As at 31 December | 1.8275 | 3,816 | 1.8275 | 4,656 |
| Exercisable as at 31 December | 1.8275 | 3,816 | 1.8275 | 4,656 |

Share options outstanding at the end of the years have the following expiry date and exercise price:

| | 2008 | | 2007 | |
|-------------|---------------------------------------|------------------------------|---------------------------------------|------------------------------|
| Expiry date | Exercise price (per share) HK\$ | Share options (Thousands) | Exercise price (per share) HK\$ | Share options (Thousands) |
| 5 June 2010 | 1.8275 | 3,816 | 1.8275 | 4,656 |

(c) Share Option Scheme

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

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



30. Share-based compensation (continued)

(c) Share Option Scheme (continued)

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

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

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

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

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

| | 2008 | | 2007 | |
|-------------------------------|---|---------------------------------------|---|---------------------------------------|
| | Weighted average exercise price (per share) HK\$ | Outstanding options (thousands) | Weighted average exercise price (per share) HK\$ | Outstanding options (thousands) |
| As at 1 January | 5.634 | 12,285 | 4.951 | 15,295 |
| Granted | 16.494 | 3,718 | 19.680 | 350 |
| Exercised | 4.506 | (2,564) | 4.338 | (2,802) |
| Lapsed | 11.273 | (305) | 6.014 | (386) |
| Cancelled | – | – | 6.377 | (172) |
| As at 31 December | 8.649 | 13,134 | 5.634 | 12,285 |
| Exercisable as at 31 December | 4.764 | 8,288 | 4.398 | 5,462 |



Notes to the Consolidated Financial Statements (Continued)

30. Share-based compensation (continued)

(c) Share Option Scheme (continued)

Share options outstanding at the end of the years have the following expiry date and exercise price:

| Expiry date | 2008 | | 2007 | |
|------------------|---------------------------------------|------------------------------|---------------------------------------|------------------------------|
| | Exercise price (per share) HK\$ | Share options (Thousands) | Exercise price (per share) HK\$ | Share options (Thousands) |
| 4 July 2011 | 3.685 | 6,823 | 3.685 | 8,962 |
| 3 January 2012 | 5.500 | 140 | 5.500 | 275 |
| 4 September 2012 | 8.830 | 1,936 | 8.830 | 2,398 |
| 20 November 2012 | 9.840 | 300 | 9.840 | 300 |
| 19 July 2013 | 19.680 | 350 | 19.680 | 350 |
| 4 July 2014 | 17.220 | 3,428 | – | – |
| 5 December 2014 | 10.940 | 157 | – | – |
| | | 13,134 | | 12,285 |

(d) Fair value of share options

The fair value of the options granted under the above schemes during the years ended 31 December 2008 and 2007 determined by using Black-Scholes valuation model were as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|----------------------|-----------------|-----------------|
| Alpha Talent Options | – | 12,463 |
| Post-IPO Options | 16,826 | 2,242 |

The fair values of Alpha Talent Option, Pre-IPO Option and Post-IPO Option are charged to the consolidated income statement over the vesting period of the options. The amount charged in 2008 were RMB7,605,000, nil and RMB8,617,000 respectively (2007: RMB15,370,000, RMB406,000 and RMB7,822,000).

Significant inputs into the model were as follows:

| | 2008 | 2007 |
|---|--------------|-------------|
| Alpha Talent Option | | |
| Weighted average share price (HK\$) | NA | 19.03 |
| Weighted average exercise price (HK\$) | NA | 0.86 |
| Expected volatility | NA | 45.3% |
| Expected option life (years) | NA | 3.70 |
| Weighted average annual risk free interest rate | NA | 3.64% |
| Expected dividend yield | NA | 2.0% |
| | 2008 | 2007 |
| Post-IPO Option | | |
| Weighted average share price (HK\$) | 17.07 | 19.68 |
| Weighted average exercise price (HK\$) | 16.96 | 19.68 |
| Expected volatility | 49.8% | 44.4% |
| Expected option life (years) | 4.00 | 4.00 |
| Weighted average annual risk free interest rate | 3.0% | 4.6% |
| Expected dividend yield | 2.0% | 2.0% |



30. Share-based compensation (continued)

(d) Fair value of share options (continued)

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

(e) Restricted Share Award Scheme

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

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

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

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

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

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

| | 2008 | | 2007 | |
|-------------------|--|---|--|---|
| | 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 | 20.14 | 2,734 | 9.10 | 757 |
| Granted | 16.17 | 2,617 | 22.42 | 2,305 |
| Vested | 19.55 | (944) | 9.10 | (243) |
| Lapsed | 16.12 | (221) | 15.19 | (85) |
| As at 30 December | 17.91 | 4,186 | 20.14 | 2,734 |

The fair value of Restricted Shares charged to the consolidated income statement was RMB35,374,000 during the year ended 31 December 2008 (2007: RMB9,928,000).



Notes to the Consolidated Financial Statements (Continued)

31. Contingencies

As at 31 December 2008, a subsidiary of the Group has given a guarantee amounting to RMB5,400,000 (2007:Nil) in favor of Shanghai SIIC Marie Painting Materials Co., Ltd. ("SIIC"), a company controlled by key management personnel of the subsidiary in respect of certain bank loans of SIIC.

32. Commitments

(a) Capital commitments

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

| | Group | | Company | |
|--------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Contracted for but not paid | | | | |
| –property, plant and equipment | 12,055 | 69,385 | – | – |
| –license rights | 404,272 | – | – | – |
| | 416,327 | 69,385 | – | – |

There is no capital expenditure authorised but not contracted for by the Group and the Company as at 31 December 2008.

