LI NING COMPANY LIMITED
李寧有限公司

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

2011 Annual Report

MAKE THE CHANGE

MISSION

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

VISION

A world's leading brand in the sporting goods industry

CORE VALUES

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

MAKE THE CHANGE

CONTENTS

Corporate Profile

Li Ning Company Limited is one of the leading sports brand companies in China, mainly providing sporting goods including footwear, apparel, equipment and accessories for professional and leisure purposes primarily under the LI-NING brand. Headquartered in Beijing, the Group has brand marketing, research and development, design, manufacturing, distribution and retail capabilities. It has established an extensive supply chain management system and a retail distribution network in China, predominantly through outsourced manufacturing operations and franchised distribution.

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

Highlights of the Year 2011

March

Honoured with "2010 China 100 Most Valuable Footwear Brands" and "China Top 10 Sports Shoes Enterprises" judged jointly by four authorities in the industry, the National Leather and Footwear Industry Productivity Centre, the National Footwear Industry Information Centre, the National Quality Supervision and Inspection Centre of Footwear and the National Product Quality Supervision and Inspection Centre of Leather

May

Entered into a sponsorship agreement with National Basketball League (NBL)

January February March April May June

June

Honoured with "Recognition Award Class of 2011 The Best of Asia" by *Corporate Governance Asia*

July

Chinese National Diving Team, sponsored by the Company, won ten gold medals in the 14th World Swimming Championships

Brick unveiling ceremony held at Lausanne, Switzerland in celebration of the Company's donation to the IOC Olympic Museum

Highlights of the Year 2011

2011

August

Chinese National Badminton Team, sponsored by the Company, won Grand Slam at World Badminton Championships in the United Kingdom

September

Became a constituent of Hang Seng Corporate Sustainability Index Series

October

Chinese National Gymnastics Team, sponsored by the Company, won Gold medal in the Men's Team Final at the 2011 World Artistic Gymnastics Championships in Tokyo

July August September October November December

November

Signed a sponsorship agreement with Shanghai Sharks Basketball Club

Awarded German "iF Design Award 2011" and Gold Award from "China Red Star Award" for the design of the Company's "MIX" urban-sports shoes

The Group together with other well-known international sports and fashion brands co-published "The Joint Roadmap towards Zero Discharge of Hazardous Chemicals by 2020"

December

Honoured with the "The Asset Corporate Awards 2011 – Gold Award for Social and Environmental Responsibility and Investor Relations" by *The Asset Magazine*

LI-NING's Women Fitness Series awarded 2011 "Healthiest Product Award" by *Trends Health Magazine* from mainland

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

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

EXECUTIVE COMMITTEE

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. ZHANG Zhi Yong
Mr. CHONG Yik Kay

COMPANY SECRETARY

Ms. LEE Hung

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

OPERATIONAL HEADQUARTERS

No. 8 Xing Guang 5th Street
Opto-Mechatronics Industrial Park
Zhongguancun Science & Technology Area
Tongzhou District
Beijing, PRC
Postal Code: 101111
Telephone: +8610 8080 0808
Fax: +8610 8080 0000

Corporate Information

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law
Baker & McKenzie

PRC law
Hi-Jion Law Group

PRINCIPAL BANKERS

Hong Kong
Hang Seng Bank Limited
DBS Bank Ltd., Hong Kong Branch
Standard Chartered Bank (Hong Kong) Limited

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

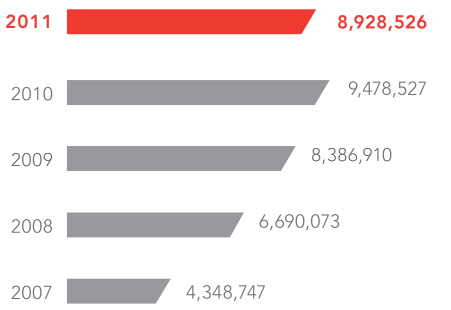
Five-year Financial Highlights

(All amounts in RMB thousands unless otherwise stated)

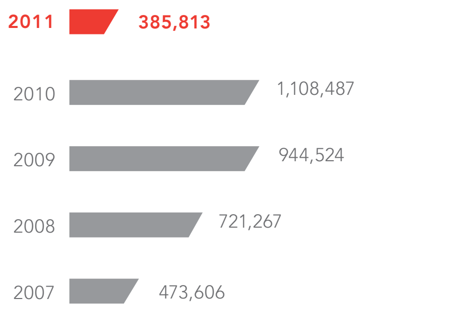
	Year ended 31 December				
	2011	2010	2009	2008	2007
Operation results					
Revenue	**8,928,526**	9,478,527	8,386,910	6,690,073	4,348,747
Operating profit	**630,956**	1,546,775	1,341,896	960,213	609,855
Profit before taxation	**547,377**	1,509,514	1,283,130	929,238	618,532
Profit attributable to equity holders	**385,813**	1,108,487	944,524	721,267	473,606
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**890,732**	1,759,192	1,524,911	1,070,516	681,764
Assets and liabilities					
Non-current assets	**2,547,218**	2,368,205	2,215,895	1,518,985	607,052
Current assets	**4,781,600**	4,193,587	3,161,975	2,817,944	2,173,799
Current liabilities	**3,063,067**	2,371,642	1,864,928	2,086,843	977,429
Net current assets	**1,718,533**	1,821,945	1,297,047	731,101	1,196,370
Total assets	**7,328,818**	6,561,792	5,377,870	4,336,929	2,780,851
Total assets less current liabilities	**4,265,751**	4,190,150	3,512,942	2,250,086	1,803,422
Equity attributable to equity holders	**3,471,843**	3,369,302	2,674,508	1,896,413	1,744,601
Key financial indicators					
Gross profit margin	**46.1%**	47.3%	47.3%	48.1%	47.9%
Margin of profit attributable to equity holders	**4.3%**	11.7%	11.3%	10.8%	10.9%
EBITDA ratio	**10.0%**	18.6%	18.2%	16.0%	15.7%
Earnings per share					
– basic (RMB cents)	**36.70**	105.84	90.75	69.63	45.83
– diluted (RMB cents)	**36.56**	104.39	89.61	68.64	45.09
Dividend per share (RMB cents)	**11.13**	42.12	36.12	49.67	22.85
Return on equity holders' equity	**11.3%**	36.7%	41.3%	39.6%	30.1%
Net tangible assets per share (RMB cents)	**241.46**	225.25	153.65	138.44	157.63

Five-year Financial Highlights

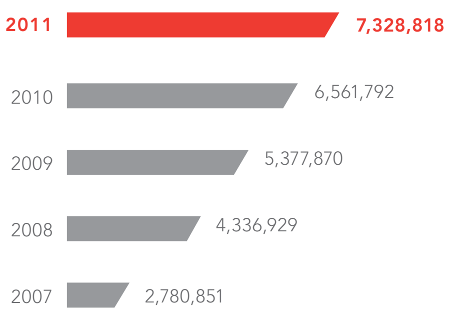
REVENUE



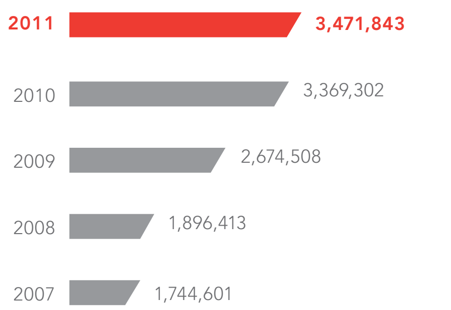
PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



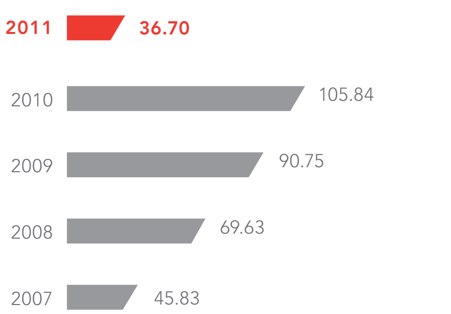
TOTAL ASSETS



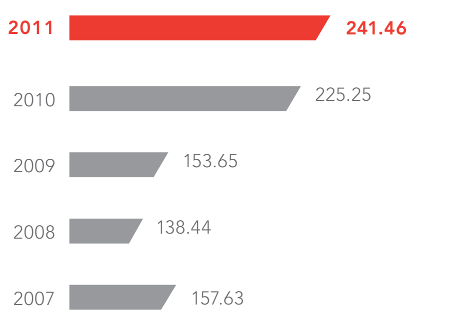
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS

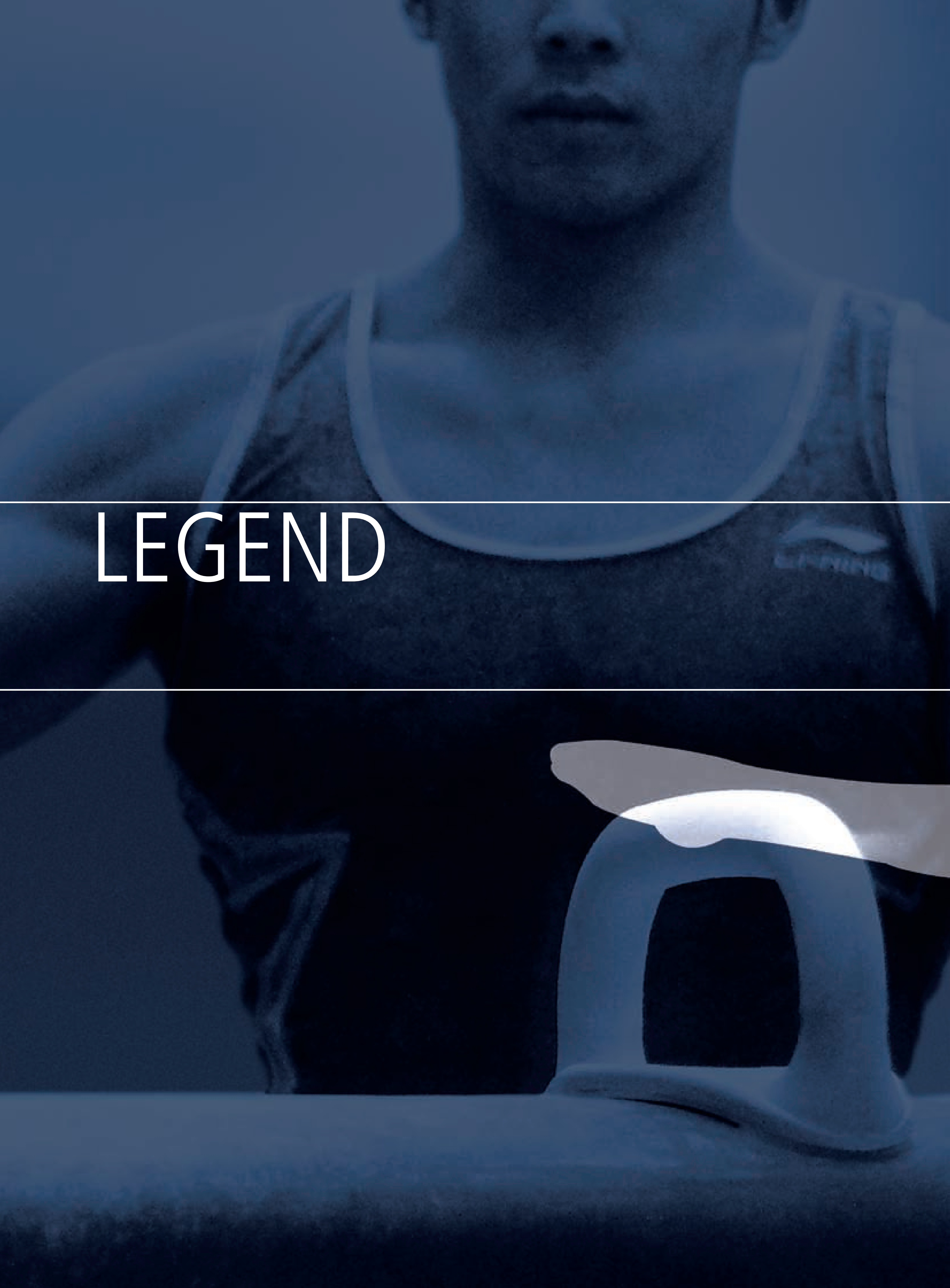


EARNINGS PER SHARE – BASIC (RMB CENTS)



NET TANGIBLE ASSETS PER SHARE (RMB CENTS)





LEGEND

Chairman's Statement

Mr. LI Ning
Chairman

DEAR SHAREHOLDERS,

FOREWORD

After its 20th anniversary in 2010, the LI-NING brand embarked on a journey into its next 20 years in 2011. As in one's life, the first 20 years is a period of learning and growing – when anything is possible. As we fully enter into early adulthood, we have grown to become strong and determined. Regardless of how rough the surrounding environment may be, we must resolutely set ourselves on a path to overcome all odds that lay in our way.

For the LI-NING brand and the Group, 2011 was a difficult year marked by slower industry growth, intensified competition, elevated costs and the impact of casual wear brands. While the Chinese sporting goods industry undergoes transformation, the Group also faces an array of hardships and challenges specific to its phase of corporate growth.

Through meticulous review and reflection, the Group has chosen to enhance our competitiveness through proactive reforms. We have never underestimated the challenges and potential difficulties that come with reform, but we firmly believe that determination, all-out courage, persistence and effective reform measures are vital to our success. We fully understand that this will not be a simple task and the greatest challenge of all will be to break through our previous frameworks and internal constraints that may be blocking our road to a bright and successful future.

Today, the Board and the management team share a unified view of the market conditions that the Group is facing as well as the road to reform that we need to embark upon. We must deploy all of our resources and focus on our core LI-NING brand, and reflect the inherent value of the LI-NING brand through its products, distribution channels, retail operations and brand marketing.

BRINGING BRAND STRENGTHS INTO FULL PLAY

"Connecting with China and sports in China" is a distinct competitive edge the LI-NING brand enjoys. It also marks the most critical differentiation of the LI-NING brand from its competitors.

Going forward we will concentrate our resources on the LI-NING brand by taking full advantage of the market transformation and deploying the optimal resources to support the brand. In 2012, we will seize the opportunity presented by the London Olympic Games to strengthen the "China Concept" and the "Professional Attributes" of the LI-NING brand. At the same time, we will enhance the effective communication of the brand's creativity by fully utilising current marketing resources in our marketing campaigns and sports event marketing initiatives so as to maximise the LI-NING brand's competitive edge and strengthen the brand's influence.

ENHANCING PRODUCT CAPABILITIES

Brand success is built on its products. As the LI-NING brand competes in the highly-competitive mass market of consumer goods industry, persistent creative and innovative efforts are continuously required. To maintain and further sharpen the competitive advantages of LI-NING brand's products, we need to constantly reinforce the basic functionality of our products, enhance our ability to introduce product innovation as well as effectively interpret and communicate LI-NING brand's Chinese attributes and professional qualities.

In 2011, we focused considerable resources on promoting the application of the LI-NING brand product technology platform. We also continued our relentless efforts in propelling and deepening product design and research and development, creating innovative products, such as the new generation of "LI-NING BOW" cushioning running shoes (新一代李寧弓減震跑鞋), the 8th generation of "LI-NING ultralight running shoes" (李寧超輕8代跑鞋), "LI-NING ARC" anti-shock running shoes (李寧寧弧減震跑鞋), the new LI-NING "MIX" urban-sports shoes, and the AT Technology used in apparel products. These efforts are aimed at creating products that better suit consumers' needs with brand-specific characteristics. At the same time, the LI-NING brand continued to provide top-notched sports gear to many domestic and international top athletes, sports teams and sports events, promoting the professional image of the LI-NING brand.

DRIVING REFORM OF DISTRIBUTION CHANNELS

One of the priorities in the LI-NING brand reform is to overhaul the distribution channel structure and enhance retail efficiency in distribution channels. During the year, we proactively integrated less efficient sub-distributors, developed a more effective store structure and established clearance channels to speed up product lifecycles and improve inventory levels.

Chairman's Statement

Going forward we will continue infusing our channel policies and resources into sub-distributors to bolster their channel expansion, retail operating capabilities and business scale. Together with our sales partners, we are dedicated to creating a highly efficient business environment with healthy profitability through this proactive reform.

IMPROVING ORGANISATIONAL STRUCTURE

In view of the ongoing transformation of China's sporting goods industry and the Group's current course to pursue proactive reforms, adjustments made to the organisation and human resources are necessary in order to achieve the Group's goals in reforms and strategic execution. The Company is committed to sharpening its focus on the core business by optimising its organisational structure and enhancing its operational efficiency. We will also optimise the Group's human resources management and strengthen its performance-oriented and results-oriented corporate culture. In addition, the Group will utilise more effective measures to identify and motivate talents, allowing employees to flourish and dedicate themselves towards achieving our common goals.

The Group has an excellent talent pool and positive experience in organisational reform. The Board has confidence in the capability of the current management team in maintaining the stability of the business operations. The management team will continue to focus on the implementation of the Group's development strategy and effectiveness of strategic execution so as to lay a solid foundation for the Group to achieve its long-term vision.

OUTLOOK

In January 2012, the Group introduced TPG ASIA, Inc. ("TPG"), a world-leading private equity investment company, and the Government of Singapore Investment Corporation Pte. Ltd. ("GIC") through the issue of convertible bonds in an aggregate amount of RMB750 million. The new funding will not only bring the Group more flexibility in executing its development strategies, but will also enable us to benefit from TPG's and GIC's experience in branding, retailing and products, which is important for the Group to explore its growth potential.

As the founder of the Company, it has always been my goal to develop LI-NING from a homegrown brand to a world-class brand and, at the same time, to lead the Group's transformation into a corporation of international standard. In 1990, when the LI-NING brand was first established, our aim to be "China's New Generation of Hope" (中國新一代的期望) was reflected in our slogan. From the beginnings of China's newly-industrialised market, thanks to the uncompromising and dedicated works of the LI-NING team, a national symbol of Chinese sports brand arose and soared into the global sports arena. For the past 21 years, the LI-NING team has never lost sight of its tenet that "Anything is Possible" as it attained innumerable achievements and accomplishments that filled not only the Group itself, but the entire sporting goods industry in China, with tremendous pride. In those 21 years, the LI-NING team has faced challenge after challenge and struggled through a variety of trials; yet time and again, the LI-NING team has proved that as we meet these obstacles, we will rise above them with uncompromising courage and dedication in order to continue on our distinguished journey, one in which I am confident we are destined to succeed.

I would like to thank the Shareholders for their support, the professional leadership of our management team and the dedicated contribution of our staff members in supporting the Group through the difficulties in 2011. Let's stand united as we proactively adjust our course and take on the challenges that lie ahead. Together we can "Make the Change"!

Li Ning
Chairman

29 March 2012


LI-NING
CCTV

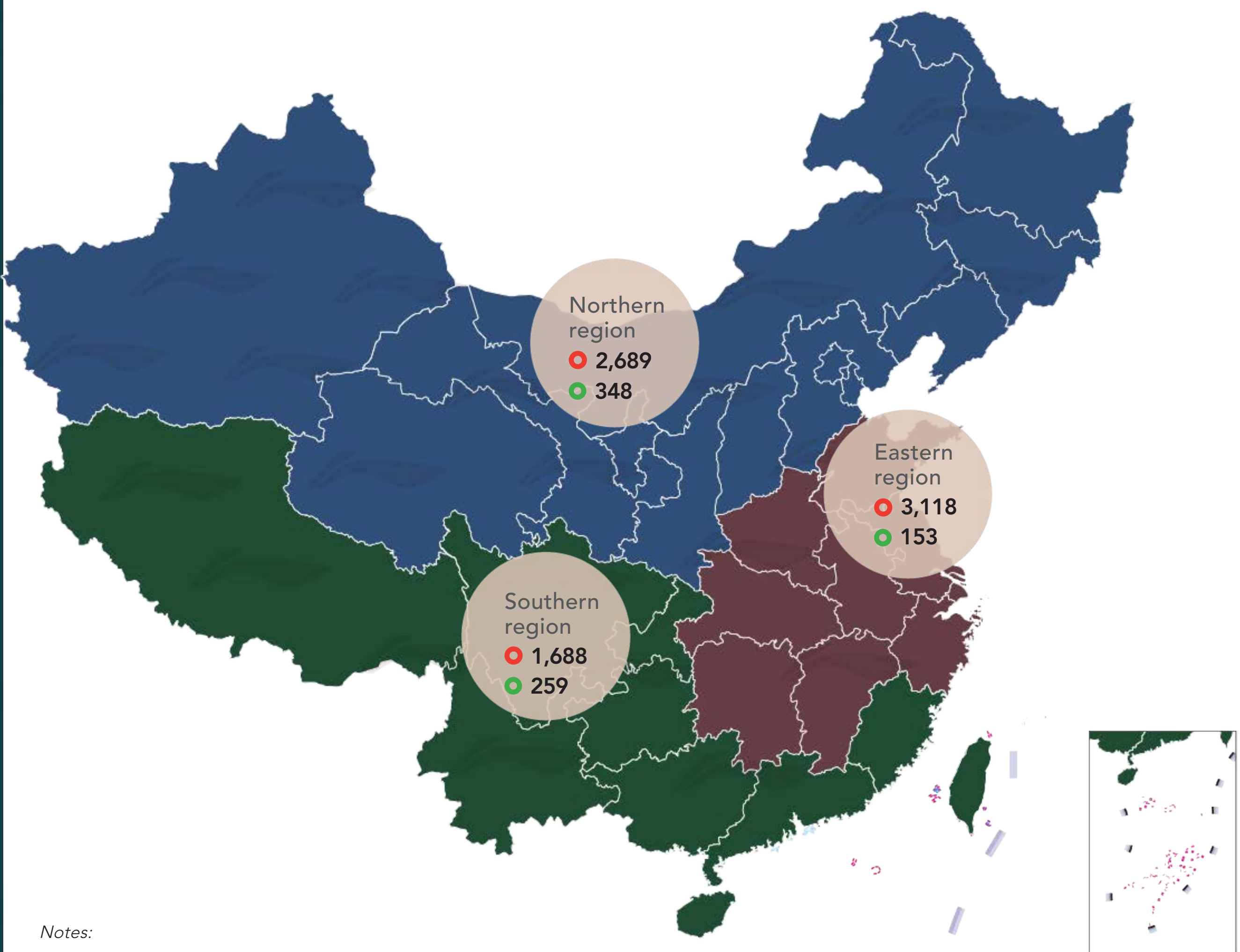
SPORTSMANSHIP

Management Discussion and Analysis

NATIONWIDE DISTRIBUTION AND RETAIL NETWORK

(As at 31 December 2011)

LI-NING brand stores	Frachised retail stores	Directly-operated retail stores	Total number of stores
Eastern region *(Note 1)*	3,118	153	3,271
Northern region *(Note 2)*	2,689	348	3,037
Southern region *(Note 3)*	1,688	259	1,947
Total	**7,495**	**760**	**8,255**



Notes:

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

Management Discussion and Analysis

Mr. ZHANG Zhi Yong
Chief Executive Officer

Management Discussion and Analysis

OVERVIEW

During 2011, the macroeconomic environment in China was much more complex than that seen in previous years, with the overall growth trend showing a general slowdown. China experienced high inflation and adopted tight monetary policies throughout the year. Albeit with a steady growth in investment and consumption, the rate of economic growth slowed significantly as compared with that of previous years.

The Group's analysis shows that, despite the sporting goods industry in China recording low double digit growth in overall sales, the growth did not translate into a major turn-around as compared to 2010. Inventory pressure still existed at the retail end and industry competition continued to intensify. In addition, rising costs have had far-reaching impact on the overall structure of the industry, and have exerted profound influence on each segment of the industry value chain. The sporting goods industry in China is also experiencing new challenges resulting from consumers' increasing awareness of branding and sports functionality. The Group believes that the sporting goods sector will undergo transformation over the next two to three years.

Against the backdrop of China's macroeconomic conditions and the overall industry landscape, the Group's operations faced various challenges in 2011. Nevertheless, the Group adhered to its core strategy and mission – focusing on the essence of sports while endeavouring to enhance its brand and product innovation and competing on differentiation. During the year, the Group kept close watch on external changes against its development strategies and continued to proactively implement reform initiatives to strengthen operational efficiency and the effectiveness of the execution of our strategic reforms, which will enable us to adapt to the development of the industry as well as to meet corporate growth needs in the current phase.

FINANCIAL REVIEW

Consistent with the Group's communications with the capital market over the past year, in view of the current market situation of the sporting goods industry in China, as well as the challenges the Group is facing in the current phase of its corporate development, the Group's financial performance will be affected in the short term. The key operating and financial indicators of the Group for the year ended 31 December 2011 are set out below:

	Year ended 31 December		
	2011	2010	**Change (%)**
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**8,928,526**	9,478,527	**(5.8)**
Gross profit	**4,114,513**	4,481,599	**(8.2)**
Operating profit	**630,956**	1,546,775	**(59.2)**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 1)*	**890,732**	1,759,192	**(49.4)**
Profit attributable to equity holders	**385,813**	1,108,487	**(65.2)**
Basic earnings per share (RMB cents) *(Note 2)*	**36.70**	105.84	**(65.3)**
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	**46.1**	47.3	
Operating profit margin (%)	**7.1**	16.3	
Effective tax rate (%)	**24.9**	25.0	
Margin of profit attributable to equity holders (%)	**4.3**	11.7	
Return on equity holders' equity (%)	**11.3**	36.7	
Expenses as a % of revenue			
Staff costs (%)	**8.7**	7.5	
Advertising and marketing expenses (%)	**17.6**	15.1	
Research and product development expenses (%)	**2.6**	2.6	
Asset efficiency			
Average inventory turnover (days) *(Note 3)*	**73**	52	
Average trade receivables turnover (days) *(Note 4)*	**76**	52	
Average trade payables turnover (days) *(Note 5)*	**94**	71	

	31 December 2011	31 December 2010
Asset ratios		
Debt-to-equity ratio (%) *(Note 6)*	**105.5**	89.1
Interest-bearing debt-to-equity ratio (%) *(Note 7)*	**24.1**	9.3
Net asset value per share (RMB cents)	**348.22**	339.04

Management Discussion and Analysis

Notes:

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of net profit, income tax, finance costs, depreciation of property, plant and equipment, and amortisation of intangible assets and land use rights.
2. The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year divided by the weighted average number of ordinary shares in issue less ordinary shares held for the Restricted Share Award Scheme.
3. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances of the year divided by cost of sales and multiplied by 365 days.
4. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables of the year divided by revenue and multiplied by 365 days.
5. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables of the year divided by total purchases and multiplied by 365 days.
6. The calculation of debt-to-equity ratio is based on total liabilities divided by equity attributable to equity holders of the Company at the end of the year.
7. The calculation of interest-bearing debt-to-equity ratio is based on total interest-bearing bank borrowings divided by the share capital and reserves attributable to equity holders of the Company at the end of the year.

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

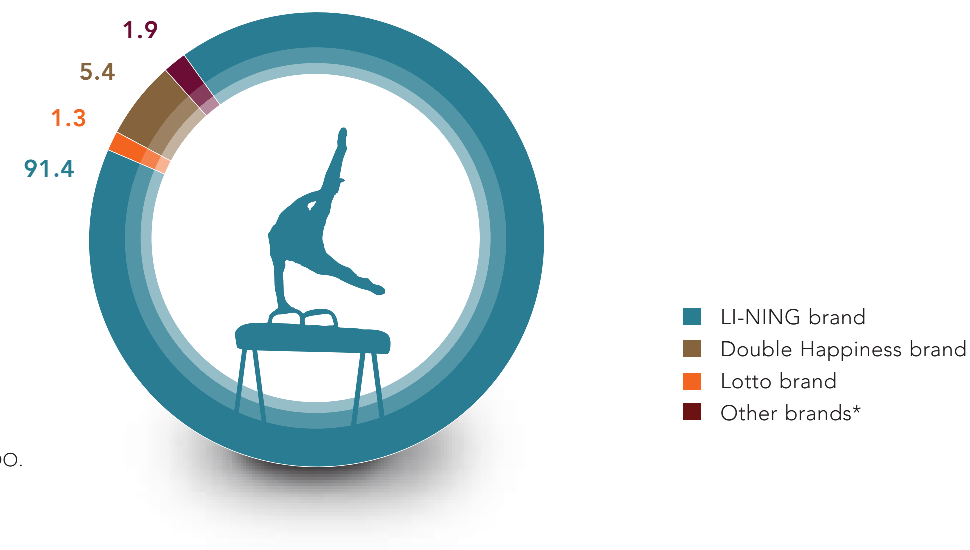
Revenue

The Group's revenue for the year ended 31 December 2011 amounted to RMB8,928,526,000, representing a decrease of 5.8% as compared to 2010.

Revenue breakdown by brand and product category

	Year ended 31 December				
	2011		2010		**Revenue change**
	RMB'000	**% of total revenue**	RMB'000	% of total revenue	**(%)**
LI-NING brand					
Footwear	**3,411,874**	**38.2**	3,829,982	40.4	**(10.9)**
Apparel	**4,225,100**	**47.3**	4,383,625	46.2	**(3.6)**
Equipment/accessories	**527,820**	**5.9**	520,687	5.5	**1.4**
Total	**8,164,794**	**91.4**	8,734,294	92.1	**(6.5)**
Double Happiness brand					
Total	**485,026**	**5.4**	458,291	4.8	**5.8**
Lotto brand					
Total	**119,641**	**1.3**	90,428	1.0	**32.3**
Other brands*					
Total	**159,065**	**1.9**	195,514	2.1	**(18.6)**
Total	**8,928,526**	**100.0**	9,478,527	100.0	**(5.8)**

Percentage of Total Revenue by Brand



* Including AIGLE, Kason and Z-DO.

Management Discussion and Analysis

In 2011, the Group's core brand, LI-NING brand, generated revenue of RMB8,164,794,000, which accounted for 91.4% of the Group's total revenue, representing a decrease of 6.5% as compared to 2010. Among the different product categories, revenue from equipment products generally remained flat while that from other product categories recorded declines. During the year, due to the overall economic condition and industry landscape, the competition in the retail market of the sporting goods industry in China had been heating up. Increasing costs for labour and rentals led to further shrinking profit margins in the retail end. In 2011, forward orders for LI-NING brand decreased as compared to 2010 due to the sales performance in the retail market and the transitional effects of the distribution channel reform initiated by the Group. Meanwhile, the Group rendered effective support to our distributors by offering a larger discount rate to them and undertook measures such as consolidation of sub-distributors and enhancement of the efficiency of retail management with a view to assisting our distributors in maintaining their profitability and ability of continuing operation amid such highly competitive environment. In order to expedite the clearance of stock and optimise the inventory structure in retail end, the Group bought back a portion of outdated stock from distributors during the year. We also accelerate the turnover of retail stocks through various means, including actively set up factory outlets and discount stores and boost sales via online platform to clear up inventory so as to accelerate the turnover of retail stocks.

Among the various brands under the Group, revenue of Double Happiness brand maintained a steady growth rate of 5.8%. Lotto brand achieved a 32.3% revenue boost through improvement of store efficiency. As for other brands, AIGLE brand products recorded a significant year-on-year increase of 115.2% in revenue which reflected its value advantage; Kason brand recorded a stable revenue growth of 19.5%. As the Group gradually diminished the Z-DO brand business during the year, Z-DO brand posted a material year-on-year decrease in revenue, resulting in an overall decline in revenue from other brands.

Percentage of revenue of LI-NING brand by sales channel

	Year ended 31 December		
	2011 % of revenue of LI-NING brand	2010 % of revenue of LI-NING brand	**Change**
LI-NING brand			
PRC market			
Sales to franchised distributors	**79.0**	83.8	**(4.8)**
Sales by directly-operated retail stores	**19.1**	14.8	**4.3**
International markets	**1.9**	1.4	**0.5**
Total	**100.0**	100.0	

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

Revenue breakdown of LI-NING brand by geographical location

		Year ended 31 December				
		2011		2010		
	Note	**RMB'000**	**% of revenue of LI-NING brand**	RMB'000	% of revenue of LI-NING brand	**Revenue change (%)**
LI-NING brand						
PRC market						
Eastern region	1	**2,991,207**	**36.6**	3,315,843	38.0	**(9.8)**
Northern region	2	**3,402,583**	**41.7**	3,691,274	42.2	**(7.8)**
Southern region	3	**1,615,589**	**19.8**	1,608,181	18.4	**0.5**
International Markets		**155,415**	**1.9**	118,996	1.4	**30.6**
Total		**8,164,794**	**100.0**	8,734,294	100.0	**(6.5)**

Notes:

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

The Group is streamlining the regional distribution layout of its sales channels by conducting partial adjustment to the organisation structure and geographical delineation of its sales regions so as to enhance regional management, regional retail performance and customer management capability. The Group aims to increase efficiency in decision-making and operations through further integration of the sales regions, in a bid to facilitate the achievement of its goal of strategic reform.

During the year, despite the effects of the European debt crisis and volatile changes in exchange rates, the Group continued to explore new channels in international markets such as Southeast Asia, resulting in a noticeable year-on-year increase in revenue from LI-NING brand in the international markets.

Cost of Sales and Gross Profit

For the year ended 31 December 2011, overall cost of sales of the Group amounted to RMB4,814,013,000 (2010: RMB4,996,928,000), and overall gross profit margin was 46.1% (2010: 47.3%). The decrease in overall gross profit margin as compared to 2010 was mainly due to the higher overall discount rates offered to distributors and retail end and the increase in production costs.

Cost of sales of LI-NING brand amounted to RMB4,350,817,000 (2010: RMB4,539,574,000), and gross profit margin was 46.7% (2010: 48.0%). The decrease in gross profit margin of LI-NING brand for the year was attributable to the higher overall discount rates offered to distributors and retail end, the clearance of obsolete inventory of LI-NING brand as well as the increasing costs of raw materials and labour of upstream suppliers in the industry during the year.

Cost of sales of Double Happiness brand amounted to RMB289,253,000 (2010: RMB275,391,000), and gross profit margin was 40.4% (2010: 39.9%). The year-on-year increase in gross profit margin of the Double Happiness brand was attributable to the continued realignment and optimisation of product structure together with more reasonable pricing which effectively offset the adverse effects of rising labour and raw materials costs during the year.

Cost of sales of Lotto brand amounted to RMB82,208,000 (2010: RMB58,234,000), and the gross profit margin was 31.3% (2010: 35.6%). The decrease in gross profit margin was due to the clearance of stock by the Group as well as the increase in retail sales discounts to accelerate inventory turnover during the year.

Distribution Costs

For the year ended 31 December 2011, the Group's overall distribution costs amounted to RMB2,909,922,000 (2010: RMB2,511,175,000), accounting for 32.6% of the Group's total revenue (2010: 26.5%).

Distribution costs of LI-NING brand amounted to RMB2,625,539,000 (2010: RMB2,244,156,000), which accounted for 32.2% of the LI-NING brand's revenue (2010: 25.7%). The distribution costs as a percentage to revenue increased by 6.5 percentage points year-on-year, mainly due to the increased proportion of advertising and marketing expenses and rental expense. Despite the decrease in year-on-year sales revenue during the year, the Group continued to put efforts in brand promotion such that advertising and marketing expenses of LI-NING brand amounted to RMB1,431,742,000 (2010: RMB1,292,024,000), representing a year-on-year increase of 10.8%, and an increase of 2.7 percentage points in percentage to revenue of LI-NING brand compared with the corresponding period last year. During the year, in preparation for the London 2012 Olympic Games, the Group recorded higher advertising and sponsorship expenses. Meanwhile, the Group strived for enhancing its capabilities for retail sales and streamlining its business through market integration. The rise in the number of directly-operated stores and the unit rental cost resulted in the increase in the percentage of retail and rental costs, salaries and benefits of sales staff to revenue of LI-NING brand. Depreciation and amortisation charges, sundry expenses etc. remained stable. As a result of the factors listed above, the percentage of overall distribution costs of LI-NING brand to revenue of LI-NING brand increased as compared to 2010.

Distribution costs of Double Happiness brand amounted to RMB55,539,000 (2010: RMB58,153,000), which accounted for 11.5% of Double Happiness brand's revenue and was 1.2 percentage points below the 12.7% recorded in 2010.

Distribution costs of Lotto brand amounted to RMB149,059,000 (2010: RMB139,312,000), which included the amortisation fee of licence rights of RMB19,690,000 (2010: RMB19,690,000) for the year in relation to the 20-year licence for Lotto trademarks (the "Lotto Licence").

According to International Accounting Standards, the Lotto Licence with a present value of RMB393,798,000 has been recognised as "Intangible assets – licence rights" and amortised in each relevant year using straight-line method and included in the distribution costs since 2009. As of 31 December 2011, the amortised balance of Lotto Licence was RMB334,728,000. In addition, the amortisable finance costs of RMB555,102,000 were recognised and amortised in each relevant year using the effective interest rate method and included in the finance costs. During the year, the amortisation of licence fees amounted to RMB19,690,000 and the amortisation of finance costs was RMB34,126,000. The combined effect of these two costs led to a reduction of RMB53,816,000 on profit before tax for 2011.

Administrative Expenses

For the year ended 31 December 2011, the Group's overall administrative expenses amounted to RMB717,068,000 (2010: RMB618,280,000), which accounted for 8.0% of the Group's total revenue (2010: 6.5%).

Management Discussion and Analysis

Administrative expenses of LI-NING brand amounted to RMB597,468,000 (2010: RMB540,209,000), accounting for 7.3% of LI-NING brand's revenue, which was 1.1 percentage points above the 6.2% recorded in 2010. Such expenses mainly comprised staff costs, management consulting expenses, office rental, depreciation and amortisation charges, taxes, provision for impairment of assets and other sundry expenses. Given the decline in LI-NING brand's revenue, the Group has exercised effective control on sundry expenses and labour costs. However, due to the buy-back of a portion of inventories from distributors during the year, the increase in inventory balance as a result of flat growth in orders, together with the higher balance of long ageing trade receivables, the provision for impairment of assets increased accordingly, resulting in an increase in administrative expenses as a percentage to the revenue of LI-NING brand.

Administrative expenses of Double Happiness brand amounted to RMB63,080,000 (2010: RMB55,265,000), accounting for 13.0% of Double Happiness brand's revenue, which was 0.9 percentage point above the 12.1% recorded in 2010. Such expenses mainly comprised staff costs, depreciation and amortisation charges, provision for impairment of assets and other sundry expenses. While the sales revenue of Double Happiness products registered stable growth, the daily administrative expenses also remained steady. However, due to the replacement of obsolete inventory for table tennis products and the ageing of some raw materials, a higher provision for impairment of assets was made for the year under prudence consideration, which resulted in a year-on-year increase in administrative expenses.

Administrative expenses of Lotto brand amounted to RMB18,930,000 (2010: RMB4,824,000), which accounted for 15.8% of Lotto brand's revenue (2010: 5.3%). Such expenses mainly comprised staff costs, basic research and development costs, depreciation and amortisation charges, provision for impairment of assets and other sundry expenses. During the year, the Group's buy-back of a portion of inventories from distributors resulted in the increase in inventories and changes in the ageing structure of inventories. In the meantime, provision for impairment of assets for the year increased as a result of the higher balance of long ageing trade receivables. In addition, the sundry expenses and staff costs of Lotto brand increased due to the establishment of Lotto brand's directly-operated retail subsidiaries during the year. As a result of the above factors, the overall administrative expenses of Lotto brand increased as compared to 2010.

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

For the year ended 31 December 2011, the Group's EBITDA amounted to RMB890,732,000 (2010: RMB1,759,192,000), representing a year-on-year decrease of 49.4%. The decrease in EBITDA was mainly due to the decrease in sales revenue and gross profit while advertising and marketing campaigns remained intensive, and the rental costs and labour costs were either rising or remained stable during the year. In addition, the increase in the provision for impairment of assets as a result of the decline in turnover ratio also contributed to the decrease in EBITDA.

EBITDA of LI-NING brand amounted to RMB944,910,000 (2010: RMB1,767,187,000), representing a year-on-year decrease of 46.5%. This was mainly attributable to the decrease in gross profit and increase in expense ratio.

EBITDA of Double Happiness brand amounted to RMB97,955,000 (2010: RMB92,098,000), representing a year-on-year increase of 6.4%. This was mainly attributable to the increase in gross profit as a result of the adjustment to product structure and prices during the year, while expense ratio remained stable.

EBITDA of Lotto brand recorded a loss of RMB110,047,000 (2010: loss of RMB91,749,000), representing a year-on-year increase in loss of 19.9%. This was mainly attributable to the decrease in gross profit margin and increase in provision for impairment of assets during the year.

Finance Costs

For the year ended 31 December 2011, the Group's net finance costs amounted to RMB82,052,000 (2010: RMB37,261,000), representing 0.9% of the Group's total revenue (2010: 0.4%), amongst which the interest expense of the year for the discounted licence fee payable for the Lotto Licence using the effective interest rate method in accordance with International Accounting Standards was RMB34,126,000 (2010: RMB32,392,000). The increase in short-term borrowings and the rising interest rates during the year resulted in an increase in finance costs.

Income Tax Expenses

For the year ended 31 December 2011, income tax expenses of the Group amounted to RMB136,408,000 (2010: RMB377,378,000) and the effective tax rate was 24.9% (2010: 25.0%).

Management Discussion and Analysis

Overall Profitability Indicators

Due to the decrease in sales revenue and gross profit and the increase in expense ratio, the overall profitability indicators of the Group for the year ended 31 December 2011 declined. The Group's profit attributable to equity holders amounted to RMB385,813,000 (2010: RMB1,108,487,000), representing a year-on-year decrease of 65.2%. Margin of profit attributable to equity holders for the year was 4.3% (2010: 11.7%), representing a year-on-year decrease of 7.4 percentage points. Return on equity of the Group was 11.3% (2010: 36.7%), representing a year-on-year decrease of 25.4 percentage points.

Provision for Inventories

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

As at 31 December 2011, accumulated provision for inventories was RMB187,509,000 (31 December 2010: RMB115,082,000). The increased inventory balance for LI-NING brand at the end of the year resulted in the increase in the overall provision for inventories. In the meantime, given the replacement of obsolete inventory for certain products of Double Happiness brand and the business adjustment of Z-DO brand, the Group increased its special provision for the inventories of the two brands.

Provision for Doubtful Debts

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

As at 31 December 2011, the accumulated provision for doubtful debts was RMB11,400,000 (31 December 2010: RMB1,382,000), amongst which the accumulated provision for doubtful debts of the Lotto brand was RMB6,943,000 (31 December 2010: nil). Due to the long ageing trade receivables, the balance of provision for doubtful debts for 2011 experienced relatively substantial increase.

Liquidity and Financial Resources

The Group's net cash inflow from operating activities for the year ended 31 December 2011 amounted to RMB15,570,000 (2010: RMB990,895,000). As at 31 December 2011, 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 RMB1,196,474,000, representing a net decrease of RMB273,961,000 as compared with the position as at 31 December 2010. The decrease was brought about by the following items:

Items	Year ended 31 December 2011 RMB'000
Net cash inflow generated from operating activities	15,570
Investment in an associate	(12,830)
Prepayment for other investment	(10,000)
Net capital expenditure	(385,714)
Dividends paid to equity holders of the Company	(325,605)
Dividends paid to non-controlling interests of a subsidiary	(22,420)
Net proceeds from bank borrowings	528,631
Other net cash outflow	(61,593)
Net decrease in cash and cash equivalents	(273,961)

Given the facts that the cash turnover rate of distributors decreased as affected by the retail market and the government's tightened monetary policy, the Group decided to extend further support to its distributors, which led to the increase in accounts receivable turnover days and the overall cash turnover days for the year.

The Group has sufficient standby bank credit facilities to cope with the funding needs arising from daily operations and future developments. As at 31 December 2011, the Group's available banking facilities amounted to RMB1,769,129,000, amongst which outstanding bank borrowings amounted to RMB838,059,000. The outstanding bank borrowings to equity holders' equity ratio (i.e. the gearing ratio) was 24.1% (31 December 2010: 9.3%).

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

Foreign Exchange Risk

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

Management Discussion and Analysis

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 Renminbi may have financial impacts on the Group.

Pledge of Assets

As at 31 December 2011, buildings with net book value of RMB20,190,000 (31 December 2010: RMB24,239,000) and land use rights with net book value of RMB14,934,000 (31 December 2010: RMB15,442,000) of the Group were pledged to secure certain bank borrowings of companies of the Group.

Contingent Liabilities

As at 31 December 2011, the Group had no significant contingent liabilities.

BUSINESS REVIEW

2011 marked a year when the Group focused on proactively driving reforms. During the year, the Group pressed ahead with important measures such as brand revitalisation and distribution channel enhancements for the LI-NING brand. Despite facing industry-wide pressures on business growth and an increasingly competitive environment, the Group continued to invest in brand building and enhance product innovation while adjusting its organisational structure to improve operational efficiency. The Group also carried out continual reviews and adjustments for its other brands' business to complement the Group's overall strategies. The business activities the Group conducted in support of the LI-NING brand and other brands during 2011 are outlined below.

LI-NING Brand

Brand Marketing and Promotion

Throughout 2011 the Group adhered to its core brand revitalisation strategy and stepped up the implementation of integrated marketing to constantly and consistently communicate with consumers on the brand positioning, and to strengthen the brand equity through the integration of key sports tournaments, functionality of new products and unique brand personality. The major brand marketing and promotion activities carried out by the Group during the year were as follows.

Preparing for London 2012 Olympic Games

One-year Countdown – On 26 July 2011, the International Olympic Committee ("IOC") president Mr. Jacques Rogge, the Group's Chairman Mr. Li Ning, as well as the Group's sponsored athletes, Asafa Powell, Yelena Isinbaeva and Zhang Yining (張怡寧) attended the brick unveiling ceremony of the IOC Olympic Museum held at Lausanne, Switzerland while the Group also activated its countdown timer for the London 2012 Olympic Games.