(b) Operating lease commitments-where any group companies are the lessee

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

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Not later than 1 year | 150,871 | 148,697 |
| Later than 1 year and not later than 5 years | 449,749 | 408,382 |
| Later than 5 years | 223,877 | 319,488 |
| | 824,497 | 876,567 |

33. Business combination

On 21 July 2008, the Group completed its acquisition of a 57.5% equity interest in Double Happiness for a total consideration of RMB 361,455,000 (including the direct cost relating to the acquisition). Double Happiness and its subsidiaries, being companies incorporated in the PRC, are principally engaged in the manufacturing, research and development, marketing and sale of sports equipment. In August 2008, the Group received a dividend of approximately RMB20,204,000 from Double Happiness in relation to the pre-acquisition profit of Double Happiness. The total purchase consideration for the 57.5% equity interest in Double Happiness (including the direct cost relating to the acquisition) amounted to approximately RMB341,251,000.

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



Notes to the Consolidated Financial Statements (Continued)

33. Business combination (continued)

Details of net assets acquired and goodwill are as follows:

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

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

The assets and liabilities arising from the acquisition, as of 21 July 2008, are as follows:

| | Acquiree's carrying amount RMB'000 | Fair value RMB'000 |
|--|--|-----------------------|
| Cash and cash equivalents | 99,561 | 99,561 |
| Property, plant and equipment | 135,162 | 139,850 |
| Land use rights | 77,247 | 302,561 |
| Trademarks | 4,814 | 89,564 |
| Inventories | 45,858 | 45,858 |
| Receivables and prepayments | 73,019 | 73,019 |
| Deferred income tax assets | 1,497 | 1,497 |
| Payables | (169,905) | (169,905) |
| Borrowings | (82,100) | (82,100) |
| Deferred income tax liabilities | – | (78,688) |
| Minority interests in subsidiaries | (7,627) | (13,544) |
| | 177,526 | 407,673 |
| Minority interests | | (173,261) |
| Net identifiable assets acquired | | 234,412 |
| Outflow of cash to acquire business, net of cash acquired: | | |
| – total purchase consideration | | 341,251 |
| – cash and cash equivalents in subsidiary acquired | | (99,561) |
| – prepayment settled in 2007 | | (66,588) |
| Cash outflow on acquisition in 2008 | | 175,102 |

There were no acquisitions during the year ended 31 December 2007.



34. Related-party transactions

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

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

(a) Sales of goods to:

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Shanghai Double Happiness (Group) Co., Ltd. and related companies, all being controlled by a key management personnel of a non-wholly owned subsidiary | 3,530 | – |

(b) Purchases of goods from:

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Shanghai Double Happiness (Group) Co., Ltd. and related companies | 28,417 | – |

(c) Sponsorship fee paid to:

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Beijing Edo Sports Development Company Limited, a company controlled by the family members of Mr. Li Ning, chairman of the Company | 1,116 | 2,117 |

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.

(d) Key management compensation

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

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Salaries and other benefits | 17,708 | 15,408 |
| Contribution to retirement benefit scheme | 321 | 440 |
| Employee share schemes for value of services provided | 17,942 | 7,833 |
| | 35,971 | 23,681 |



Notes to the Consolidated Financial Statements (Continued)

34. Related-party transactions(continued)

(e) Year-end balances arising from sales/purchases of goods

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Receivables from related parties: Shanghai Double Happiness (Group) Co., Ltd. and related companies | 822 | – |
| Payables to related parties: Shanghai Double Happiness (Group) Co., Ltd. and related companies | 9,827 | – |

(f) Guarantee provided to:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|-----------------|-----------------|
| Shanghai SIIC Marie Painting Materials Co., Ltd., a company controlled by a key management personnel of a non-wholly owned subsidiary (Note 31) | 5,400 | – |

(g) Guarantee provided by:

| | 2008 RMB'000 | 2007 RMB'000 |
|--|-----------------|-----------------|
| Shanghai SIIC Marie Painting Materials Co., Ltd. (Note 20) | 9,840 | – |

35. Event after the balance sheet date

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



Glossary

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

| | |
|---------------------------------|--|
| “AIGLE” | Aigle International S.A., a corporation organized under the laws of France |
| “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 |
| “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 |
| “connected person(s)” | has the meaning ascribed to it under the Listing Rules |
| “Director(s)” | the director(s) of the Company |
| “Double Happiness” | Shanghai Double Happiness Co., Ltd., a limited liability company established in the PRC and a 57.5%-owned subsidiary of the Group |
| “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 |
| “Lotto” | Lotto Sport H.K. Limited, a company incorporated in Hong Kong and ultimately beneficially owned by Lotto Sport Italia S.p.A., which is a corporation established under the laws of Italy |
| “Post-IPO Share Option Scheme” | the post-IPO share option scheme of the Company adopted on 5 June 2004 |
| “PRC” or “China” | the People’s Republic of China |
| “Pre-IPO Share Option Scheme” | the pre-IPO share option scheme of the Company adopted on 5 June 2004 |
| “Restricted Share Award Scheme” | the restricted share award scheme adopted by the Company on 14 July 2006 |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “Share Purchase Scheme” | the share purchase scheme set up by Mr. Li Ning and adopted by Alpha Talent on 5 June 2004 |
| “Share(s)” | ordinary share(s) of HK\$0.10 each in the share capital of the Company |
| “Shareholders” | shareholders of the Company |