Top Domestic and International Sponsorship Resources – Since the 1992 Barcelona Olympics, the LI-NING brand has accompanied the China Olympic delegation from the beginnings to the numerous glorious moments. In 2008, the Group continuously supported the China's four gold medal teams, namely, Gymnastics, Diving, Shooting and Table Tennis Teams, to score remarkable results in the Beijing Olympics. In 2009 the Group added the Chinese National Badminton Team to its legacy of successful collaboration. For the upcoming London 2012 Olympic Games, the LI-NING brand will actively support China's five gold medal teams to continue to demonstrate the "Chinese Spirit, Championship Heritage" (中國精神，冠軍血統).

For the London 2012 Olympic Games, the Group's international sponsorship resources include Swedish Olympic Delegation, the Spanish National Basketball Team and the Argentina National Basketball Team, as well as the recently-signed Eritrea Track & Field National Team, which is renowned for distance running. All these teams will be equipped with LI-NING gear throughout the London Olympics inside and outside of the stadium, giving the LI-NING brand and products maximum exposure.

The Group will seize the opportunity presented by the London 2012 Olympic Games, through the high profile appearance of its domestic and international sports sponsorship resources, to demonstrate the professionalism and uniqueness which the LI-NING brand embodies. We look forward to achieving greater glories hand in hand with the world's top athletes and sports teams at the London 2012 Olympic Games!

Badminton

Badminton is the Group's key sport category. During the year, through integrated marketing activities combining tournaments, products and retail sales, coupled with TV broadcast events at home and abroad, the Group effectively enhanced consumer recognition and increased market share of the LI-NING brand's badminton products as well as the association of the LI-NING brand with badminton.

Sudirman Cup – Hosted in May in Qingdao China, the 2011 Sudirman Cup was one of the major tournaments in the badminton category, and the LI-NING brand seized this opportunity to make an all-out push in promoting its badminton products. The theme of the campaign, "Speed Makes Champion and Legend" (勝戰在握 速造傳奇) epitomised the LI-NING brand's determination to help the Chinese National Badminton Team win the championship for the eighth time. During the tournament, a series of brand activities involving the Chinese National Badminton Team and a rich and wide variety of events promoting badminton culture, captured the media's attention and drove coverage of our brand while enabling participants to enjoy a memorable brand and product experience.


CHINA


EuroBasket 2011


EXCELLENT SUDIRMAN CUP
魅力新青岛


BWF
LOTTERY FUNDED

Management Discussion and Analysis

Singapore Open – The LI-NING brand was the title sponsor for the Singapore Open in June 2011 which allowed the Group to leverage the tournament's publicity and promotional opportunities. The tournament was broadcast in 14 countries and the LI-NING brand's involvement helped further increase the influence of the tournament. The successive years of impressive organisational efforts of the Singapore Open has helped expand the influence of LI-NING brand badminton products in Southeast Asia, bolster brand awareness and affinity among consumers and strengthen confidence among distributors in the region for LI-NING brand products.

2011 BWF World Superseries Finals held in Liuzhou – The tournament was one of the top five international badminton competitions held in China during 2011. The LI-NING brand rolled out a comprehensive integrated marketing campaign with the theme of "There are no competitors you cannot defeat, only you yourself cannot be surpassed" (沒有贏不了的對手，只有超越不了的自己) around the tournament with advertisement placements meticulously timed to coordinate with the tournament broadcast schedule. In addition, the Group also organised a series of interactive activities with China's biggest online badminton community *badmintoncn.com* and other social media platforms which drew an enthusiastic response from badminton fans.

"LI-NING Supreme 5 Mixed Doubles Badminton Cup" (*五羽輪比*) – The "LI-NING Supreme 5 Mixed Doubles Badminton Cup" is a whole new amateur badminton competition introduced by the LI-NING brand. The competition aims to demonstrate and promote the spirit and culture of badminton and is recognised by the Badminton World Federation ("BWF"). Since its inception in late 2010, the competition has been held in 24 cities in China and attracted the endorsements and recommendations from badminton enthusiasts, consumers, badminton stadiums and clubs and the media. The competition has also served as a successful warm-up for different professional tournaments such as Badminton Asia Championships, Sudirman Cup, Badminton China Open and BWF series, making the badminton culture more popular while actively promoting the brand and product experience.

International Sponsorship Resources in the Badminton Category – In addition to the eye-catching Chinese National Badminton Team, the LI-NING brand has a strong cast of international sponsorship resources, including Thailand's No. 1 men's singles player, Boonsak Ponsana, Denmark's men's single rising star, Jan Ø. Jørgensen, the Singapore National Badminton Team and the Australia National Badminton Team. Their spectacular performances in tournaments helped increase the LI-NING brand's exposure. During 2011 Shanghai Open, the Group conducted a series of media outreach activities for its sponsored international badminton players which helped enhance the LI-NING brand's standing in the international market.

Running

A series of public relations activities for the Group's running products, combining athletes' stories and tournaments, helped increase consumers' affinity to the LI-NING brand's running products while enhancing the brand's professional image.

"Light Breath, Listen to Your Run" (***輕呼吸 聽見跑***) – In the second quarter of 2011, the Group launched the LI-NING 8th Generation ultralight running shoes, based on its long established "Lightweight" brand asset platform. Themed "The secret of the 100m sprinter – LI-NING Ultralight Running Shoes", a series of marketing activities was conducted in concert with the launch of the products. Featuring 100m sprinter Asafa Powell as the spokesperson, the brand marketing campaign combined athletes' stories with in-depth communication of the product's technology and features as well as consumers' product experiences. Working in parallel with the online interactive activities under the seasonal theme "Light Breath, Listen to Your Run", the affinity of the brand among consumers and the professional image of LI-NING brand running products were enhanced, and sales performance was encouraging.

Beijing International Running Festival – The LI-NING brand organised a running shoes experience activity during the 10km marathon hosted in Beijing in April 2011. The Group invited over 20 famous PRC media outlets, including Xinhua, BTV, HiSports and TiTan Sports, to experience the LI-NING ultralight running shoes onsite which greatly enhanced the media's understanding of the products.

"No Shock, No Interference" (跑無震 心無憂) – Expanding on the "Lightweight" concept promoted in the second quarter, the Group rolled out another hero product – the new generation of LI-NING Bow cushioning running shoes in the third quarter. Using Andreas Thorkildsen, the world-dominant male javelin champion as its face, the campaign introduced the seasonal theme "No Shock, No Interference".

"Anti Shock + Flexibility = New LI-NING ARC Technology" – This new model of hero running shoes was launched in the fourth quarter of 2011. In addition to inheriting the perfect anti-shock technology of the LI-NING running shoes family, the shoe incorporates modern fashion elements, leading the Fall/Winter sports fashion trends with professional functions, vivid colours and a sharp design. A coordinated TV advertising campaign, coupled with athletes' demonstrations of the anti-shock innovation, achieved satisfactory promotion results and the new line of running shoes has received encouraging market response and consumer recognition since its launch in September 2011.

Management Discussion and Analysis

Basketball

"The Stronger You Are, The Stronger I Become" (以強礪強) – The Group rolled out "The Stronger You Are, The Stronger I Become" as the long-term platform for its basketball products in the first quarter of 2011, featuring NBA top draft pick Evan Turner as the core of the integrated marketing strategy. With Evan Turner and long-time NBA star Baron Davis as spokespersons for the campaign, the Group unveiled "Playmaker" (逸) and "Shotcalla" (狂) product concepts in the fourth quarter of 2011 to encourage consumers to choose products based on their individual playing styles.

"A Legend – The Stronger You Are, The Stronger I Become" (以強礪強之傳奇) – The advertising series, "A Legend – The Stronger You Are, The Stronger I Become" consists of five episodes running from the fourth quarter in 2011 to the first quarter in 2012. Featuring NBA players Evan Turner and Baron Davis as well as CBA players Zhang Bo (張博) and He Tianju (賀天舉), the campaign tells a story on how these four players, under the leadership of a basketball wiseman, grow stronger and improve together, which leads them to defeat an evil power. Breaking from traditional TV as the key media channel, the strategy shifted the advertising focus to online placements in an effort to reach the key younger basketball audience and attract a high level of attention and hot discussion.

National Basketball League ("NBL") – During the year, the LI-NING brand further deepened its strategic partnership with NBL, in which teams from 17 cities across China participated. Satellite TV broadcast of games was first introduced in 2011 which significantly broadened the influence and reach of NBL in China as well as increased the exposure of the LI-NING brand.

Shanghai Sharks Basketball Club – The Group invited 43 PRC media to participate in a kick-off ceremony for its strategic partnership with the Shanghai Sharks Basketball Club. By using interactive tactics, including players' story-telling, the event promoted LI-NING basketball's "The Stronger You Are, The Stronger I Become" concept as well as LI-NING's commitment to the long-term development of basketball.

Evan Turner China Tour – One of the NBA's hottest young talents sponsored by the LI-NING brand, Evan Turner, held his tour in Beijing, Suzhou, Hangzhou and Guangzhou in August 2011. In unveiling a logo specifically designed for Evan Turner as well as integrating LI-NING brand's other basketball resources, the tour promoted the development of basketball and further established the professional image of LI-NING's basketball products.

Tennis

Peng Shuai (彭帥), Marin Cilic, Ivan Ljubicic, Yang Tsung-Hua (楊宗樺), Zheng Saisai (鄭賽賽), together with ten other Association of Tennis Professionals ("ATP") top 150 players, formed the core strength of LI-NING tennis. The primary spokesperson, Peng Shuai, made an impressive performance in 2011, with her Women's Tennis Association ("WTA") singles ranking leaping from number 72 to number 17 by the end of the year. In addition, she and her partner won the doubles final at WTA (tier 2). On the male tennis front, Marin Cilic maintained his top form and was crowned champion for the sixth time in his career, with his ATP ranking at the world's top 20.

With an increasingly impressive cast of international icons in its tennis lineup, LI-NING's tennis endorsements have become one of the Group's core sports marketing resources and are instrumental in enhancing LI-NING's brand image and the research and development of tennis products.

Women's Fitness

"Inner Shine" Promotion Platform – Utilising "Beauty Inside Out" (美麗由內及外) as the theme for the marketing communication campaign of LI-NING women's fitness products resonates with the graceful and subtle values of oriental women and advocates women's every day efforts to demonstrate their individuality so as to let their "Inner Shine" show through.

"Give It All Out Fitness Training Programme" (全麗以赴30天) – The Group rolled out the "Give It All Out Fitness Training Programme" in collaboration with three fitness clubs, Beijing Nirvana Yoga, CSI Bally and Physical Club of Shenzhen. The programme invited well-known fitness trainers to offer dedicated training to participants as well as advise them on healthy diet tips and make-up techniques. The event earned good reviews from participants as well as the participating clubs, while positive online and word-of-mouth reviews effectively raised LI-NING's standing in the women's fitness category.

LI-NING x Vivienne Tam "Fashion Yoga" Collection – Through a partnership with international renowned designer, Vivienne Tam, the Group launched a collection of women's fitness products with a stylish yoga theme. The collection was rolled out during the New York Fashion Week at the Lincoln Center's outdoor square, which included a leading yoga trainer as guest instructor and attracted wide spread coverage from local and international lifestyle media.

LI-NING's women fitness series has been well-received by the industry and consumers since its launch in 2009. In December 2011, LI-NING's women fitness series was honoured with the 2011 "Healthiest Product Award", presented by *Trends Health Magazine* from mainland. The poll is aimed at promoting trendy healthy philosophies and lifestyle. The award-winning women fitness series not only accentuates the perfect harmony between the LI-NING brand and aesthetics of eastern athletics, but also advocates LI-NING's health philosophy that sports can change lives while incorporating elements of fashion. This award is affirmation and recognition of LI-NING brand's ability to consistently and relentlessly provide consumers with quality sporting goods.


LI-NING
让改变发生
Baron Davis
狂
i-ning.com/basketball传奇大片上演
利器配英雄
Evan Turner


LI-NING
Make the change
跑无震 心无扰


LI-NING


LI-NING

Management Discussion and Analysis

Community Marketing Events

LI-NING iRUN Club – The Group's interactive running platform in China aims to organise various running activities and encourage its members to participate in a range of competitions. At present, the "iRUN" Club *(www.irun.cn)* has over 200,000 registered members. During 2011, the "iRUN the World" (iRUN跑天下) campaign organised mainly 6km relay events to promote the LI-NING brand messages as well as related technology of key running products to over 10,000 running devotees in ten China cities.

LI-NING 3+1 Basketball Game – The Group hosted the "2011 LI-NING 3+1 Basketball Game" on a nationwide basis attracting the participation of over 1,000 teams and more than 5,000 players. The competition invited CBA players, Han Shuo (韓碩) and Xu Zhonghao (許鍾豪) to interact with players at the National Final event. NBA star Evan Turner graced the opening ceremony of the Beijing area finals while another NBA icon, Shaquille O'Neal, handed the invitation to the United States to 3+1 players. The winning team will visit the United States to receive further instruction from the Group's sponsored NBA stars.

LI-NING Hero Vans (李寧大篷車) – To encourage sports enthusiasts to participate more in sports activities and enjoy the pleasure of sports, the Group's meticulously planned "LI-NING Hero Vans" programme entered into its fourth consecutive year. In 2011, "LI-NING Hero Vans" attracted over 300,000 participants and helped raise the LI-NING brand's influence in second- and third-tier cities.

LI-NING Sports Park – Now enjoying its fourth consecutive year of successful operation, the "LI-NING Sports Theme Park in Beijing Chaoyang Park" (北京朝陽公園李寧體育園) used the multi-purpose urban sports stadium to interact directly with sports lovers through advertising, mini matches and brand stores, making it an increasingly popular sports park in Beijing.

Newly Signed International Track and Field Sponsorship Resources

Christian Taylor – 2011 marked a great leap forward for American track and field athlete, Christian Taylor, the young, up-and-coming triple jump star. At the track and field World Championships held in Daegu, South Korea, Christian Taylor prevailed against top triple jump athletes from around the world with a distance of 17.96 metres. This record is a rare achievement in the recent history of world's men's triple jump competitions, encroaching upon the longstanding world record. Looking towards 2012, Christian Taylor will have his sights firmly set on the gold medal at the London 2012 Olympic Games.

Ngonidzashe Makusha – Holding the records of 9.89 seconds in 100m sprint and 8.40 metres in long jump, Ngonidzashe Makusha became the third collegiate student to become a dual-event titlist in both 100m sprint and long jump. A world-class athlete who is simultaneously at the pinnacle of both 100m sprint and long jump has finally emerged in the international track and field realm. Ngonidzashe Makusha's incredible explosive power, speed, technique and flexibility fill his fans with hope for this sports prodigy's 2012 endeavours.

Sales Channel Expansion and Management

Retail Stores

During 2011, the Group proactively regulated the pace of store expansion in order to concentrate its efforts on distribution channel reforms and management. As at 31 December 2011, the total number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to 8,255, representing a net increase of 340 stores over the course of the year. There were 57 distributors, 8 fewer than at 30 June 2011. This was mainly due to the integration of certain small-scale distributors into some large-scale distributors or the Group's subsidiaries during the year in order to improve management efficiency of distribution channels. Store breakdown as at 31 December 2011 was as follows:

Number of franchised and directly-operated retail stores

LI-NING brand stores	**31 December 2011**	31 December 2010	**Change (%)**
Franchised retail stores	**7,495**	7,333	**2.2**
Directly-operated retail stores	**760**	582	**30.6**
Total	**8,255**	7,915	**4.3**

Number of retail stores by geographical location

LI-NING brand stores	**31 December 2011**	31 December 2010	**Change (%)**
Eastern region *(Note 1)*	**3,271**	3,288	**(0.5)**
Northern region *(Note 2)*	**3,037**	2,820	**7.7**
Southern region *(Note 3)*	**1,947**	1,807	**7.7**
Total	**8,255**	7,915	**4.3**

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, Hong Kong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.


LI-NING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Management Discussion and Analysis

LI-NING Brand Sponsorship Resources

	BADMINTON	TRACK & FIELD/ RUNNING	BASKETBALL	OLYMPIC CHAMPION TEAMS	TENNIS	WOMEN'S FITNESS	FOOTBALL
TOP-NOTCH ATHLETES/ SPORTS TEAMS/ SPORTS CLUBS	Chinese National Badminton Team	Asafa Powell	Shaquille O'Neal	Chinese National Table Tennis Team	Marin Cilic	Lesmills China	
	Lin Dan	Yelena Isinbaeva	Baron Davis	Chinese National Diving Team	Ivan Ljubicic		
		Andreas Thorkildsen	Jose Calderon	Chinese National Shooting Team	Peng Shuai		
		Christian Taylor	Evan Turner	Chinese National Gymnastics Team	Yan Zi		
		Ngonidzashe Makusha	Spanish National Basketball Team				
			Argentina National Basketball Team				
TOURNAMENTS	Badminton China Open	Beijing International Running Festival	NBL		ATP	LI-NING Yoga Workshop	Chinese University Football League
	China Badminton Masters		LI-NING China Basketball Training Camp				
	China Badminton Club Super League						
	China National Badminton Cup						
	Singapore Open						
OTHER IMPORTANT SPONSORSHIP RESOURCES	Shanghai Badminton Team	11 Provincial Track & Field Teams	Shanghai Sharks Basketball Club	USA Diving Team	Yang Tsung-Hua	Nirvana Yoga	
	Bayi Badminton Team	Eritrea Track & Field National Team	Zhejiang Guangsha Basketball Club	Swedish Olympic Delegation	Pliskova sisters	CSI Bally	
	Guangdong Badminton Team	Domestic Athletes	China Youth Basketball Team	USA Diver David Boudia	Zheng Saisai	Physical Club of Shenzhen	
	Singapore National Badminton Team		Domestic Players				
	Australia National Badmintion Team						
	New Zealand National Badminton Team						
	Jan Ø. Jørgensen						
	Boonsak Ponsana						

Management Discussion and Analysis

To further advance reforms and improve the structure of the distribution channel of the LI-NING brand, the Group implemented the following measures regarding its distribution expansion and management with satisfactory results in 2011:

- Clearance channels are being established at a practical speed in order to achieve a rational and effective store structure: As at 31 December 2011, there were 269 LI-NING brand factory outlets and 358 LI-NING brand discount stores (31 December 2010: 133 factory outlets; 180 discount stores). The Group has reached its target proportion of retail revenue accounted by clearance channels for the year. The Group will continue to develop clearance channels and expects to basically achieve the ultimate target proportion of stores and retail revenue accounted by clearance channels by end of 2012, ensuring a reasonable and healthy store network structure.

- Construction of sixth-generation stores: The store-front image and retail experience created at sixth-generation stores embody the LI-NING brand personality and values. As at 31 December 2011, there were 219 sixth-generation stores (31 December 2010: 58 stores). The Group will carry out full-scale promotion of sixth-generation stores in 2012 to improve efficiency of retail store sales.

- Construction of brand image stores and benchmarking stores: Through optimisation of store locations and configuration, the Group established its brand image stores and benchmarking stores at the provincial and prefecture levels to help elevate its regional brand position and increase market share.

- Shopping mall channels development and management: As shopping districts of the first-tier cities gradually extend into the suburbs and urbanisation in central western regions accelerates, development potential in second-tier cities and below has been advancing. Since October 2011, the Group has intensified its cooperation with nationwide shopping malls in order to augment its strength and market share in these channels.

- Integration and management of sub-distributors: As at 31 December 2011, the Group had completed the integration of 425 low-efficiency, single store sub-distributors, achieving its target for the year. The Group also focused on strengthening the performance management of sub-distributors to increase the level of control over distributors. In 2012, the Group will continue to infuse its channel policies and resources into sub-distributors to bolster channel expansion, retail operating capabilities and business scale of sub-distributors.

E-Commerce

With the surging number of internet users and growth of e-commerce in China, the Group actively expanded its online market channels through the establishment of a comprehensive e-commerce distribution system. The Group won several industry awards including "China's Most Investment Potential in E-commerce Gold Seed Award" (中國電子商務最具潛力投資價值金種子獎) organised by APEC E-Commerce Business Alliance, "The 2011 Eguan Best E-commerce Customer Value Management" (2011易觀傳統企業電子商務客戶價值管理最佳獎) awarded by Analysys International, and the "2011 Most Popular Brand" (2011年度網友最喜愛品牌) awarded by *360buy.com*, demonstrating strong recognition from the e-commerce industry.

During 2011, the Group's e-commerce business maintained a healthy and stable course of development. Currently, the Group has established an official online shop under the LI-NING brand (*www.e-lining.com*). Official online shops for the LI-NING brand have also been opened on reputable third-party e-commerce platforms in China such as *Taobao.com* and *Paipai.com*. Other well-known e-shops in China, including *Amazon.cn*, *360buy.com* and *S.CN*, have also dedicated web pages for purchasing LI-NING brand products online. The Group also collaborated with various prominent mainland banks on bank-hosted virtual shopping malls. The Group is actively promoting its new business model of cross-channel, cross-sales terminals and cross-media, allowing consumers to purchase LI-NING brand products directly through computer terminals, TV terminals and mobile phones.

Product Design, Research and Development

As a professional sporting goods brand, the Group has continued to advance its product design and innovation capabilities. Through continuous enhancement in product functionality and quality as well as application of its technology platforms, the Group is committed to create product offerings which are able to meet the needs of both general consumers and professional athletes.

Research and Design Centres

The Group operates design, research and development centres in mainland China and Hong Kong, which are focused on continuously enhancing and developing higher levels of scientific research, technology and innovation for its products.

Li Ning Sports Science Research Centre, located at the Group's Beijing headquarters, is equipped with an array of advanced testing instruments and equipment. The centre consists of a Sports Biomechanics laboratory, Footwear Mechanical Testing laboratory, Foot Shape Shoe Last Research laboratory and Apparel

Management Discussion and Analysis

Material laboratory. Closely monitoring global technological and sports science advances for footwear, the research centre is actively involved in collaboration with a number of domestic and foreign universities and professional bodies to conduct innovative research and development on badminton shoes, tennis shoes and jogging shoes, as well as basic research on sports performance and gait characteristics, force distribution, sole friction, internal shoe temperature and humidity, foot shape and shoe last. The Group also increased its research and development efforts in apparel products, by working with renowned domestic academic institutes and organisations, while also improving its own research and development facilities. The first phase of laboratory used earlier on for basic functionality testing of apparel materials has been completed and played an important role in the development of new materials.

Products for Professional Sponsorships

In addition to being a long-term sponsor of high-tech gear to the Chinese National Badminton Team, Chinese National Diving Team, Chinese National Shooting Team, Chinese National Table Tennis Team and Chinese National Gymnastics Team, the Group also endorses other top-notch domestic and international sports sponsorship resources with its advanced products to assist these athletes in achieving outstanding performances in the sports arena. This helps maintain LI-NING's position as a leading brand in terms of professionalism and participation in sports competition.

- Specialising in the development of superior sports gear for professional athletes, the "Athletic Pro" series adopts the most cutting-edge sports motion theory. From product functionality, aesthetics, to customisation for personal needs, these attributes fully meet the needs of, and are recognised and praised by, top world athletes sponsored by the Group, highlighting that LI-NING brand products have reached world-leading standards. The top end "Athletic Pro" series covers many sports categories including badminton, track and field, basketball, tennis, football, and others. The personalised products include:
    - "HERO" (貼地飛行) and "Choice for Grand Slam – HERMAN" (全滿貫之選 – HERMAN) professional badminton shoes for the renowned men's badminton singles player, Lin Dan (林丹);
    - Professional competition sports shoes and apparel for the world's No.1 pole vault athlete, Yelena Isinbaeva;
    - Professional LI-NING branded javelin shoes, apparel and accessories tailor-made for the "Prince of Javelin", Andreas Thorkildsen;
    - Professional gear for Jamaican sprinter, Asafa Powell. At the Lausanne leg of the 2011 International Track and Field Diamond League, Asafa Powell, wearing the LI-NING ultralight spikes shoes, set a record for the men's 100m sprint this season, finishing at 9.78 seconds to win the competition for the third time in four years;
    - Basketball shoes developed for NBA stars, such as "BD Defend" and "Conquer" for Baron Davis, "Big Sharmock" for Shaquille O'Neal, "YuShuai VI" (馭帥VI) for Jose Calderon and "Conquer" and "Brass Monkey" for Evan Turner; and
    - Professional tennis gear for Chinese tennis stars Peng Shuai (彭帥) and Yan Zi (晏紫) and international tennis star Marin Cilic. Wearing the LI-NING professional gear, Peng Shuai ranked among the top 16 players at Wimbledon, the Australian Open and the U.S. Open in 2011; while also ranking within the top 32 players in the French Open, all of which took her to new heights in her career. Marin Cilic was runner-up at the 2011 China Open, and also won his sixth ATP Tour title during the year.
- The research and development team of footwear products for the Group's top professional sponsorships has made persistent breakthroughs and established a leading platform for professional product sponsorships. In particular, the footwear products for professional sponsorship in track and field cover 47 different events. The Group sponsors 12 of China's provincial teams, five international athletes and one overseas track and field team, making it the leader among domestic brands in this area, and greatly enhancing LI-NING brand's professionalism.
- Newly innovated three-dimensional moisture-wicking material is employed in the national badminton team's apparel. A yarn with special functions, combined with the uniquely designed and developed three-dimensional fabric, gives the material excellent moisture-wicking abilities, which prevents the apparel from sticking to the skin after being soaked by sweat. By reducing the tackiness effect, these apparels help keep the athletes dry and comfortable.
- The competition gear worn by the Chinese National Diving Team employs Xtra Life LYCRA™ super chlorine-resistant swimwear material and an advanced digital printing process. The Xtra Life LYCRA™ provides significantly more resistance to chlorine compared to regular swimwear and protects elasticity in the fabric from deterioration caused by long-term exposure to swimming pool chlorine. This technology helps to maintain the swimwear's pliability and durability, while the digital printing process makes the layering and stereoscopic effect more outstanding and the colours more vibrant, improving the wearer's overall performance. In July 2011, the Group's sponsored Chinese National Diving Team achieved a remarkable record in the 14th FINA World Championships held in Shanghai by sweeping ten gold medals and opening a new chapter in China's diving history.

Management Discussion and Analysis

Footwear Products

In addition to developing products for professional athletes, the Group also offers a wide range of products for general sports enthusiasts. The Group is devoted to footwear innovation, focusing on enhancing comfort, shock-absorption, bounce, lightness, personalisation and fitness. Through its research and development initiatives, the Group has developed a series of new technologies applicable to footwear, and achieved satisfactory results. To continue evolving product innovation, the Group established a cross-departmental innovation committee at the end of 2011, which is aimed at continuously promoting and strengthening the Group's innovation competencies in 2012. Furthermore, the Group's research and development team continued to develop its core technology, the "LI-NING BOW" (李寧弓), and to conduct cross-sports category research, in order to gradually apply these technologies to different sports categories, including basketball, tennis and badminton, and to develop various footwear products targeted at consumers with different purchasing power and sporting habits. The Group is also dedicated to the ongoing development of the "LI-NING Last" (李寧楦) which better fits the foot shape of Chinese consumers. The technology is applied to a wide range of footwear products including running, basketball, women's fitness and badminton to improve the comfort and the overall experience for general sports enthusiasts.

During 2011, the following new footwear products were launched under the LI-NING brand:

- New generation LI-NING Bow cushioning running shoes: employed TPU and PU components to create visual structure of an X-Bow, which provides not only greater anti-shock protection, but also brings a stunning visual experience and comfort to wearers;
- LI-NING 8th Generation ultralight running shoes: the shoe body is constructed with MonoMesh and Sandwich Mesh, successfully achieving an ultralight and superb ventilation effect. The products provide a similar lightness and breathability as those of socks, allowing delight for wearers, even in the heat;
- LI-NING ARC (寧弧) running shoes: utilised a brand new shock absorption technology, via a unified sole with hollowed bow structure, and a full length flexible sole-structure with outstanding anti-shock capabilities and flexibility, giving wearers a greater feeling of comfort and helping them exercise more effectively;
- LI-NING "YuShuai VI" (馭帥VI) basketball shoes: with a design based on the Chinese splashing ink style, the shoe face is created by employing the most advanced 3D lightweight print technology using Injection Phylon (IP) midsole combined with Synchronisation Adjustment System (SAS). "BounSe" high energy return technology is incorporated in the heel, the shoe tongue is made with the special molding technology and the shoe comes with a tailor-made insole. With innovative material, combined with the high tech design elements of the shoe face and the overall artistic design, LI-NING "YuShuai VI" inherits the classic elements of the "YuShuai" series while exhibiting its own unique style;
- Brand new LI-NING "MIX" Urban-Sports shoes: incorporated China's special mortise and tenon structure into a modern design concept, combining basic functions of sports shoes with themes of fashion and environmental-friendliness to lead the "MIX" trend. These creative sports shoes were honoured with the German "iF Design Award 2011" and also the Gold Award from "China Red Star Award"; and
- "HERMAN" professional badminton shoes: the creativity behind the design is driven by "Understated luxury, All-round functionality". The design is avant-garde yet simple, and employs "TUFFTIP" technology inside the toe section, where shoes are easily weakened by friction, to extend the product's lifespan.

In March 2011, the Company received two awards, "2010 China 100 Most Valuable Footwear Brands" and "China Top 10 Sports Shoes Enterprises" in an event judged jointly by four authorities in the industry, the National Leather and Footwear Industry Productivity Centre, the National Footwear Industry Information Centre, the National Quality Supervision and Inspection Centre of Footwear and the National Product Quality Supervision and Inspection Centre of Leather. These awards are aimed at evaluating the value of footwear enterprises that have achieved success in China's leather footwear industry as well as establishing industry role models.

Technology Distribution of LI-NING Brand Footwear Products

Management Discussion and Analysis

Apparel Products

During the year, the Group implemented the following initiatives in apparel research and development innovation:

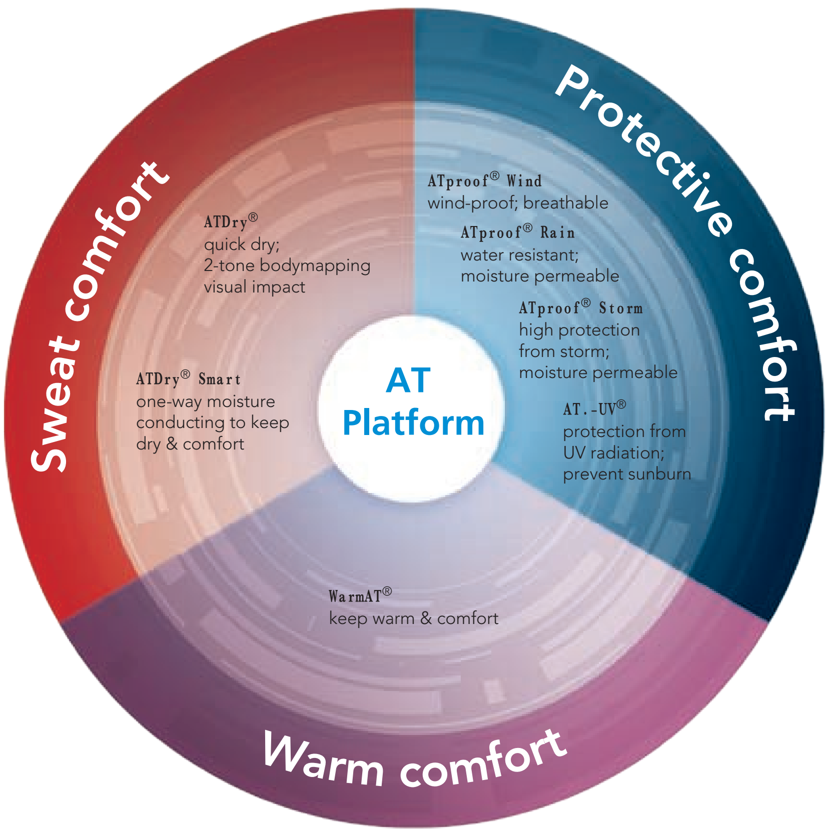
- The apparel product science and technology research team, in collaboration with well-known Chinese and overseas universities and institutions, continuously conducted research on specific sports categories and applied the scientific data and analysis effectively to the design, garment block and fabric of sports apparel products. This has helped to create various innovative apparel products employing LI-NING brand intellectual property and bring more comfort and a better sports experience to consumers.

- The AT Technology Platform, which has been instrumental in enhancing the LI-NING brand value, continues to break new ground in the improvement of highly absorbent, permeable and anti-septic properties of fabric. The AT Technology Platform is used in all product lines to provide a continuously improving experience for consumers. The functional standards of the improved AT Technology Platform have been updated and upgraded continuously and have become a professional technological platform which offers comprehensive functionalities, advanced skills and evidence-based technology for sports products.

- To strengthen the connection between apparel product design and the brand's DNA, the Group is currently applying for an appearance patent from the State Intellectual Property Office for the second generation of "Lucky Line" design of the LI-NING brand. The Group has been granted various appearance patents from the State Intellectual Property Office and has established an apparel block system for different body types such as slim fit, regular fit and loose fit to help differentiate LI-NING brand's apparel products.

- The concept of green comfort was advanced by using Eco-circle, a recyclable green fabric, in the 2011 Winter Women's sports product line. The Yoga product line uses Eco Cut, an environmentally-conscious tailoring concept by increasing utilisation of fabric and reducing wastage through special product designs to advocate green apparel.

AT Technology Platform of LI-NING Brand Apparel Products



Badminton Rackets

As the Group's benchmark sports category, the LI-NING brand badminton racket was the first in the industry to launch a "technology platform" concept in 2011 that forms a technological barrier with unique selling points. This highlights the cutting-edge advantage the Group holds in research and manufacturing techniques, as well as craftsmanship and development techniques in the production of LI-NING brand badminton rackets.

The Group introduced seven new products which employ "3D Breaking-free Technology Platform" (立體風刃科技平台) and "Air Stream System Technology Platform" (風動導流科技平台) patented technology, which LI-NING brand has outright ownership of, covering the mid-to-high price range. The products marked a breakthrough in badminton racket innovation, accentuating perfect balance and a combination of performance, sports resources and design.

The LI-NING Racket Research and Development Manufacturing Centre is equipped with some of the finest up-to-date facilities in the industry and one of the largest number of qualified research staff. The Centre is the only one in the industry that operates state-of-the-art production lines for 100,000-level dust-free coating, solvent-free and hot-melt adhesive thread and automatic form molding, redefining the industry standard in craftsmanship. By achieving these high standards in racket manufacturing and using only top-quality materials, the Group has set an industry benchmark. The Group's leadership position was further consolidated by its earning recognition from top international sports resources including the Chinese National Badminton Team.

Supply Chain Management

The Group endeavours to establish a demand-driven, flexible and market-responsive supply chain system to cope with its business model and growth effectively. During 2011, the Group undertook the following measures in respect of enhancing LI-NING brand's supply chain management:

- Since 2009, the Group has responded to the rapid escalation in labour costs and the unstable supply of labour in the coastal areas in recent years by proactively initiating a shift in its supplier base towards Central China and establishing an all-in-one production and delivery base in Jingmen, Hubei Province to ensure stability in production supply and cost. In 2011, the base continued to scale upwards and has become a core component of the Group's supply chain by ensuring more stable supply of resources while also achieving a cost advantage.

- Continued to facilitate the production and supply of supporting materials for the Jingmen base with manufacturing facilities for sole, mould, mesh fabric sponge, knitting materials, woven tape, printing and embroidery, etc., to form a fully integrated production base for apparel and footwear.

- Complemented the Hubei-based facilities with the construction of "LI-NING Logistics Centre" in Jingmen which is planned to begin trial runs in the first half of 2012. The Logistics Centre is a modern, fully-automated warehouse comprising the latest logistics concepts and technologies to support the Group's diversified business model and to become an integrated logistics base. In 2012, the Group's logistics will start relying on the Jingmen logistics base to regulate the supply chain network in order to improve cost and efficiency. At the end of 2011, the Group also continued to improve the logistics operations of its subsidiaries to form a standardised management so as to provide logistics support for all-in-one inventory management throughout the country and strengthen retail logistics capabilities.

In 2011, the Group put great effort in educating its suppliers on fulfilling social responsibilities in the supply chain as well as management of chemicals in order to promote and encourage sustainable development in the supply chain and to build the green reputation for the brand:

- Five intensive training sessions were conducted during the year. Improvements in suppliers' process management and self-inspection became mandatory requirements of the Group. The Group also expanded the coverage of external professional institutions in assessing suppliers, which led to improvement of social responsibility in the supply chain and the control of chemicals.

- In chemical control in the supply chain, the Group together with other well-known international sports and fashion brands co-published "The Joint Roadmap towards Zero Discharge of Hazardous Chemicals by 2020" in November 2011. This will continue to be refined and accomplished as the Group gains more knowledge and insights through initial pilots and research, as well as collaborating with other brands and stakeholders.

- Devised "Restricted Substance List for Apparel, Footwear and Accessories Products" which was published on the Company's official website in early 2012. The list stipulates specific control requirements on the examination of chemical substances in our products.

Management Discussion and Analysis

The Group will continue to integrate and strengthen the management and control of its supply chain and advocate corporate social responsibilities to gain trust and respect from consumers.

Double Happiness Brand

Double Happiness brand is owned by Shanghai Double Happiness Co., Ltd. and its subsidiaries (collectively, "Double Happiness"), in which the Group holds 57.5% equity interest. It is principally engaged in the manufacture, research and development, marketing and sales of table tennis and other sports equipment.

Double Happiness continued to adopt "sponsorship of sports stars and sports events" as its core marketing and promotion strategy. In 2011, Double Happiness maintained its endorsement of outstanding table tennis players in China, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞), as spokespersons for its table tennis equipment. Double Happiness also actively sponsored various professional tournaments in China and around the world. In 2011, the Group sponsored and provided professional equipment for events including the International Table Tennis Federation ("ITTF") Pro Tour – 17 Stops, the 51st Rotterdam World Table Tennis Championship, Men's and Women's Table Tennis World Cups, Chinese Table Tennis Club Super League, China VS World Table Tennis Challenge and Youth World Weightlifting Championships. In the first half of 2011, as Double Happiness continued its 2009-2012 ITTF comprehensive cooperation programme, it signed the 2013-2016 cooperation agreement with ITTF, in which the Group was granted the official equipment supplier for the 2016 Olympic Games. This comprehensive cooperation plan also gives Double Happiness the role of official equipment supplier for the World Table Tennis Championships from 2014 to 2016, the World Cup from 2013 to 2016, and the ITTF Pro Tour from 2013 and 2016.

In 2011, over 80% of Chinese National Table Tennis Team members opted for the Double Happiness brand covering. The brand also successfully developed the "ARC" series covering with high-rebound sponge, which is used by top table tennis players on backhand. Besides equipment for professional players, Double Happiness successfully rolled out more than 200 new products in 2011. These include products exclusively available in supermarkets and badminton rackets with a patented handle. The new products complement Double Happiness brand's product line and showcase the brand's strong capabilities in product research and development and design. In 2011, Double Happiness completed its development of table tennis table and badminton referee equipment for use in the table tennis and badminton tournaments at the London 2012 Olympic Games.

Double Happiness products are mainly distributed via wholesale and integrated sporting goods stores. It has adopted a wholesale model with a relatively stable clientele across 30 provinces and municipalities. In 2011, Double Happiness further reinforced its customer management by executing meticulous management on customer behaviour and sales policies. The brand also launched the "professional product distributor system", which provided over 100 varieties of table tennis blade and covering to more than 30 regional distributors together with dedicated license agent polices and promotional support aimed at enhancing the penetration of Double Happiness brand's products in the distributors' regions. During the year, the brand also entered into dozens of supermarket distribution channels with its "supermarket exclusive" programme, which tailors products and sales strategies particularly for supermarkets. In 2012, Double Happiness brand will continue to implement the "professional product distributor system" and "supermarket exclusive" programmes.

Through synergies in brand marketing, promotion, sports tournament sponsorship and distribution channel expansion, LI-NING and Double Happiness brands together strengthen the Group's position in China's table tennis market.

Lotto Brand

Adhering to the brand's core values, Lotto brand designed and executed a number of differentiated, integrated marketing initiatives during 2011. Through collaboration programmes with movie and pop stars, it aims to create a "Lotto, Lot to Feel" (玩味Lotto, Lot to Feel) product experience to raise awareness of the Lotto brand. On the product front, staying close to Lotto's unique product design style, the Group collaborated with pop rock star, Avril Lavigne, and launched the "Avril x Lotto" collection for its "Feel" series which further established product differentiation.

The Group started its investment in Lotto brand in 2009. Despite growing revenue and brand recognition of the brand in recent years, the Lotto brand's overall business development has fallen short of the Group's expectation. The Group will seek adjustment of the business model of Lotto brand in 2012 to complement the Group's overall strategic direction.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Management Discussion and Analysis

AIGLE Brand

In 2011, AIGLE's products gained higher recognition among consumers, largely due to the brand's unique competitive edge. During the year, the business performance of existing and new stores fared well. Same-store sales exhibited significant growth while helping drive sales. AIGLE brand has become one of the leading outdoor and casual brands.

In 2011, with effective retail management and an optimal pace of new store openings, the AIGLE brand business broke even in both cost and revenue and is on a strong track of stable development. In future, the AIGLE brand will continue to implement the following major operational measures:

- AIGLE brand's unique brand positioning will be further strengthened by its casual style with a combination of functional fabric and French stylish design, while enhancing brand recognition among consumers;
- For marketing and promotion, the Group will continue to enhance the brand exposure and awareness through continuous placement of advertising in outdoor media and travel magazines as well as leveraging endorsements by celebrities;
- In addition to gradually establishing AIGLE brand image stores in first-tier cities and setting up points-of-sale in key shopping malls in major cities, the Group will increase coverage of retail stores in cities above the provincial level; and
- Continue to strengthen retail management and consumer relationship management to raise brand recognition among consumers, enhance single-store growth and productivity, and drive sales performance.

Kason Brand

Kason, a well-known badminton equipment brand with over 20 years of history, is an integral part of the Group's badminton business. Its sponsorship includes the Chinese National Badminton Team's number one Men's Doubles, Fu Haifeng（付海峰）and Cai Yun（蔡贇）, the Chinese National Youth Badminton Team and six strong provincial badminton teams.

During the year, the Group continued to comprehensively enhance Kason's brand positioning, product structure, research and development and sales channel. The Group brought together Kason's popularity in the market and LI-NING brand's leading manufacturing techniques and research and development capabilities in the badminton industry. Through differentiation of brand and product positioning, the Group fully capitalised on the two brands' advantages in sports marketing resources and increased the Group's market share in the badminton sector.

Z-DO Brand and Double Happiness Branded Footwear and Apparel

Due to a lackluster performance in brand positioning and product differentiation for the Z-DO brand, the Group further reduced the business of Z-DO brand and started clearing its inventory during the year.

The Group has decided to discontinue the business of Z-DO brand and its development plan for the Double Happiness branded footwear and apparel in order to better focus its efforts and resources on the core LI-NING brand business.

ORGANISATIONAL REFORM AND HUMAN RESOURCES

As at 31 December 2011, the Group had 4,180 employees (31 December 2010: 4,215), of whom, 2,176 (31 December 2010: 2,100) were from the Group's headquarters and retail subsidiaries, and 2,004 (31 December 2010: 2,115) were from other subsidiaries.

The Group regards its workforce as an important asset for corporate development and has placed special emphasis on the recruitment, training, motivation and retention of its core management and professional staff. To cope with its business development, the Group conducted systematic and effective human resources reviews and succession planning mechanisms, strengthened the internal talent pool and staff development efforts and continuously built its leadership and professional development systems. The Group believes in linking job positions, individual capabilities and performance with the employees' compensation packages. The Group also pays close attention to the competitiveness of rewards for key employees, while retaining and motivating them through customising motivation proposals and various incentives.

Management Discussion and Analysis

In 2011, the Group focused on the transformation and development of LI-NING Brand's core business by proactively seeking internal integration, enhancing efficiency and continuously conducting organisational adjustments and improvements to increase business execution and to better assess business performance. In February 2012, as part of the Group's business reform and business development plan for 2012, the Group undertook further adjustment of its organisational structure through streamlining the workforce, consolidation of resources and motivation of key performing employees with a view to sharpening its focus on the core business, optimising its organisational structure and enhancing its operational efficiency. For the Group's front-office business development departments such as Marketing, Sales and Product divisions, while the Group is committed to providing necessary resources, it will further improve control and management of costs. As for departments related to non-core businesses, such as the other brands division, the Group will further consolidate these operations in order to better focus the Group's resources on its core business. Regarding back-office departments, such as Human Resources, Information and Technology, and Strategic Development divisions, the Group will streamline the organisational structure of these departments to increase operational efficiency, lower human resources costs and channel resources to the Group's core business.

PROSPECT AND STRATEGIES

In 2012, we anticipate that the global economic recovery will still face many challenges. The industry in which the Group operates will benefit from the transformation of China's economy from being investment-driven to consumption-driven. At the same time, the overall annual growth rate of China's sporting goods industry is expected to maintain its steady growth as a result of stimulation from the London 2012 Olympic Games.

The Group believes that competition within China's sporting goods industry will remain intense, and the pressure of cost escalation will persist in the industry value chain. Looking at LI-NING brand trade fair results for the first, second and third quarters of 2012, the aggregate value of forward orders from the first half year grew at a low-single digit pace, while a mid-single digit percentage decrease was recorded for the third quarter. These results reflect that the market environment continues to be challenging in 2012. In view of the current challenges in the sporting goods industry in China, the Group will focus on improving its operating performance by continuing its proactive reforms in its brand, products and distribution channels in 2012. These initiatives will include:

- Focus on the core business of the LI-NING brand, enhance operational efficiency, carry out reforms in organisational structure and introduce across-the-board cuts in expenses (with the exception of expenses relating to brand marketing and promotion and product research and development), in particular by reducing day-to-day expenses and enhancing staff efficiency.

- Adjust product structure and control procurement costs in order to enhance product gross profit margins.

- Continue to strengthen product capability, improve product design and research and development, and propel product innovation; at the same time streamline product pricing strategies and enhance the price to value proposition.

- Press ahead with distribution channel reforms, enhance retail efficiency in the second– to fourth-tier markets, and escalate clearance of inventory at the retail level to accelerate cash conversion.

- Leverage the opportunities afforded by the London 2012 Olympic Games to enhance brand image. Further clarify branding strategies and improve its management; integrate brand positioning by effective use of resources in sports marketing, enhancing effectiveness of utilising brand marketing resources and strengthening the connection between brand, product and the consumer.

The Group remains cautious of the macro-economic environment in China in 2012 and the adjustments the sporting goods industry is undergoing. Nevertheless, the Board and the management of the Company believe that the Group's strategies, and their implementation measures, are both rational and on the correct course. In the coming year, the Group will be committed to improving its operational efficiency and focusing on the effective execution of its strategies in order to lay a solid foundation on which to achieve the Group's long-term vision and objectives.

REAL SPORTS


奠基仪式


开易（荆门）服装配件项目
动能宏冠印绣花项目

Corporate Governance Report

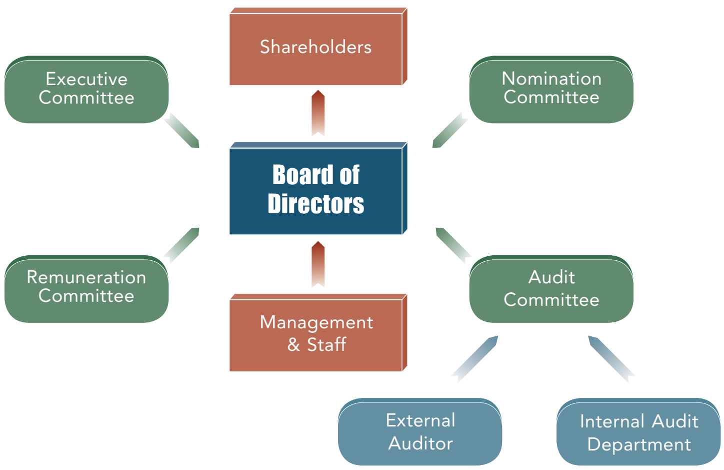
The Board is committed to promoting and upholding good corporate governance in order to achieve its mission of creating value for and maximising returns to the Shareholders. This report sets out the corporate governance structure and major corporate governance practices adopted by the Company.

Compliance with the Corporate Governance Code

Throughout the year ended 31 December 2011, the Company applied all the principles and fully complied with all the code provisions, and where appropriate, adopted the recommended best practices of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code").

Corporate Governance Structure

The corporate governance structure of the Company is as follows:



The Board of Directors

Being accountable to the Shareholders, the Board has the responsibility for providing leadership and monitoring and controlling the Company and is collectively responsible for promoting the long-term sustainable and healthy development of the Group by directing and supervising the Company's affairs.

Composition of the Board

As of the date of this report, the Board comprised the following nine Directors, with a majority of whom are non-executive Directors (including the independent non-executive Directors):

Category and name of Director	Date of first appointment to the Board	Date of last re-election by Shareholders
Executive Directors		
Mr. Li Ning *(Chairman)*	3 April 2004	14 May 2010
Mr. Zhang Zhi Yong *(Chief Executive Officer)*	6 May 2004	15 May 2009
Mr. Chong Yik Kay *(Chief Financial Officer)*	9 February 2009	15 May 2009
Non-executive Directors		
Mr. Lim Meng Ann	6 May 2004	15 May 2009
Mr. Chu Wah Hui	1 June 2007	13 May 2011
Mr. James Chun-Hsien Wei	1 September 2007	13 May 2011
Independent non-executive Directors		
Mr. Koo Fook Sun, Louis	6 May 2004	14 May 2010
Ms. Wang Ya Fei	6 May 2004	13 May 2011
Mr. Chan Chung Bun, Bunny	6 May 2004	14 May 2010

Corporate Governance Report

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. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. Biographical details of the Directors are set out on pages 59 to 61 of this annual report.

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 development 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 Group and that he is fully aware of his duties and responsibilities as a director under applicable rules and requirements. Directors are updated on any developments or changes affecting their obligations from time to time. In May 2011, the Company, together with its legal adviser, organised a half-day training session to provide the Directors with an update on the directors' duties and responsibilities under the Listing Rules. In December 2011, the Company also arranged the Directors to visit the "LI-NING Logistics Centre" in Jingmen, Hubei Province with a view to facilitate the Board members to know more about the business and operations of the Group.

Chairman and Chief Executive Officer

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.

Non-executive Directors and Independent Non-executive Directors

Non-executive Directors and independent non-executive Directors play an important check-and-balance role to safeguard the interests of the Company and the Shareholders as a whole, and will take the lead when potential conflicts of interests arise. The incumbent non-executive and independent non-executive Directors have extensive professional experience and have participated in the meetings of the Board in a conscientious and responsible manner. They serve actively on the Board and its 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.

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors, representing one-third of the Board. One of the independent non-executive Directors has the appropriate qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. 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 continues to consider each of them independent as required under the Listing Rules.

Principal Responsibilities of the Board

While delegating authority and responsibility for implementing business strategies 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 the 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;
- monitoring and controlling the Group's operational and financial performance;
- approving financial statements and public announcements;
- setting the dividend policy;
- carrying out major acquisitions and disposals, formation of joint ventures and capital transactions; and
- developing and review of the Company's policies and practices on corporate governance.

Corporate Governance Report

Against the backdrop of China's macroeconomic conditions and the overall industry landscape, the Group's operations faced various challenges in 2011. During the year, the Board, together with the management, kept close watch on external changes against its development strategies and continued to proactively implement reform initiatives to strengthen operational efficiency and the effective execution of strategic reforms, with a view to adapt to the development of the industry as well as to meet the corporate growth needs in the current phase.

Responsibilities for Accounts

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. Regular Board meetings are scheduled a year ahead to facilitate maximum attendance by the Directors. The meeting agenda is set after consulting with members of the Board so that all Directors have the opportunity to include matters in the agenda. The agenda and accompanying papers are normally sent to the Directors one week before the date of the meeting.

Directors can at any time request relevant information in their role as Directors. The management provides comprehensive reports on the Group's business progress, financial objectives, strategic and development plans to the Directors to enable them to make informed decisions on matters submitted for their approval at the Board meetings. The Board arranges, where appropriate, relevant members of the senior management to attend their meetings and report the latest situation about operations and respond to queries from the Directors.

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.

The Board held five meetings in 2011 and the attendance record of the Directors is set out below:

Members of the Board	Number of Board meetings attended
Executive Directors	
Mr. Li Ning	5 out of 5
Mr. Zhang Zhi Yong	5 out of 5
Mr. Chong Yik Kay	5 out of 5
Non-executive Directors	
Mr. Lim Meng Ann *(Note)*	3 out of 5
Mr. Chu Wah Hui	5 out of 5
Mr. James Chun-Hsien Wei	5 out of 5
Independent non-executive Directors	
Mr. Koo Fook Sun, Louis	5 out of 5
Ms. Wang Ya Fei	5 out of 5
Mr. Chan Chung Bun, Bunny	5 out of 5

Note:

Since Mr. Lim Meng Ann had interest in respect of the matters considered in one of the meetings, he was required to abstain from voting in that meeting and was not required to attend that meeting.

Minutes of Board meetings record in sufficient detail the matters discussed and the decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final version of the minutes are circulated to all Directors for their comments and records within a reasonable time after the meeting.

Directors' Appointment and Re-election

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service agreement with the Company for a term of three years. Such term is subject to retirement by rotation at least once every three years and the Directors who are subject to retirement by rotation are eligible for re-election in accordance with the articles of association of the Company and the Listing Rules. A new Director appointed by the Board is subject to election by the Shareholders at the first general meeting after his or her appointment.

Corporate Governance Report

Directors' and Officers' Liability Insurance

The Company has arranged for appropriate insurance cover in respect of possible legal actions against its Directors and officers. The scope of coverage of the insurance is subject to review annually.

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 internal and external resources to discharge their duties. Each Committee reports the outcome of the Committee's meetings to the Board, regularly addressing major issues and findings, and making 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 three 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

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

- formulating the Group's strategic, operational and financial plans for approval by the Board;
- examining and approving the strategic business directions at subsidiary level;
- promoting the implementation of the Group's strategies through the quarterly/half-yearly performance review; 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 is achieved, and the delegation remains appropriate to the Company's needs.

Nomination Committee

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

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. 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 planning for Directors based on certain criteria adopted by the Committee, including appropriate skills, knowledge and industry experience, personal ethics and integrity and time commitment to the Board's affairs. The Nomination Committee normally engages professional recruitment consultants in discharge of its duties. Candidates who satisfy the criteria are short-listed and met by the Nomination Committee before the final candidate is nominated to the Board for consideration. 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 2011. The attendance record of the members of the committee is set out below:

Members of the Nomination Committee	Number of committee meetings attended
Mr. Lim Meng Ann	2 out of 2
Mr. Koo Fook Sun, Louis	1 out of 2
Ms. Wang Ya Fei	2 out of 2
Mr. Chu Wah Hui	2 out of 2

The following is a summary of the major tasks carried out by the Nomination Committee in 2011:

- review and making suggestion on streamlining the organisational structure and strengthening the business execution and performance evaluation to support the Company's reforms and implementation of its strategies;

- review the performance of Mr. Chong Yik Kay, an executive Director and the Chief Financial Officer of the Company with the recommendation to the Board to renew his service contract for a further term of three years from 9 February 2012; and

- assessment of the independence of each of the independent non-executive Directors together with the Board.

In light of the amended Corporate Governance Code to be effective from 1 April 2012, the terms of reference of the Nomination Committee have been revised by the Board with effect from 9 December 2011, such that the Nomination Committee will (i) review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; and (ii) regularly review the time required from a Director to perform his responsibilities to the Company, and whether each Director is spending sufficient time as required. The current terms of reference of the Nomination Committee are available on the Company's website.

Remuneration Committee

The Remuneration Committee has been established since the Company's listing in June 2004. The primary responsibility of the Remuneration Committee is to formulate remuneration policies and structure for Directors and senior management to enable the Company to attract, retain and motivate quality personnel which is essential to the long-term success of the Company.

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 website.

The Remuneration Committee currently consists of following three Directors:

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 met two times in 2011 and the attendance record of the members of the committee is set out below:

Members of the Remuneration Committee	Number of committee meetings attended
Ms. Wang Ya Fei	2 out of 2
Mr. Lim Meng Ann	2 out of 2
Mr. Koo Fook Sun, Louis	2 out of 2

The following is a summary of the major tasks carried out by the Remuneration Committee in 2011:

- annual review and recommendation for the Board's approval of remuneration packages for executive Directors (who are respectively also the Chairman, Chief Executive Officer and Chief Financial Officer of the Company), non-executive Directors and independent non-executive Directors;

- review and determining of the bonus execution plan for year 2011 according to the key performance indicators for year 2011;

- review and setting of key performance indicators and bonus plan for year 2012; and

- review and setting of the execution plan of the long-term incentive schemes for year 2012.

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 Human Resources Division of the Company. External professional consultants are engaged to provide advice on issues when the Remuneration Committee considers necessary.

Corporate Governance Report

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 basic salary, discretionary bonus, participation in the Company's share schemes and other benefits and allowances. Remuneration of non-executive Directors and independent non-executive Directors includes mainly director's fee which is a matter for the Board to decide by reference to the duties and responsibilities of non-executive Directors and independent non-executive Directors and the comparable market conditions. Non-executive Directors and independent 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 2011 are set out in note 27 to the consolidated financial statements.

Audit Committee

The Audit Committee was established since the Company's listing in 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. In light of the amended Corporate Governance Code to be effective from 1 April 2012, the terms of reference of the Audit Committee have been revised by the Board to include the establishment of a whistleblowing policy and system for those who deal with the Group (e.g. distributors and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Group. The current terms of reference are available on the Company's website.

The Audit Committee currently consists of the following three Directors:

Mr. Koo Fook Sun, Louis *(Chairman of the Committee)*	Independent non-executive Director
Ms. Wang Ya Fei	Independent non-executive Director
Mr. Chan Chung Bun, Bunny	Independent non-executive Director

The Audit Committee met three times in 2011 and the attendance record of the members of the committee is set out below:

Members of the Audit Committee	**Number of committee meetings attended**
Mr. Koo Fook Sun, Louis	3 out of 3
Ms. Wang Ya Fei	3 out of 3
Mr. Chan Chung Bun, Bunny	3 out of 3

The external auditor, Chief Executive Officer, Chief Financial Officer and the heads of the Internal Audit Department and Accounting Management Department attended the meetings and provided necessary information and addressed questions from the Audit Committee.

During the year, the Audit Committee also held two meetings with the external auditor without the presence of the management to discuss issues they considered necessary.

The following is a summary of the work performed by the Audit Committee in 2011:

- review of the external auditor's statutory audit plan and the nature and scope of audit before commencement of audit work;

- review of and recommendation for the Board's approval of the annual results announcement and annual financial statements for the year ended 31 December 2010 and the interim results announcement and interim financial statements for the six months ended 30 June 2011 with focus particularly on changes in accounting policies and practices, compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;

- discussion with the external auditor and the management on possible accounting risks and major findings in the course of audit/review;
- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor;
- approval of the audit fees and terms of engagement of the external auditor;
- review of internal audit findings in 2011 and recommendations and approval of 2012 internal audit plan; and
- review of the effectiveness of the Company's risk management functions and internal control system, including the financial reporting and compliance functions.

External Auditor

For the year ended 31 December 2011, the total remuneration for the audit services provided by the external auditor amounted to RMB3,510,000 (2010: RMB3,900,000). The audit fees were approved by the Audit Committee.

For the year ended 31 December 2011, the total remuneration for permissible non-audit services provided by the external auditor and its affiliates amounted to RMB919,000 (2010: RMB1,029,000). 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 and the related fee levels) affect the independence of the external auditor.

Prior to commencement of the audit of the Company's accounts for year 2011, the Audit Committee had received a confirmation from the external auditor on their independence and objectivity. External audit partners are subject to periodic rotation.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on page 84 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

The Board has the responsibility to ensure that the Group's internal control system is sound and effective to safeguard the Shareholders' investment and the Company's assets. Accordingly, the Board has always attached great importance to internal control and offered support thereto.

In 2011, the Group further strengthened its internal control in various operational, financial and compliance aspects.

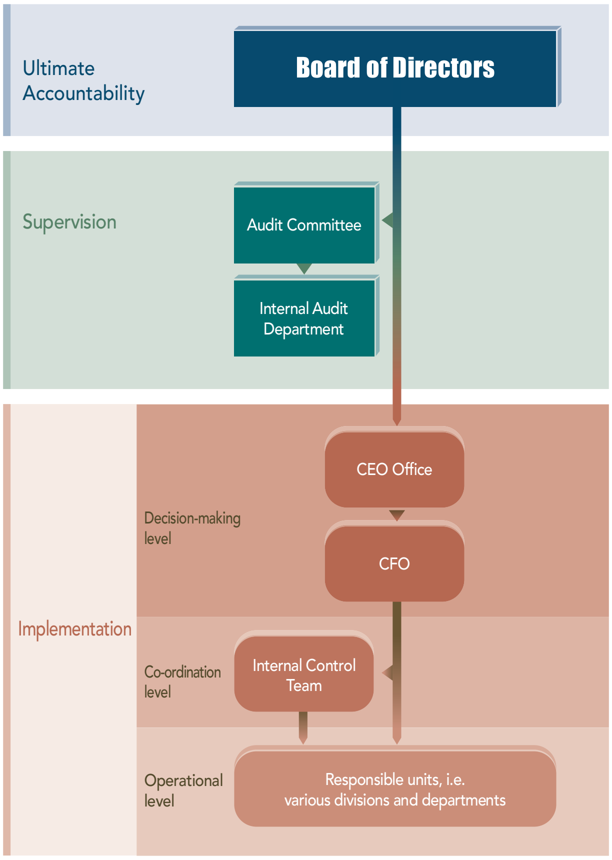
Internal Control System

Based on the experience in operation control over the years, the Company has put in place an integrated system of internal control. The system adopts the globally recognised framework outlined by the Committee of Sponsoring Organisations 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) enhancement of reliability of internal and external financial reporting; and (iii) compliance with applicable laws and regulations. The system serves to provide reasonable, but not absolute, assurance against material misstatement, fraud or loss.

During the year, the Group continued to improve its internal control system aiming at providing effective control and forceful support, which are reflected mainly in the following aspects:

Corporate Governance Report

(1) Continuing to drive the normal operation of the organisational structure of internal control set up on the basis of the COSO internal control framework which is depicted as follows:



The Company has established a top-down organisational and management structure with clear-cut responsibilities and authorities for internal control purposes, 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 responsibility, 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 the Board on the effectiveness thereof. Preliminary 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 Team, 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 organising examination on the effectiveness of the internal control and assessment of risks) and operational level (which are the units being responsible for execution of the internal control, including various operational and functional divisions and departments that are accountable to the establishment, enhancement and effectiveness of the internal control system).

During the year, in light of the changes of the Company's organisational structure, staff and business flow, the staff arrangement under the internal control organisational structure was promptly updated and necessary training was carried out by the Company. The Internal Control Team convened regular internal control meetings and reported at every meeting of the Audit Committee in relation to the Group's internal control plans and progress for the supervision and guidance of the Audit Committee and the Board.

(2) Possession of effective and forward-looking information on strategic management and operation management and financial and accounting management systems to support the supervision of implementation and performance of business strategies and plans. Timely and regular operational and financial reports are submitted to and reviewed by the senior management, the Board or its designated committees. This allows them to monitor and control situations against the established 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) Ongoing implementation of the Internal Control Manual of Li Ning Company Limited (the "Internal Control Manual"), which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system. The Internal Control Manual currently 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, intellectual property rights, export and fixed assets. Systematic changes to the Internal Control Manual have to be carried out at least once a year, 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 centralised arrangement and coordination of the Internal Control Team, 185 key items of internal control and the specific control procedures set out in the Internal Control Manual were updated by relevant departments during 2011. Such updated procedures have been implemented during 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) fostering middle and senior management to review and comment whether control targets on corporate level can be achieved, and to identify inadequacy and make improvement in a timely manner;

(ii) prompting the persons in charge of business processes to actively conduct process review on process level, test the design and execution effectiveness, identify problems in a timely manner and formulate improvement measures; and

(iii) assisting the Audit Committee and the Board in assessing the effectiveness of the Company's internal control system as a whole.

(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, if any, together with recommendations for improvement, are reported to the Audit Committee or the Board.

(6) During the year, in order to support rapid and healthy development of the Group in terms of business diversification, based on the "Risk Management Manual of Li Ning Company Limited (Trial)" which was published in 2009 for the guidance of risk management mechanism of the Company, the Company continued with its annual risk review on a corporate level and assessed risks and corresponding importance on a corporate level and implemented risk management controls over key business concerns, including distributing channels and branding, for supporting the daily operational management of key businesses and promoting the extension of the existing internal control to risk management regime.

The Company pays much attention to the internal promotion on implementation of internal control and risk management. Internal control and risk management awareness was raised among the Company in various manners such as training programmes and regular briefing sessions. An in-house newsletter "Risk Management Developments"（《風險管理動態》）is issued regularly to share with management staff material internal control and risk-related events in the external environment as well as the internal control and risk management, and draws their attention to internal control and risk management.

Annual Review

The Board is fully aware of its accountability in respect of the Group's internal control system and its responsibility for reviewing the effectiveness of the system. The enhancement of internal control is a continuous process and needs to be responsive and remain relevant over time in the continuously evolving business environment. The Group's internal control system is therefore subject to continuous review and improvement to enable the Group to have appropriate responses to any changing 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 (CSA) with a complete set of reporting forms. Persons in-charge of each division and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In 2011, the Company continued to improve methods for self-assessment, which included extending the scope of the self-assessment, consistent use of information technology systems to complete the questionnaires and increasing the number of interviews. The procedural control of self-assessment has been strengthened to cover more than 70 divisions or departments in light of the Company's organisational restructuring and business expansion. In addition, members of senior management were required to assess the effectiveness of the corporate internal control system against the elements outlined by the COSO internal control system, including control environment, risk assessment, information and communication, and control. The review process has enabled the persons-in-charge to verify whether the internal control system is operated as intended, to identify failures or weaknesses and to take relevant remedial actions. The Internal Audit Department also carried out independent examination and analysis on the reviewing process and the results. Based on the results, the Chief Executive Officer and the Chief Financial Officer submitted a declaration to the Audit Committee and the Board, certifying the adequacy and effectiveness of the Group's internal control system.

Corporate Governance Report

The results of the review for the year ended 31 December 2011 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. The areas of the systems and procedures pending further improvement have been identified and remedial actions have either been taken or designated to be taken. No material weaknesses have been identified so far and there were no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board have also received the annual review results with regard to the adequacy of resources, qualifications and experience of the Group's accounting and financial reporting staff, and their training programmes and budget. In accordance with such results, the Audit Committee and the Board are of the view that the Group has adequate workforce to fulfill accounting and financial reporting duties. These personnel possess necessary professional qualification and practicing experience to effectively perform their respective functions, and there have been sufficient training programmes 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 2011.

Internal Audit

The Internal Audit Department has been established soon after the Company's listing 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 to follow up with related remedial measures, with a view to continue to enhance operation effectiveness and efficiency of the Group. The Internal Audit Department plays an important role in the Group's internal control and risk management framework with an aim to providing objective assurance to the Audit Committee and the Board that an effective internal control system and risk management system is maintained and operated and that the risks associated with the achievement of business objectives are being managed properly and circumvented. 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 every meeting of the Audit Committee and maintains constructive dialogue with the Company's external auditor. The Internal Audit Department also collaborates with the external auditor where appropriate.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk assessment results, and engages in related tasks with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular audit and evaluation of the operational effectiveness and efficiency of various business and functional systems; and (ii) special audits in various concerned areas designated by the management and the Audit Committee based on the assessment of risks. In the year 2011, the Internal Audit Department conducted audits on the product division, sales division, marketing division, retail subsidiaries, finance division, information technology division and human resources division of LI-NING brand, as well as on new business areas, including Double Happiness, Lotto, indoor sports business (including Kason) and e-commerce division, and submitted the relevant audit reports to the Audit Committee, Chief Executive Officer and Chief Financial Officer.

For material audit findings and risk factors, the Internal Audit Department will notify the Audit Committee and the management of such risks in a timely manner, and will regularly follow up with the improvement progress. As at 31 December 2011, various audit findings and risk factors had been or were being properly handled by the management, and there were no material irreparable audit findings and risk factors. Based on the risk assessment and the Group's strategic focus, the Internal Audit Department has planned to carry out audits focusing on brands, sales channels (including all regions and retail subsidiaries), products and information technology divisions in 2012.

The Internal Audit Department also plays an important role in the realm of internal control and risk management system and is responsible for reviewing and assessing the adequacy and compliance level of the Group's internal control system and risk management system and providing an independent and objective opinion on the effectiveness of the systems. In 2011, the Internal Audit Department participated in certain parts of the relevant work on reviewing the risk management system and internal control, and also conducted audits on the implementation of the risk management review of sales channels and branding, and the internal control review of the human resources division.

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 reviews from time to time its internal guidelines on price sensitive or potentially price sensitive information by reference to its own and industry circumstances and the Guide on Disclosure of Price-Sensitive Information issued by the Hong Kong Stock Exchange. 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 Company has authorised personnel to act as the Company's spokespersons to respond to enquiries made in relation to the Group's affairs.

Compliance with the Model Code 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 regularly of their obligations under the Model Code. 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 2011.

Employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to the compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in year 2011.

Shareholders' Rights

Article 58 of the Company's articles of association provides that 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 or the company secretary of the Company (the "Company Secretary") to require an extraordinary general meeting to be called by the Board for transactions of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. Such requisition can be deposited at the Company's principal place of business in Hong Kong for the attention of the Board or the Company Secretary. Shareholders may also send their enquiries which require the Board's attention to the same address.

Article 88 of the Company's articles of association provides that if a Shareholder duly qualified to attend and vote at the meeting wishes to propose a person other than a Director of the Company for election as a Director at the general meeting, he/she/it shall deposit a written notice to that effect at the principle place of business of the Company in Hong Kong for the attention of the Board or the Company Secretary. Such notice should also be signed by the nominated candidate indicating his/her willingness to be elected. In order to ensure that Shareholders have sufficient time to receive and consider the information of the nominated candidate, such notice should be given to the Company within seven days after the dispatch of the notice of annual general meeting of the Company. Details of the Shareholders' right to propose a person for election as a Director and the related procedures are set out on the Company's website at *www.lining.com*.

For the year 2011, there was no change made in the Company's articles of association.

Corporate Governance Report

Shareholders' Meetings

Shareholders' meetings provide a principal channel of direct communication between the Company and the Shareholders. They provide an opportunity for Shareholders to better understand the Group's operation, financial performance, business strategies and outlook.

The Company has adopted poll voting in its Shareholders' meetings since listing in 2004. All resolutions put forward at any Shareholders' meeting are voted by poll so that each Share is entitled to one vote. The procedures for conducting a poll are explained at the beginning of the meeting.

The last annual general meeting, which was also the last Shareholders' meeting of the Company, was held on 13 May 2011. To encourage Shareholders to attend the meeting, more than 20 clear business days' notice and a circular containing necessary information were given to Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered in the meeting. Eight out of nine Directors, including all executive Directors, two non-executive Directors and all independent non-executive Directors, and the Company's external auditor were present at the meeting. A question and answer session was available for Shareholders to raise questions.

At the last annual general meeting, separate resolutions were proposed for the following businesses and were voted by poll:

- adopting the audited financial statements for the year ended 31 December 2010;
- declaration of final dividend;
- re-election of three Directors and authorisation to the Board to fix the remuneration of the Directors;
- re-appointment of auditor and the authorisation to the Directors to fix their remuneration; and
- providing Directors with general mandates to repurchase and issue and allot Shares subject to the relevant limits under the Listing Rules.

All the resolutions proposed at the last annual general meeting were approved by Shareholders. The poll was scrutinised by the Company's Hong Kong branch share registrar in the meeting. Details of the poll results were declared at the meeting and the poll results announcement made pursuant to the Listing Rules was published on the same day of the meeting.

No extraordinary general meeting was held during the year. The next annual general meeting of Shareholders will be held on 11 May 2012. Details of the meeting and necessary information on issues to be considered in the meeting are set out in the circular dispatched to the Shareholders together with the Company's annual report 2011.

Way Forward

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

Corporate governance is a continuous process. 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, 29 March 2012

Directors and Senior Management

Executive Directors

Mr. LI Ning, aged 49, is the founder of the LI-NING brand and the Group's Chairman and an executive Director. He 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 Gymnastics 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 22 years to the development of the Group's business, making great contribution to the development of the sporting goods industry in China. Mr. Li also serves as chairman and executive director of Viva China Holdings Limited, a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange. 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 of The Hong Kong Polytechnic University. In June 2010, Mr. Li was also conferred honorary fellowship from The Hong Kong University of Science and Technology.

Mr. Li Ning has also been actively involved in charities via his "Li Ning Foundation" (李寧基金) and his genuine support to the active and retired Chinese athletes and coaches in establishing "The Chinese Athletes Educational Foundation" (中國運動員教育基金), which aims at providing subsidies for further education and trainings for athletes and to support educational development in impoverished and remote areas in China. In October 2009, Mr. Li Ning was appointed by The United Nations World Food Programme (WFP) as China's first "WFP Goodwill Ambassador against Hunger".

Mr. ZHANG Zhi Yong, aged 43, 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. (北京李寧鞋業有限公司), became the financial controller of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) in April 1999 and was the general manager of the company from February 2001 to June 2004. Since the listing of the Company on the Hong Kong Stock Exchange 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 sporting goods industry in China, Mr. Zhang has accumulated 20 years of China experience in the industry with thorough understanding of the change of the consumer market in China, 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 44, is the Chief Financial Officer and an executive Director. Mr. Chong joined the Group in February 2009. He is primarily in charge of the overall financial and accounting management, internal audit, investor relations and company secretarial functions as well as the international markets division of the Group. Mr. Chong has 20 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 48, 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 of a leading emerging markets-focused private equity firm, Actis, and is responsible for its private equity investment in China, since he joined in July 2007. Prior to joining Actis, Mr. Lim was the executive 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. Mr. Lim holds a bachelor's degree of engineering (first class honors) from University College of London and a M.B.A. degree from University of Strathclyde. Mr. Lim is also a Chartered Financial Analyst.

Mr. CHU Wah Hui, aged 60, is a non-executive Director and a member of the Nomination Committee. Mr. Chu joined the Group in June 2007. Mr. Chu also serves as 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 an executive director and chief executive officer of Next Media Limited, a company listed on the Main Board of the Hong Kong Stock Exchange, from 2 October 2008 to 1 October 2011. Mr. Chu was 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 54, is a non-executive Director. Mr. Wei joined the Group in September 2007. Mr. Wei has been appointed as senior advisor for CVC Capital Asia Pacific ("CVC") and Beiersdorf Aktiengesellschaft effective from 1 January 2012. CVC is a world's leading private equity and investment advisory firm. Beiersdorf Aktiengesellschaft is a global skin and beauty care company listed on the German Stock Exchange, for which Mr. Wei served as an executive board member from 1 June 2009 to 31 December 2011. Prior to that, Mr. Wei was the senior vice president of Avon Products, Inc., Asia Pacific ("Avon") and had been responsible for Avon's operations in ten markets, including Japan, Taiwan, Australia, Philippines and India from 2003 to May 2009. Before joining Avon, 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 a M.B.A. degree from the University of Chicago in the United States.

Independent non-executive Directors

Mr. KOO Fook Sun, Louis, aged 55, 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, and a director and chief executive officer of a company listed on the Main Board of the Hong Kong Stock Exchange. Mr. Koo also serves currently as an independent non-executive director of Weichai Power Company Limited, Midland Holdings Limited, Good Friend International Holdings Inc., Xingda International Holdings Limited and Richfield Group Holdings Limited, all of which are listed on the Main Board of the Hong Kong Stock Exchange. From September 2006 to December 2009, Mr. Koo served as an independent non-executive director of China Communications Construction Company Limited (a company listed on the Main Board of the Hong Kong Stock Exchange). Furthermore, from January 2007 to October 2009, he was the vice chairman, chief financial officer, treasurer and principal accounting officer of 2020 ChinaCap Acquirco, Inc. (a company listed on NYSE Euronext). Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley in the United States and is a certified public accountant.

Directors and Senior Management

Ms. WANG Ya Fei, aged 56, 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 over 20 years of experience in management and corporate finance matters. Ms. Wang has been appointed as chairman of Caelum Asset Management Company with effect from September 2011. She also serves as a non-executive director of Xueda Education Group, listed on the New York Stock Exchange. Ms. Wang was the director and deputy general manager of Beijing Investment Consultants Inc. from 1996 to September 2011, and an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) from 1995 to September 2011. 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 a M.B.A. degree from University of Lancaster in the United Kingdom.

Mr. CHAN Chung Bun, Bunny, aged 54, is an independent non-executive Director and a member of the Audit Committee. Mr. Chan joined the Group in June 2004. Mr. Chan has more than 30 years of experience in the garment industry and is currently the chairman of Prospectful Holdings Ltd.. Mr. Chan has also served as an independent non-executive director of Great Harvest Maeta Group Holdings Limited, a company listed on the Main Board of the Hong Kong Stock Exchange, since September 2010. Mr. Chan is active in community affairs in Hong Kong. He is currently the chairman of the Kwun Tong District Council of Hong Kong and has been appointed as the chairman of the Commission on Youth of Hong Kong from 1 April 2009. Mr. Chan was appointed as Justice of Peace in 2002 and was awarded the Bronze Bauhinia Star medal in 2004 and Silver Bauhinia Star medal in 2009 by the Hong Kong Government.

Senior Management

The Group's senior management includes the Chief Executive Officer, Mr. Zhang Zhi Yong, and the Chief Financial Officer, Mr. Chong Yik Kay (both are also executive Directors), and the Chief Operating Officer, Mr. Lu Ning.

Mr. LU Ning, aged 44, is a Vice President and Chief Operating Officer of the Group. Mr. Lu joined the Group in April 2010. Mr. Lu is primarily responsible for managing the integration of the sales headquarters with each sales division, product and supply chain of the LI-NING brand. Prior to joining the Group, Mr. Lu was the executive director and retail business general manager of a large-scale sporting goods retail company. He has nearly 20 years of experience in retail operation and product management as well as senior management experience in leading changes. Mr. Lu holds a bachelor's degree in engineering from Beijing Institute of Fashion Technology (北京服裝學院) and a bachelor's degree in economics from Nanjing University (南京大學).

Investor Relations Report

Mr. CHONG Yik Kay
Chief Financial Officer

Investor Relations Report

OVERVIEW

The Group has always been a steadfast believer in strong effective investor relations ("IR") and has made this an integral part of its management philosophy. The Group's well-trained IR professionals are dedicated to maintaining healthy, two-way communications with the Group's stakeholders, including shareholders, investors and the media, in a consistent, timely and highly-transparent manner.

While the Group faced a series of challenges in 2011, it persisted in its long-held practice of proactive engagement with investors and shareholders. The Group's dedicated team of IR professionals works tirelessly to ensure investors are kept up to date with the Group's long-term development, strategies, competitive landscape, financial performance, and operations. By employing a variety of communications channels at its disposal, the Group strives to empower the investment community as well as the public with a thorough and up-to-date understanding of the Group's businesses.

This enables the Group to deliver its key messages to stakeholders, while also allowing it to gather valuable external feedback to support the Company's future development and business strategies. It is of tremendous strategic advantage for the Group to benefit from this collective insight and diversity of business acumen to help it sustain business growth and formulate future strategies.

PROACTIVE COMMUNICATION

The Group strictly adheres to non-selective disclosure guidelines to ensure that communications with shareholders, investors and the media are open and fair. No material, non-public information is made available to any individual on a selective basis.

Given the challenging circumstances of 2011, the Group remained committed to maintaining the frequency and intensity of its external communications to keep the financial community fully aware of its activities in order to generate greater awareness of its developments on an ongoing basis.

In addition to the systematic communications programme that encompasses investor meetings, investment conferences, telephone conferences, site visits and media relations activities, the Group proactively communicated with investors through management presentations in January and July of 2011 to facilitate a better understanding of the Group's future outlook and strategies prior to our official results announcements.

Meanwhile, the corporate websites: *www.lining.com, www.irasia.com/listco/hk/lining* and *www.li-ning.com.cn*, are constantly updated in order to convey the Group's latest information. In addition, in an effort to make information more readily accessible to stakeholders, our IR website, *www.lining.com* has been revamped with compelling visuals and newly-added features such as stock charts, a Corporate Social Responsibility section and a new Shareholders section. We are confident that the enhanced website will further assist stakeholders to gain a thorough understanding of the Group, as well as providing them with valuable and timely business data.

Investor Opinion Audit

Since its listing on The Stock Exchange of Hong Kong in 2004, the Group has conducted annual investor opinion audits to gain valuable insights and guidance which are considered with high regard when developing business strategies. This year, through an online survey, we received an encouraging number of responses from foreign and domestic investors who provided their views relating to areas such as the Group's operation strategies, industry outlook, and performance in investor relations and corporate governance.

These valuable suggestions and comments provide unique insights and a strong basis for the Group to evaluate its current business strategies, direction, and development and will play a role in the Group's strategic planning.

Summary

Below is a summary of our IR programme:

Event type	2011	2010
Result presentations for investors and media	**2 times**	2 times
Roadshows (including reverse roadshows)	**7 times (total 98 meetings)**	14 times (total 215 meetings)
Investment forums	**3 times (total 37 meetings)**	10 times (total 95 meetings)
Media interviews	**2 times**	9 times
Investors group tours	**3 times**	4 times
Regular face-to-face meetings with investors	**71 times**	68 times
Conference calls with investors	**52 times**	52 times
Visits to the Company's stores	**23 times**	22 times
Sell-side analysts conference-calls	**5 time**	4 times
Investor opinion audit	**1 time**	1 time

Investor Relations Report

In 2011, the Group actively controlled the frequency of overseas road shows and attendance at investment forums according to the conditions of the capital market. Nonetheless, the Group is dedicated to engaging in a focused and effective communication with investors and shareholders, enabling them to better understand the Group's business reform and future development strategies.

In 2011, the Group received the following awards in recognition of its diligent IR achievements with shareholders and the public:

- The Asset Corporate Awards 2011 – Gold Award for Social and Environmental Responsibility and Investor Relations" by the Asset Magazine.
- Selected as a constituent stock of the Hang Seng Corporate Sustainability Index Series
- 2011 ARC International Awards – Honours Award for the design of Annual Report 2010
- 21st Astrid Awards – Gold Award for the design of Interim Report 2010
- 24th Mercury Awards – Honours Award for the design of Interim Report 2010
- 24th Mercury Awards – Bronze Award for the Overall Presentation: Consumer Goods of Annual Report 2010
- 24th Mercury Awards – Bronze Award for the Overall Presentation: Manufacturing and Distributing of Annual Report 2010

Companies were presented by acclaimed international organisations based on their overall business performance, management strategies, corporate governance and transparency as well as quality of investor relations work. The Company is greatly honoured to receive such accolades as they reflect its sound planning and implementation of the highest standards in IR principles and practices.

Future Outlook

In the face of the challenges in the global economy and planned business reforms, the Group is determined to further enhance its transparency as well as the effective and timely communication with shareholders and the public. The IR Department will continue its vigorous efforts in delivering information of the Group and fostering healthy relationships with the investment community. Through the IR Department's efforts, we are confident that more and more investors will discover Li Ning, listen to Li Ning, understand Li Ning, care about Li Ning, and, ultimately, flourish with Li Ning.

INFORMATION FOR INVESTORS

Share Information

Listing: Main Board of the Hong Kong Stock Exchange
on 28 June 2004
Stock code: 2331
Board lot: 500 Shares
Number of Shares in issue as at 31 December 2011:
1,055,683,629
Market capitalisation as at 31 December 2011:
approximately HK$6,513,568,000

Dividends for 2011

Interim dividend: RMB11.13 cents per Share
Final dividend: Nil

Financial Calendar

Announcement of interim results: 24 August 2011
Announcement of annual results: 29 March 2012
Annual general meeting record date*: 8 May 2012
Annual general meeting: 11 May 2012

* For the purpose of determining the right to attend and vote at the annual general meeting

Corporate Websites

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

IR Contact

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中国精神·冠军血统


13278


“一起运动”全国体育师资公益培训
广西马山县体育骨干教师培训班开班典礼

Corporate Social Responsibility

The Group shoulders its corporate social responsibility through a variety of practical efforts and by directing both its corporate and social resources appropriately to spread warmth and compassion. The Group is committed to fulfilling its social responsibility in order to bring long-term benefit to our staff, the community and the environment.

Corporate Culture and Staff

The Group always places emphasis on the well-being, skills training and career development of its employees, and constantly strives to enhance employee cohesion to create a greater sense of belonging and to improve individual skills, with a view to achieving mutual growth and development for both the Group and its employees.

Core Values

Though the development of the industry and the Group was facing challenges in 2011, we still managed to raise our team's sense of responsibility and cohesion by advocating the corporate culture of "accountability". We continue to promote our core values of "Live for Dream; Integrity and Commitment; We Culture; Achieving Excellence; Consumer Oriented and Breakthrough" through various platforms, including our intranet, internal publication *Sports Ethics* (《運動品格》) and front-line newsletter *Channel* (《跑道》) as well as various training courses. These platforms helped the Group to strengthen the communications between our staff and the management and prepare ourselves for all challenges we may face during our corporate reform to enable us to "Make the Change"!

Staff Development

The Group places great importance on skills nurturing and career development of our employees. The enhancement of team capabilities and experience is facilitated by the provision of comprehensive training courses, the establishment of a training system on retailing, and the standardisation of processes and benchmarks for research and development. Meanwhile, the new lecture and trainee systems continued to create an ideal learning atmosphere within the Group.

To enhance the leadership skills of the management, the Group ensures that the development and implementation of all leadership programmes are in line with the Company's qualification model. The Group continued to promote the MINI-EMBA course and managers with appropriate qualifications are encouraged to take up the responsibility as internal lecturers, in order to promote a coaching and learning culture. The Group also persists in its effort in promote the application of Key Development Indicators (KDI) among the management, which allows them to focus directly on nurturing their potential subordinates. The KDI expedites staff development and enhances team strengths, so as to promote long-term sustainable development within the Group's talent pool, which will in turn enhance our competitive edge.

To develop the professional expertise of key members of the staff, the Group developed and implemented professional training programmes for them to gain the appropriate execution skills required by the Group. We strive to maintain our training at optimal standards to satisfy internal and external customer demands and improve the ability of our staff; thereby enhancing the Company's performance while also expanding the lecturer team for the core professional expertise programmes.

Sports Cohesion

To help promote the physical and psychological well-being of our employees, the Group offers indoor facilities for swimming, basketball, badminton and tennis, as well as an outdoor football field at its headquarters. Dedicated coaches are engaged to help our staff to cultivate their sportsmanship and skills. The eleven sports clubs for employees funded and supported by the Group also play a significant role in enhancing sports cohesion within the Group.

The plentiful sports facilities, the excellent sports equipment and the spontaneous participation of our employees enable our staff to understand and appreciate the Group's corporate values and to try on our own professional sports products, which opens up more opportunities for improving our products and allows the Group to tend to the employees' well-being and heighten team cohesion.

Corporate Social Responsibility

Caring for Staff

Apart from developing a unique sports culture, the Group supports its staff and their family members through various means, such as organising activities and distributing gifts on important festivals and holidays. The Group has also initiated the Employee Assistance Program (EAP), helping our staff to relieve stress and promote mental health. The Group has organised "Open Day" from time to time during the year, serving as a platform to enhance communications between our staff and the management. It seeks to provide our employees with answers and solutions to the issues they face in a timely and efficient manner.

The Group offers commercial medical insurance to all employees and their family members, arranges free medical check-ups for our staff every year, and organises annual trips for outstanding employees. Moreover, we provide a more natural workplace pleasantly furnished with a variety of plants and environmental-friendly facilities to create an elegant and cozy space for discussion as well as to ensure a healthy and comfortable working environment. Furthermore, in 2011, the Group revised the system and process for handling staff relations emergencies and critical health incidents to improve its staff relations system.

Participation in the Community

The Group continued to support the "Sports for All" (一起運動) campaign launched together with the China Foundation for Poverty Alleviation. The project aims at improving the standards of physical education in impoverished regions. As one of the core projects of the Group's corporate social responsibility, "Sports for All" has been successfully operating for six years since its commencement in 2006, and has provided fully funded professional training for over 1,800 physical education teachers from primary and secondary schools in state-designated poverty-stricken counties. The campaign has benefitted over 500,000 primary and secondary school students in those counties. Under the leadership and assistance of the Group, 250 physical education teachers from Mashan county of Guangxi province and Yi county of Hebei province received free training in 2011. By raising standards of physical education and professional skills of physical education teachers in rural areas, children there can now enjoy the pleasure of and the right for sports.

While propelling business development, the Group never loses its focus on promoting sports culture among the public and advocating the concept of "Fitness for Everyone, Sports for All" (全民健身，大眾體育). During the year, the Group organised a number of community sports marketing events aiming at encouraging the public to participate in sports activities and enjoy the pleasure of sports, namely the LI-NING iRUN Club (李寧iRUN跑步俱樂部), LI-NING 3+1 Basketball Game (李寧3+1籃球挑戰賽), LI-NING Hero Vans (李寧大篷車) and LI-NING Sports Park (李寧體育園).

Sustainable Development in the Supply Chain

Compliance Management on Social Responsibility of Suppliers

In 2011, the Group carried out a number of administrative measures and methods to conduct compliance management of the social responsibility of the suppliers in our supply chain. Such measures and methods included promoting and providing training under "The Basic Social Responsibility Requirements for Suppliers" (《供應商社會責任準則要求》), encouraging suppliers to conduct self-assessment of fulfilling their social responsibility, carrying out on-site monitoring of suppliers' corporate social responsibility performance and approving proposals regarding social responsibility and environmental protection filed by new suppliers.

The Launch of "Joint Roadmap towards Zero Discharge of Hazardous Chemicals by 2020"

The Group, together with other well-known international sports and fashion brands, launched the "*Joint Roadmap towards Zero Discharge of Hazardous Chemicals by 2020*" in November 2011, setting a new benchmark for environmental protection in the global garment and footwear manufacturing industry. This roadmap embodies the specific commitments and time limits for realising this shared goal, including:

- Communicate the mission of "Zero Discharge of Hazardous Chemicals" with all suppliers immediately;

Corporate Social Responsibility

- Carry out a pilot project among vertically integrated suppliers of core materials during 2011 to 2013, in an attempt to better understand the scope of applications of hazardous chemicals and the range of zero discharge;

- Disclose the pilot projects outlined in the roadmap and the research results thereof; and

- Report regularly on the progress of the projects outlined in the roadmap.

This collaborative roadmap will be updated continuously and further improved as we acquire more knowledge and experience from our initial pilot and research projects, as well as through collaboration with other brands and related parties.

The Release of "Restricted Substance List for Apparel, Footwear and Accessories Products"

The Group places great importance on the coordination and balance between company development and environmental protection. To achieve an eco-friendly production, and minimise ecological damage in the process of production, the Group endeavours to develop a solution for effective chemical controls and will cooperate with other industry players, suppliers, non-government organisations, external experts and other related parties to achieve this goal.

To lay a solid foundation for the control of chemicals in the supply chain, in 2011 the Group drafted and formulated a "Restricted Substance List for Apparel, Footwear and Accessories Products", which was published on the Company's official website in early 2012. The list stipulates specific control requirements on the examination of chemical substances in our products. The goal of zero discharge of hazardous chemicals is a substantial challenge not only for the Group, but also the entire textile industry. It is a complicated process involving a wide range of issues which requires long-term perseverance and continuous improvement. The Group is duty-bound to shoulder the responsibility of constructing a sustainable supply chain by means of constant process transformation, technology innovation and other possible means, to realise a harmonious balance between corporate development and environmental protection.

Social Recognition

The Group's relentless efforts in corporate social responsibility have always been widely recognised.

In September 2011, the Company was honored with "2011 Consumer Favorite Green Trademark" (2011消費者最喜愛的綠色商標) by the Fourth China Trademark Festival. This involved rating research over a two-month period and interviews with millions of consumers across ten different industries. All of the honoured companies have contributed in steering consumer behaviour and guiding their firms to healthier development by focusing on energy-saving, environmental protection, health and safety. In addition, in December 2011, the Company was named "2011 Public Welfare Contributing Partner" (2011年度公益愛心) by the China Foundation for Poverty Alleviation.

Recognition from the community has encouraged the Group to adhere to our strict policy of self-restraint, with the aim of fulfilling our corporate social responsibility, giving back to the society and contributing to the harmonious and sustainable social development while securing steady and healthy growth.

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2011.

Principal Activities

The Company is an investment holding company. The principal activities of its subsidiaries are brand development, research and development, design, manufacture, sale and distribution of sports footwear, apparel, equipment and accessories sold mainly in the PRC. Other than its core brand, LI-NING brand, the Group's brand portfolio also includes Double Happiness, Kason and Z-DO.

The Group also (i) develops, manufactures, markets, distributes and sells licensed products which bear the Italian brand Lotto in the PRC through a subsidiary; and (ii) manufactures, markets, distributes and sells outdoor sports products which bear the French brand AIGLE in the PRC through a jointly controlled entity.

Subsidiaries and Jointly Controlled Entities

Particulars of the Company's subsidiaries and its interest in jointly controlled entities as at 31 December 2011 are set out in notes 11 and 12 respectively, to the consolidated financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 88 of this annual report.

During the year, the Company paid an interim dividend of RMB11.13 cents per Share on 23 September 2011 (2010: RMB22.15 cents per Share). In light of the current operating environment, the Board considers it appropriate to retain cash for the future development of the Group, therefore, it does not recommend the payment of a final dividend in respect of the year ended 31 December 2011 (2010: RMB19.97 cents per Share). The total dividend payout ratio for the year was 30.3%.

Reserves

As at 31 December 2011, distributable reserves of the Company amounted to RMB655,190,000 (2010: RMB669,559,000). Details of movements in reserves of the Group during the year are set out in notes 17 and 18 to the consolidated financial statements.

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	
	2011 % of total revenue	2010 % of total revenue
The largest customer	**5.9**	6.0
Five largest customers	**21.9**	23.2

	% of total purchases	% of total purchases
The largest supplier	**11.2**	8.0
Five largest suppliers	**36.8**	26.3

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 2011 amounted to RMB838,059,000 (2010: RMB312,248,000). Particulars of the borrowings are set out in note 22 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to RMB975,000 (2010: RMB665,000).

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 17 to the consolidated financial statements.

Report of the Directors

Convertible Bonds

On 19 January 2012, the Company entered into subscription agreements with TPG ASIA, Inc. ("TPG") and Tetrad Ventures Pte. Ltd. ("GIC Investor"), an investment vehicle managed by a private equity investment arm of the Government of Singapore Investment Corporation Pte. Ltd., respectively, in relation to its issue of convertible bonds in an aggregate principal amount of RMB750,000,000 ("Convertible Bonds"). The Convertible Bonds bear minimum interest at the rate of 4% per annum and will be due on the fifth anniversary of the date of issue of the Convertible Bonds. The Convertible Bonds are convertible into Shares at an initial conversion price of HK$7.74 per Share.

The issue of the Convertible Bonds was completed on 8 February 2012. Convertible Bonds in the principal amount of RMB561,000,000 were issued to TPG Stallion Holdings, L.P. (which is an affiliate of TPG) and Convertible Bonds in the principal amount of RMB189,000,000 were issued to GIC Investor. The estimated net proceeds of the Convertible Bonds issue, after deduction of expenses, are expected to amount to approximately HK$921,000,000, and are currently intended to be used by the Company to continue its investment in the business development of the LI-NING brand, including branding, securing sport sponsorships, roll-out of the sixth-generation stores as well as product design and research and development and as general working capital of the Group.

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.

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. Chong Yik Kay

Non-executive Directors

Mr. Lim Meng Ann
Mr. Chu Wah Hui *(re-elected on 13 May 2011)*
Mr. James Chun-Hsien Wei *(re-elected on 13 May 2011)*

Independent non-executive Directors

Mr. Koo Fook Sun, Louis
Ms. Wang Ya Fei *(re-elected on 13 May 2011)*
Mr. Chan Chung Bun, Bunny

Mr. Lim Meng Ann has tendered his resignation as a non-executive Director which will take effect from 1 April 2012.

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 and Mr. Chong Yik Kay shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the annual general meeting to be held on 11 May 2012 ("AGM").

In accordance with article 86(3) of the Company's articles of association, Mr. Chen Yue, Scott and Mr. Kim Jin Goon, who have been appointed by the Board as non-executive Directors which will take effect from 1 April 2012, 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 59 to 61 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).

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 plans mandated by the Hong Kong Government, the Singapore Government and the US Government which are defined contribution retirement benefit plans.

Report of the Directors

None of the Pension Schemes or abovementioned provident fund plans 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 2011 were RMB53,316,000 (2010: RMB49,646,000).

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 reorganisation 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 2011 are set out in note 33 to the consolidated financial statements.

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 incentives to 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 directors, officers, employees, 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.

By an ordinary resolution passed by the Shareholders at the AGM of the Company held on 15 May 2009, the Post-IPO Share Option Scheme has been amended to allow the Board to determine in its absolute discretion whether the right to exercise an option is subject to or conditional upon the achievement of specified performance target relating to the Company or to the grantee and/or the satisfaction of such other conditions as the Board may in its absolute discretion determine to be appropriate. Any of the foregoing condition(s) as determined by the Board shall be set out in the grant letter as referred to in the scheme. The purpose of the amendment is to allow the Board to have more flexibility in the administration of the scheme so that the long-term incentive purpose of the scheme can be better achieved by providing additional incentives to key personnel to achieve performance goals and contribute to the long-term success of the Group.

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 56,111,931 Shares, representing approximately 5.3% of the issued share capital of the Company as at the date of this report. The total number of Shares 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 issue on the date of allotment.

Report of the Directors

Details of movements of the options granted under the Post-IPO Share Option Scheme for the year ended 31 December 2011 are as follows:

Grantees	Date of grant	Exercise price per Share *HK$*	Number of Shares issuable under the options: as at 01/01/2011	granted during the year	exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2011	Exercise period *(Note 8)*
Executive Directors									
Zhang Zhi Yong	04/07/2005	3.685	730,000	–	(730,000) *(Note 1)*	–	–	–	04/07/2006 – 04/07/2011
	04/09/2006	8.83	208,000	–	–	–	–	208,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	121,600	–	–	–	–	121,600	04/07/2009 – 04/07/2014
	19/01/2009	11.37	4,519,400	–	–	–	–	4,519,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	–	836,690 *(Note 2)*	–	–	–	836,690	*(Note 9)*
Chong Yik Kay	01/04/2009	13.18	688,500	–	–	–	–	688,500	01/04/2010 – 01/04/2015
	15/07/2011	9.896	–	706,800 *(Note 2)*	–	–	–	706,800	*(Note 9)*
Non-executive Directors									
Lim Meng Ann	04/07/2008	17.22	17,134	–	–	–	–	17,134	04/07/2009 – 04/07/2014
	19/01/2009	11.37	210,720	–	–	–	–	210,720	19/01/2010 – 19/01/2015
	15/07/2011	9.896	–	209,180 *(Note 2)*	–	–	–	209,180	*(Note 9)*
Chu Wah Hui	04/07/2008	17.22	34,267	–	–	–	–	34,267	04/07/2009 – 04/07/2014
	19/01/2009	11.37	210,720	–	–	–	–	210,720	19/01/2010 – 19/01/2015
	15/07/2011	9.896	–	209,180 *(Note 2)*	–	–	–	209,180	*(Note 9)*
James Chun-Hsien Wei	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	–	209,180 *(Note 2)*	–	–	–	209,180	*(Note 9)*

Report of the Directors

Grantees	Date of grant	Exercise price per Share HK$	Number of Shares issuable under the options as at 01/01/2011	granted during the year	exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2011	Exercise period (Note 8)
Independent non-executive Directors									
Koo Fook Sun, Louis	04/07/2005	3.685	82,000	–	(82,000) *(Note 3)*	–	–	–	04/07/2006 – 04/07/2011
	04/09/2006	8.83	60,000	–	–	–	–	60,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	–	209,180 *(Note 2)*	–	–	–	209,180	*(Note 9)*
Wang Ya Fei	04/07/2005	3.685	164,000	–	(164,000) *(Note 4)*	–	–	–	04/07/2006 – 04/07/2011
	04/09/2006	8.83	90,000	–	–	–	–	90,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	–	209,180 *(Note 2)*	–	–	–	209,180	*(Note 9)*
Chan Chung Bun, Bunny	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	–	209,180 *(Note 2)*	–	–	–	209,180	*(Note 9)*
Employees of the Group									
In aggregate	04/07/2005	3.685	1,293,500	–	(1,293,500) *(Note 5)*	–	–	–	04/07/2006 – 04/07/2011
In aggregate	04/09/2006	8.83	441,499	–	(167,333) *(Note 6)*	(4,833)	–	269,333	04/09/2007 – 04/09/2012
In aggregate	04/07/2008	17.22	1,546,535	–	–	(214,003)	–	1,332,532	04/07/2009 – 04/07/2014
In aggregate	05/12/2008	10.94	92,700	–	–	–	–	92,700	05/12/2009 – 05/12/2014
In aggregate	19/01/2009	11.37	5,918,100	–	(445,960) *(Note 7)*	(1,910,060)	–	3,562,080	19/01/2010 – 19/01/2015
In aggregate	22/10/2009	21.87	4,386,324	–	–	(725,917)	–	3,660,407	*(Note 10)*
In aggregate	15/07/2011	9.896	–	3,900,610 *(Note 2)*	–	(301,830)	–	3,598,780	*(Note 9)*

Report of the Directors

Grantees	Date of grant	Exercise price per Share *HK$*	as at 01/01/2011	Number of Shares issuable under the options granted during the year	exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2011	Exercise period *(Note 8)*
Other participants									
In aggregate	20/11/2006	9.84	300,000	–	–	–	–	300,000	*(Note 11)*
In aggregate	19/07/2007	19.68	350,000	–	–	–	–	350,000	19/07/2008 – 19/07/2013
In aggregate	04/07/2008	17.22	300,000	–	–	–	–	300,000	04/07/2009 – 04/07/2014
In aggregate	22/10/2009	21.87	300,000	–	–	–	–	300,000	*(Note 10)*
			23,324,199	6,699,180	(2,882,793)	(3,156,643)	–	23,983,943	

Notes:

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$13.49.
2. The closing price per Share immediately before the date of grant is HK$9.40.
3. The closing price per Share immediately before the date of exercise of the options is HK$14.00.
4. The closing price per Share immediately before the date of exercise of the options is HK$13.10.
5. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$14.14.
6. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$14.22.
7. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$14.87.
8. Unless otherwise stated in notes 9, 10 and 11: (i) options granted in years 2005, 2006, 2007 and 2008 are subject to a vesting scale in tranches of one-third each on every anniversary date of the date of grant starting from the first anniversary date until the third; and (ii) options granted on 19 January 2009 are subject to a vesting scale in tranches of one-fifth each on every anniversary date of the date of grant starting from the first anniversary date until the fifth.
9. The options are subject to vesting schedules and exercise periods as follows:

% of the options granted	Vesting date	Exercise period
1/3	01/07/2012	01/07/2012 – 15/07/2017
1/3	01/07/2013	01/07/2013 – 15/07/2017
1/3	01/07/2014	01/07/2014 – 15/07/2017

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

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

11. 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

Details of valuation of the share options granted during the year ended 31 December 2011 under the Post-IPO Share Option Scheme is set out in note 33 to the consolidated financial statements. The fair values are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

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. 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 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.

The Restricted Share Award Scheme has been amended on 30 April 2009 pursuant to a Board resolution to allow the administration committee of the scheme to determine in its absolute discretion such vesting criteria or periods for the Restricted Shares to be vested, including, without limitation, the satisfaction of specified performance criteria relating generally to the Company or particularly to a selected participant or such other restrictions or conditions as the administration committee may in its discretion determine to be appropriate. Any of the foregoing vesting criteria or restrictions shall be set out in the grant letter as referred to in the scheme. The purpose of the amendment is to allow the Board to have more flexibility in the administration of the scheme so that the long-term incentive purpose of the scheme can be better achieved by providing additional incentives to key personnel to achieve performance goals and contribute to the long-term success of the Group.

During the year ended 31 December 2011, 1,647,140 Restricted Shares were granted to eligible participants pursuant to the Restricted Share Award Scheme. The total payout, including related expenses, amounted to RMB12,729,000. 1,330,459 Restricted Shares were vested and 617,677 Restricted Shares lapsed during the year. As at 31 December 2011, the number of Restricted Shares granted under the scheme, except for those lapsed, amounted to 9,287,529 Shares, representing approximately 0.9% of the issued Shares as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2011 are as follows:

		Number of Restricted Shares					
Date of grant	Fair value per Restricted Share *(Note)* HK$	as at 01/01/2011	granted during the year	vested during the year	lapsed during the year	as at 31/12/2011	Vesting period
06/03/2008	23.90	2,668	–	(2,668)	–	–	06/03/2009 – 06/03/2011
04/07/2008	16.70	714,032	–	(588,830)	(125,202)	–	04/07/2009 – 04/07/2011
16/12/2008	11.30	6,666	–	(6,666)	–	–	16/12/2009 – 16/12/2011
22/10/2009	21.55	4,000	–	(2,000)	(2,000)	–	01/07/2010 – 01/07/2012
03/09/2010	23.30	2,064,000	–	(618,031)	(330,335)	1,115,634	01/07/2011 – 31/08/2013
03/09/2010	23.30	1,000,000	–	(100,000)	–	900,000	01/07/2011 – 01/07/2016
30/12/2010	16.62	49,000	–	(12,264)	(12,200)	24,536	30/12/2011 – 28/02/2014
15/07/2011	8.96	–	1,647,140	–	(147,940)	1,499,200	15/07/2012 – 15/07/2014
		3,840,366	1,647,140	(1,330,459)	(617,677)	3,539,370	

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 2011, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, are as follows:

Name of Director	Number of Shares/ underlying Shares held	Note	Capacity	% of issued Shares*
Li Ning	325,281,850 (Long position)	*1*	Interests of controlled corporations	30.812
	100,000 (Short position)	*1(c)*	Interests of controlled corporation	0.009
Zhang Zhi Yong	12,425,090 (Long position)	*2*	Personal, interest of controlled corporation	1.177
Chong Yik Kay	1,465,300 (Long position)	*3*	Personal	0.139
Lim Meng Ann	652,280 (Long position)	*4*	Personal	0.062
Chu Wah Hui	707,280 (Long position)	*5*	Personal, family	0.067
James Chun-Hsien Wei	558,280 (Long position)	*6*	Personal	0.053
Koo Fook Sun, Louis	814,280 (Long position)	*7*	Personal	0.077
Wang Ya Fei	844,280 (Long position)	*8*	Personal	0.080
Chan Chung Bun, Bunny	650,280 (Long position)	*9*	Personal	0.062

* The percentage has been calculated based on 1,055,683,629 Shares in issue as at 31 December 2011.

Notes:

1. Mr. Li Ning is deemed to be interested in an aggregate of 325,281,850 Shares held by Victory Mind Assets Limited ("Victory Mind"), Dragon City Management (PTC) Limited ("Dragon City") and Alpha Talent, respectively, as follows:

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

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

   (c) 1,907,850 Shares are held by Alpha Talent, which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme. Mr. Li Ning is therefore deemed to be interested in the 1,907,850 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 100,000 Shares, among the total of 1,907,850 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 2011, Alpha Talent had granted options to purchase 35,117,900 Shares pursuant to the Share Purchase Scheme, among which options to purchase for 1,675,750 Shares have been cancelled or lapsed and options to purchase 33,342,150 Shares have been exercised. The total number of outstanding options as at 31 December 2011 is 100,000 Shares.

2. Mr. Zhang Zhi Yong is interested in 6,739,400 Shares, among which 3,489,400 Shares are held as personal interest and 3,250,000 Shares are held by Smart Step Management Limited ("Smart Step") which is 100% owned by Mr. Zhang. Mr. Zhang therefore is deemed to be interested in the 3,250,000 Shares held by Smart Step. Mr. Zhang is a director of Smart Step.

   Mr. Zhang is also taken to be interested as a grantee of options to subscribe for 208,000 Shares at an exercise price of HK$8.83 per Share, 121,600 Shares at an exercise price of HK$17.22 per Share, 4,519,400 Shares at an exercise price of HK$11.37 per Share and 836,690 Shares at an exercise price of HK$9.896 per Share under the Post-IPO Share Option Scheme.

3. Mr. Chong Yik Kay is interested in 70,000 Shares and is taken to be interested as a grantee of options to subscribe for 688,500 Shares at an exercise price of HK$13.18 per Share and 706,800 Shares at an exercise price of HK$9.896 per Share under the Post-IPO Share Option Scheme.

4. Mr. Lim Meng Ann is interested in 215,246 Shares and is taken to be interested as a grantee of options to subscribe for 17,134 Shares at an exercise price of HK$17.22 per Share, 210,720 Shares at an exercise price of HK$11.37 per Share and 209,180 Shares at an exercise price of HK$9.896 per Share under the Post-IPO Share Option Scheme.

5. Mr. Chu Wah Hui is interested in 253,113 Shares, among which 208,113 Shares are held as personal interest and 45,000 Shares are held as family interest. Mr. Chu is also taken to be interested as a grantee of options to subscribe for 34,267 Shares at an exercise price of HK$17.22 per Share, 210,720 Shares at an exercise price of HK$11.37 per Share and 209,180 Shares at an exercise price of HK$9.896 per Share under the Post-IPO Share Option Scheme.

6. Mr. James Chun-Hsien Wei is interested in 34,300 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, 263,400 Shares at an exercise price of HK$11.37 per Share and 209,180 Shares at an exercise price of HK$9.896 per Share under the Post-IPO Share Option Scheme.

7. Mr. Koo Fook Sun, Louis is interested in 230,300 Shares and is taken to be interested as a grantee of options to subscribe for 60,000 Shares at an exercise price of HK$8.83 per Share, 51,400 Shares at an exercise price of HK$17.22 per Share, 263,400 Shares at an exercise price of HK$11.37 per Share and 209,180 Shares at an exercise price of HK$9.896 per Share under the Post-IPO Share Option Scheme.

8. Ms. Wang Ya Fei is interested in 230,300 Shares and is taken to be interested as a grantee of options to subscribe for 90,000 Shares at an exercise price of HK$8.83 per Share, 51,400 Shares at an exercise price of HK$17.22 per Share, 263,400 Shares at an exercise price of HK$11.37 per Share and 209,180 Shares at an exercise price of HK$9.896 per Share under the Post-IPO Share Option Scheme.

9. Mr. Chan Chung Bun, Bunny is interested in 126,300 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, 263,400 Shares at an exercise price of HK$11.37 per Share and 209,180 Shares at an exercise price of HK$9.896 per Share under the Post-IPO Share Option Scheme.

Save as disclosed above, so far as was known to any Director, as at 31 December 2011, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

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

As at 31 December 2011, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, representing 5% or more of the Company's issued share capital:

Name of Shareholder	Number of Shares held	*Note*	Capacity	% of issued Shares*
Li Ning	325,281,850 (Long position)	*1*	Interest of controlled corporations	30.812
	100,000 (Short position)	*2*	Interest of controlled corporation	0.009
Li Chun	323,374,000 (Long position)	*3*	Interest of controlled corporations	30.632
Victory Mind Assets Limited	173,374,000 (Long position)	*4*	Beneficial owner	16.423
Ace Leader Holdings Limited	173,374,000 (Long position)	*5*	Interest of controlled corporation	16.423
Jumbo Top Group Limited	173,374,000 (Long position)	*6*	Interest of controlled corporation	16.423
TMF (Cayman) Ltd.	173,374,000 (Long position)	*7*	Trustee	16.423
Dragon City Management (PTC) Limited	150,000,000 (Long position)	*8*	Trustee	14.209
Cititrust (Cayman) Limited	150,000,000 (Long position)	*9*	Trustee	14.209
Genesis Asset Managers, LLP	98,020,000 (Long position)		Investment manager	9.285
OppenheimerFunds, Inc.	73,905,500 (Long position)	*10*	Investment manager	7.001
Oppenheimer Developing Markets Fund	63,424,500 (Long position)	*10*	Beneficial owner	6.008
Government of Singapore Investment Corporation Pte. Ltd.	63,647,752 (Long position)	*11*	Investment manager, interest of controlled corporations	6.029
Minister for Finance Inc.	63,647,752 (Long position)	*11*	Interest of controlled corporations	6.029
FIL Limited	53,210,000 (Long position)		Investment manager	5.040
Dodge & Cox	52,821,800 (Long position)		Investment manager	5.004

* The percentage has been calculated based on 1,055,683,629 Shares in issue as at 31 December 2011.

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 TMF (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, together with his family member, is the 40% shareholder of Dragon City and therefore is taken to be interested in the 150,000,000 Shares held by Dragon City. Mr. Li Chun is also a director of Dragon City.

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

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

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

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

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

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

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

11. Amongst the total of 63,647,752 Shares, Government of Singapore Investment Corporation Pte. Ltd. is interested in 24,490,752 Shares as investment manager and is deemed to be interested in 39,157,000 Shares held by its controlled corporations. Minister of Finance Inc. as the 100% owner of Government of Singapore Investment Corporation Pte. Ltd. is deemed to be interested in the 63,647,752 Shares.

Save as disclosed above, as at 31 December 2011, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

Continuing Connected Transactions with Viva China

As disclosed in the Company's announcement dated 31 August 2010, the Company and Viva China Holdings Limited ("Viva China", together with its subsidiaries, the "Viva China Group"), entered into a master agreement (the "Master Agreement") on 31 August 2010, under which, member(s) of the Group and member(s) of the Viva China Group may enter into the following transactions (the "Relevant Transactions"), which will constitute continuing connected transactions of the Company:

(1) provision of services by any member of the Viva China Group in relation to brand or product endorsement and sponsorship to the Group; and

(2) provision of services by any member of the Viva China Group in relation to event management to the Group.

Mr. Li Ning, a Director and a substantial shareholder (formerly a controlling shareholder) of the Company, is also the controlling shareholder of Viva China and therefore Viva China is an associate of Mr. Li Ning. As Mr. Li is a connected person of the Company, Viva China is also a connected person of the Company and the Relevant Transactions constitute continuing connected transactions of the Company pursuant to Chapter 14A of the Listing Rules.

The Master Agreement shall continue in force until 31 December 2012 or the day on which each of the Company and Viva China ceases to be a connected person to the other party (whichever is earlier).

The Relevant Transactions are subject to the annual caps for the three financial periods ending 31 December 2010, 2011 and 2012. As the applicable percentage ratios for the annual caps for the three financial years ending 2012 are below 5%, the Relevant Transactions are exempt from independent shareholders' approval but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

For the year ended 31 December 2011, the aggregate amount generated from the Relevant Transactions amounted to RMB1,600,000, which did not exceed the annual cap of RMB100,000,000 for the year ended 31 December 2011.

The Company has complied with the relevant disclosure requirements in respect of such continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

Continuing Connected Transactions with Shanghai Double Happiness

During the year ended 31 December 2011, Shanghai Double Happiness Co., Ltd. ("Shanghai Double Happiness"), a limited liability company established in the PRC and a 57.5%-owned subsidiary of the Company, had the following transactions which constituted continuing connected transactions under the Listing Rules. The Company has complied with the relevant disclosure requirements in respect of such continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

Sale Transactions

During the year, Shanghai Double Happiness entered into transactions with 上海雙喜日卓乒乓器材有限公司 (Shanghai Double Happiness Nittaku Table Tennis Equipment Co., Ltd.) ("Nittaku") to provide finished table tennis equipments to Nittaku (the "Sale Transactions").

Purchase Transactions

During the year, Shanghai Double Happiness entered into transactions with Nittaku to purchase finished table tennis apparels from Nittaku (the "Purchase Transactions").

Nittaku is a limited liability company established in the PRC whose 50% equity interest is held by Shanghai Double Happiness (Group) Co., Ltd. ("DHSG"), a limited liability company established in the PRC which holds 33% equity interest in Shanghai Double Happiness. DHSG and Nittaku, being associates of DHSG, are connected persons of the Company under the Listing Rules. The Sale Transactions and the Purchase Transactions constituted continuing connected transactions for the Company under the Listing Rules.

Comprehensive Products Framework Agreements

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

(1) Shanghai 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

Report of the Directors

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

The term of each of the comprehensive products framework agreements took effect on 1 January 2009 and expired on 31 December 2011.

Annual caps have been set for the Sale Transactions and the Purchase Transactions for the three financial years ended 31 December 2011. As the applicable percentage ratios for the annual caps for the three financial years ended 31 December 2011 in respect of each of the Sale Transactions and the Purchase Transactions exceeded 0.1% but were less than 2.5%, these transactions were subject to the reporting and announcement requirements but were exempt from independent shareholders' approval requirement pursuant to Chapter 14A of the Listing Rules in force then. Details of the Sale Transactions, the Purchase Transactions, the said comprehensive products framework agreements and the annual caps are set out in the Company's announcement dated 13 March 2009.

For the year ended 31 December 2011, the aggregate revenue generated from the Sale Transactions and the aggregate expenditure incurred by the Purchase Transactions did not exceed the respective annual caps for the year ended 31 December 2011 as set out below:

	Amount for the year ended 31 December 2011 *(RMB'000)*	Annual cap for the year ended 31 December 2011 *(RMB'000)*
Sale Transactions		
– provision of finished table tennis equipments by Shanghai Double Happiness to Nittaku	4,834	6,100
Purchase Transactions		
– provision of finished table tennis apparels by Nittaku to Shanghai Double Happiness	88	1,200

Annual Review of Continuing Connected Transactions

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) in accordance with the Group's pricing policies for transactions involving the provision of goods by the Group;

(3) on normal commercial terms; and

(4) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

PricewaterhouseCoopers, the auditor of the Company, was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and reported their conclusions to the Board that the transactions:

(1) have been approved by the Board;

(2) have been in accordance with the pricing policies of the Group for transactions involving the provision of goods by the Group;

(3) have been entered into in accordance with the relevant agreements governing the transactions during the year; and

(4) have not exceeded the annual caps disclosed in the announcements of the Company dated 13 March 2009 and 31 August 2010.

Related-party Transactions

The Relevant Transactions, the Sale Transactions and the Purchase Transactions also constituted related-party transactions which, among other transactions, are set out in notes 35(a), 35(b) and 35(c) to the consolidated financial statements, respectively.

Apart from the Relevant Transactions, the Sale Transactions and the Purchase Transactions, other related-party transactions set out in note 35 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

Change in Director's Information

1. Mr. Chu Wah Hui, a non-executive Director, ceased to act as an executive director and chief executive officer of Next Media Limited, a company listed on the Main Board of the Hong Kong Stock Exchange, with effect from 2 October 2011.

2. Mr. James Chun-Hsien Wei, a non-executive Director, ceased to act as an executive board member of Beiersdorf Aktiengesellschaft, a company listed on the German Stock Exchange, with effect from 1 January 2012. Mr. Wei has been appointed as Senior Advisor for CVC Capital Asia Pacific and Beiersdorf Aktiengesellschaft effective from 1 January 2012.

3. Ms. Wang Ya Fei, an independent non-executive Director has been appointed as chairman of Caelum Asset Management Company with effect from September 2011. Ms. Wang ceased to be the director and deputy general manager of Beijing Investment Consultants Inc. and an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) with effect from September 2011.

Apart from the above, there is no other change in information on Directors since the date of the interim report of the Company for the six months ended 30 June 2011, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

Purchase, Sale or Redemption of the Company's Shares

The Company did not redeem any of its Shares during the year ended 31 December 2011. Except for the purchase of Shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the Restricted Share Award Scheme rules, neither the Company nor any of its subsidiaries 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 2011 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 2011, the Company has complied with all the code provisions 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 47 to 58 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, 29 March 2012

EVERY 'BODY'

Independent Auditor's Report

羅兵咸永道

To the shareholders of Li Ning Company Limited
(incorporated in 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 85 to 147, which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit 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, 29 March 2012

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Consolidated Balance Sheet

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**831,693**	720,578
Land use rights	7	**371,696**	380,550
Intangible assets	8	**751,836**	814,080
Deferred income tax assets	23	**445,857**	297,860
Available-for-sale financial assets	9	**46,930**	46,930
Investment in an associate	12	**11,303**	–
Other receivables and prepayments	15	**87,903**	108,207
Total non-current assets		**2,547,218**	2,368,205
Current assets			
Inventories	13	**1,132,965**	805,598
Trade receivables	14	**2,094,440**	1,612,690
Other receivables and prepayments – current portion	15	**344,527**	302,819
Restricted bank deposits	16	**13,194**	2,045
Cash and cash equivalents	16	**1,196,474**	1,470,435
Total current assets		**4,781,600**	4,193,587
Total assets		**7,328,818**	6,561,792
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	17	**111,604**	111,364
Share premium	17	**312,379**	293,988
Shares held for Restricted Share Award Scheme	17	**(52,415)**	(64,508)
Other reserves	18	**370,106**	346,647
Retained profits	18		
– Proposed final dividend		**–**	213,827
– Others		**2,730,169**	2,467,984
		3,471,843	3,369,302
Non-controlling interests in equity		**192,816**	190,080
Total equity		**3,664,659**	3,559,382

Consolidated Balance Sheet

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-current liabilities			
License fees payable	*21*	**458,793**	482,936
Deferred income tax liabilities	*23*	**81,269**	85,508
Deferred income	*24*	**61,030**	62,324
Total non-current liabilities		**601,092**	630,768
Current liabilities			
Trade payables	*19*	**1,462,398**	1,190,960
Other payables and accruals	*20*	**662,480**	646,024
License fees payable – current portion	*21*	**71,649**	70,666
Current income tax liabilities		**28,481**	151,744
Borrowings	*22*	**838,059**	312,248
Total current liabilities		**3,063,067**	2,371,642
Total liabilities		**3,664,159**	3,002,410
Total equity and liabilities		**7,328,818**	6,561,792
Net current assets		**1,718,533**	1,821,945
Total assets less current liabilities		**4,265,751**	4,190,150

Zhang Zhi Yong
Executive Director & Chief Executive Officer

Chong Yik Kay
Executive Director & Chief Financial Officer

The notes on pages 92 to 147 are an integral part of these financial statements.

Balance Sheet

	Note	2011 RMB'000	2010 RMB'000
		As at 31 December	
ASSETS			
Non-current assets			
Investment in subsidiaries	*10*	**578,351**	439,615
Current assets			
Other receivables and prepayments	*15*	**–**	1,495
Dividends receivable		**670,765**	585,843
Cash and cash equivalents	*16*	**5,958**	26,978
		676,723	614,316
Total assets		**1,255,074**	1,053,931
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	*17*	**111,604**	111,364
Share premium and other reserves	*17,18*		
– Proposed final dividend		**–**	213,827
– Others		**655,190**	455,732
Total equity		**766,794**	780,923
LIABILITIES			
Current liabilities			
Other payables and accruals	*20*	**1,860**	720
Borrowings	*22*	**486,420**	272,288
Total liabilities		**488,280**	273,008
Total equity and liabilities		**1,255,074**	1,053,931
Net current assets		**188,443**	341,308
Total assets less current liabilities		**766,794**	780,923

Zhang Zhi Yong
Executive Director & Chief Executive Officer

Chong Yik Kay
Executive Director & Chief Financial Officer

The notes on pages 92 to 147 are an integral part of these financial statements.

Consolidated Income Statement

	Note	2011 RMB'000	2010 RMB'000
		Year ended 31 December	
Revenue	5	**8,928,526**	9,478,527
Cost of sales	25	**(4,814,013)**	(4,996,928)
Gross profit		**4,114,513**	4,481,599
Distribution costs	25	**(2,909,922)**	(2,511,175)
Administrative expenses	25	**(717,068)**	(618,280)
Other income – net	26	**143,433**	194,631
Operating profit		**630,956**	1,546,775
Finance income	28	**17,179**	14,917
Finance costs	28	**(99,231)**	(52,178)
Finance costs – net		**(82,052)**	(37,261)
Share of loss of an associate	12	**(1,527)**	–
Profit before income tax		**547,377**	1,509,514
Income tax expense	29	**(136,408)**	(377,378)
Profit for the year		**410,969**	1,132,136
Attributable to:			
Equity holders of the Company		**385,813**	1,108,487
Non-controlling interests		**25,156**	23,649
		410,969	1,132,136
Earnings per share for profit attributable to equity holders of the Company (RMB cents)			
– basic	30	**36.70**	105.84
– diluted	30	**36.56**	104.39
Dividends	31	**116,533**	443,395

The notes on pages 92 to 147 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Profit for the year	**410,969**	1,132,136
Other comprehensive income:		
Currency translation differences	**3,762**	1,222
Total comprehensive income for the year	**414,731**	1,133,358
Attributable to:		
Equity holders of the Company	**389,575**	1,109,709
Non-controlling interests	**25,156**	23,649
	414,731	1,133,358

The notes on pages 92 to 147 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
As at 1 January 2010		2,674,508	187,603	2,862,111
Total comprehensive income for the year		1,109,709	23,649	1,133,358
Transactions with owners:				
Share option schemes:				
– value of services provided	*18*	53,677	–	53,677
– proceeds from shares issued	*17*	36,380	–	36,380
Shares purchased for Restricted Share Award Scheme	*17*	(39,509)	–	(39,509)
Dividends to equity holders of the Company	*18*	(465,463)	–	(465,463)
Dividends to non-controlling interests of a subsidiary		–	(22,532)	(22,532)
Contribution from non-controlling interests of a subsidiary		–	1,360	1,360
As at 31 December 2010		3,369,302	190,080	3,559,382
As at 1 January 2011		**3,369,302**	**190,080**	**3,559,382**
Total comprehensive income for the year		**389,575**	**25,156**	**414,731**
Transactions with owners:				
Share option schemes:				
– value of services provided	*18*	**38,890**	**–**	**38,890**
– proceeds from shares issued	*17*	**12,410**	**–**	**12,410**
Shares purchased for Restricted Share Award Scheme	*17*	**(12,729)**	**–**	**(12,729)**
Dividends to equity holders of the Company	*18*	**(325,605)**	**–**	**(325,605)**
Dividends to non-controlling interests of a subsidiary		**–**	**(22,420)**	**(22,420)**
As at 31 December 2011		**3,471,843**	**192,816**	**3,664,659**

The notes on pages 92 to 147 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Cash flows from operating activities			
Cash generated from operations	*32*	**427,477**	1,474,588
Income tax paid		**(411,907)**	(483,693)
Net cash generated from operating activities		**15,570**	990,895
Cash flows from investing activities			
– settlement of payable for acquisition of subsidiaries		**–**	(16,273)
– purchases of property, plant and equipment		**(298,021)**	(188,872)
– purchases of land use rights		**(150)**	(3,250)
– purchases of intangible assets		**(89,612)**	(80,224)
– investments in available-for-sale financial assets		**–**	(46,930)
– investment in an associate		**(12,830)**	–
– prepayment for other investment		**(10,000)**	–
– proceeds on disposal of property, plant and equipment and intangible assets		**2,069**	3,671
– interest received		**6,198**	7,507
Net cash used in investing activities		**(402,346)**	(324,371)
Cash flows from financing activities			
– dividends paid to equity holders of the Company		**(325,605)**	(465,463)
– dividends paid to non-controlling interests of a subsidiary		**(22,420)**	(31,568)
– proceeds from issuance of ordinary shares		**12,410**	36,380
– contribution from non-controlling interests of a subsidiary		**–**	1,360
– proceeds from bank borrowings		**2,240,053**	382,320
– repayments of bank borrowings		**(1,711,422)**	(327,082)
– purchase of shares for Restricted Share Award Scheme		**(12,729)**	(39,509)
– interest paid		**(49,104)**	(10,891)
– (increase)/decrease in restricted bank deposits		**(11,149)**	209
Net cash generated from/(used in) in financing activities		**120,034**	(454,244)
Net (decrease)/increase in cash and cash equivalents		**(266,742)**	212,280
Cash and cash equivalents at beginning of year		**1,470,435**	1,264,343
Exchange losses on cash and cash equivalents		**(7,219)**	(6,188)
Cash and cash equivalents at end of year		**1,196,474**	1,470,435

The notes on pages 92 to 147 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

1. General information

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

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

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

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 29 March 2012.

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.

Changes in accounting policy and disclosures

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

The following amendments to standard are mandatory for the first time for the financial year beginning 1 January 2011 which are relevant to the Group's operations.

- IAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose:

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

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

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) *New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted*

The Group's and parent entity's assessment of the impact of the new and amended standards is set out below.

- IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group is in the process of assessing IFRS 11's full impact and intends to adopt IFRS 11 upon its effective date, which is for the accounting period beginning on or after 1 January 2013.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have any impact on the Group.

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.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any 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.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.8). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(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.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit of an associate' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. Summary of significant accounting policies *(Continued)*

2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management that makes strategic decisions.

2.5 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 RMB, 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 in other comprehensive income.

2.6 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.6 Property, plant and equipment *(Continued)*

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
Office equipment and motor vehicles	3 – 12 years

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

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 2.9).

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.

2.7 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.

2.8 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 identified according to operating segment.

2. Summary of significant accounting policies *(Continued)*

2.8 Intangible assets *(Continued)*

(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 varying from 2 to 20 years.

(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.

(d) Trademarks, customer relationships and non-compete agreements

Separately acquired trademarks, customer relationships and non-compete agreements are shown at historical cost. Trademarks, customer relationships and non-compete agreements acquired in business combination are recognised at fair value at the acquisition date. Trademarks, customer relationships and non-compete agreements that have finite useful lives 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, and the cost of customer relationships and non-compete agreements over their estimated useful lives of 3 to 8 years.

2.9 Impairment of investments in subsidiaries, jointly controlled entities, associates 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.10 Financial assets

(a) Classification

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.

The Group's financial assets primarily comprise loans and receivables, and available-for-sale financial assets.

(i) 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, restricted bank deposits and cash and cash equivalents in the balance sheets (Notes 2.12 and 2.13).

(ii) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(b) Recognition and measurement

Regular way 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.

At 31 December 2011, the Group's available-for-sale financial assets represent interests in certain unlisted companies which do not have quoted market prices in an active market and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, these investments are carried at cost less accumulated impairment losses.

2.11 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. Summary of significant accounting policies *(Continued)*

2.12 Trade receivables and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

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.

2.13 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.

2.14 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.

2.15 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

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

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.16 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.

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the 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 end of the reporting period.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.19 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current 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 Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2. Summary of significant accounting policies *(Continued)*

2.19 Current and deferred income tax *(Continued)*

(ii) Deferred income tax

- *Inside basis differences*

  Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 substantively 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.

- *Outside basis differences*

  Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability 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.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.20 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 makes 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. There are similar pension schemes in Singapore and the United States to which the Group also makes contributions.

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

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.20 Employee benefits *(Continued)*

(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, including any market performance conditions and excluding the impacts 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) as well as any non-vesting conditions (for example, the requirement for employees to save). 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.

(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.

2.21 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.

2.22 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 when 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.

2. Summary of significant accounting policies *(Continued)*

2.22 Revenue recognition *(Continued)*

(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 using the effective interest method. When a loan and 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 and receivables are recognised using the original effective interest rate.

(c) Dividend income

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

(d) License fee income

License fee income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

2.23 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.24 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 and land use right are included in non-current liabilities as deferred income and are recognised in the consolidated income statement as other income on a straight-line basis over the expected lives of the related assets.

2.25 Dividend distribution

Dividend distribution to the Company's equity holders, excluding those relating to the Company's own shares held under the Li Ning Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme"), is recognised as a liability in the Group and the Company'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.

3. Financial risk management

3.1 Financial risk factors

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

(i) 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$), United States dollars (US$), EURO (EUR) or Singapore dollars (SGD) (Note 16). In addition, the Company is required to pay dividends and certain license fees, borrowings 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 2011.

As at 31 December 2011 and 2010, if RMB strengthened/weakened by 5% against HK$/US$/EUR/SGD 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$, US$, EUR and SGD denominated cash and cash equivalents, borrowings, license fees and other payables.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risks *(Continued)*

(i) *Foreign exchange risk (Continued)*

	2011 RMB'000	2010 RMB'000
Post-tax profit increase/(decrease)		
– Strengthened 5%	**20,902**	15,046
– Weakened 5%	**(20,902)**	(15,046)

(ii) *Cash flow/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 assets bearing significant interest. 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 6.00% (2010: 5.32%) for bank borrowings denominated in RMB and 2.02% (2010: 1.23%) for bank borrowings denominated in HK$ as disclosed in Note 22.

(b) 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 banks and financial institutions, only parties with good credit ratings are accepted. For wholesale customers, the Group assesses the credit quality of each 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 banks as at the balance sheet dates.

	2011 RMB'000	2010 RMB'000
Banks*		
Bank A	**310,439**	325,007
Bank B	**222,811**	216,364
Bank C	**124,756**	198,506
	658,006	739,877

* All banks are prominent nation wide state-owned bank in the PRC or branch of international commercial bank in the PRC 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by management. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 22) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

The table below analyses the Group's and Company's financial liabilities (which does not include statutory 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.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
As at 31 December 2011				
Borrowings	**848,933**	**–**	**–**	**–**
License fees payable	**73,822**	**57,898**	**127,789**	**733,800**
Trade payables	**1,462,398**	**–**	**–**	**–**
Other payables	**223,972**	**–**	**–**	**–**
	2,609,125	**57,898**	**127,789**	**733,800**
As at 31 December 2010				
Borrowings	313,518	–	–	–
License fees payable	73,495	62,575	140,252	779,700
Trade payables	1,190,960	–	–	–
Other payables	371,484	–	–	–
	1,949,457	62,575	140,252	779,700
Company				
As at 31 December 2011				
Borrowings	**488,899**	**–**	**–**	**–**
Other payables	**1,860**	**–**	**–**	**–**
	490,759	**–**	**–**	**–**
As at 31 December 2010				
Borrowings	272,655	–	–	–
Other payables	720	–	–	–
	273,375	–	–	–

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

3. Financial risk management *(Continued)*

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.

The gearing ratios of the Group as at 31 December 2011 and 2010 were as follows:

	2011 **RMB'000**	2010 RMB'000
Total borrowings	**838,059**	312,248
Equity holder's equity	**3,471,843**	3,369,302
Gearing ratio	**24.1%**	9.3%

The increase in the gearing ratio as at 31 December 2011 resulted primarily from the increase in borrowings.

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.

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

4. Critical accounting estimates and judgements *(Continued)*

(a) Estimated impairment of goodwill and intangible assets

The Group tests whether goodwill and intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.8. 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 2.12. 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.

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

5. Segment information

Management reviews the Group's internal reports periodically in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

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

Revenue consists of sales from LI-NING brand, Double Happiness brand, Lotto brand and all other brands, which are RMB8,164,794,000, RMB485,026,000, RMB119,641,000 and RMB159,065,000 for the year ended 31 December 2011 and RMB8,734,294,000, RMB458,291,000, RMB90,428,000 and RMB195,514,000 for the year ended 31 December 2010 respectively.

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

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

5. Segment information *(Continued)*

The segment information provided to the management for the reportable segments for the years ended 31 December 2011 and 2010 is as follows:

	LI-NING brand RMB'000	Double Happiness brand RMB'000	Lotto brand RMB'000	All other brands RMB'000	Total RMB'000
Year ended 31 December 2011					
Total revenue	**8,164,794**	**488,654**	**148,703**	**189,090**	**8,991,241**
Inter-segment revenue	**–**	**(3,628)**	**(29,062)**	**(30,025)**	**(62,715)**
Revenue from external customers	**8,164,794**	**485,026**	**119,641**	**159,065**	**8,928,526**
Operating profit/(loss)	**731,106**	**80,451**	**(130,556)**	**(50,045)**	**630,956**
Distribution costs and administrative expenses	**3,223,007**	**118,619**	**167,989**	**117,375**	**3,626,990**
Depreciation and amortisation	**215,332**	**17,504**	**20,509**	**7,958**	**261,303**
Year ended 31 December 2010					
Total revenue	8,734,294	459,352	177,652	232,037	9,603,335
Inter-segment revenue	–	(1,061)	(87,224)	(36,523)	(124,808)
Revenue from external customers	8,734,294	458,291	90,428	195,514	9,478,527
Operating profit/(loss)	1,602,602	71,865	(111,941)	(15,751)	1,546,775
Distribution costs and administrative expenses	2,784,365	113,418	144,136	87,536	3,129,455
Depreciation and amortisation	164,585	20,233	20,192	7,407	212,417

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

5. Segment information *(Continued)*

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

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
Operating profit	**630,956**	1,546,775
Finance income	**17,179**	14,917
Finance costs	**(99,231)**	(52,178)
Share of loss of an associate	**(1,527)**	–
Profit before income tax	**547,377**	1,509,514

Geographical information of revenue

	Year ended 31 December	
	2011	2010
	RMB'000	RMB'000
The PRC (including the Hong Kong Special Administrative Region)	**8,726,209**	9,313,357
Other regions	**202,317**	165,170
Total	**8,928,526**	9,478,527

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

The Group has a large number of customers. For the year ended 31 December 2011 and 2010, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

6. Property, plant and equipment – Group

	Buildings RMB'000	Leasehold improvement RMB'000	Mould RMB'000	Machinery RMB'000	Office equipment and motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
As at 1 January 2010							
Cost	506,015	63,927	101,550	46,342	151,084	4,761	873,679
Accumulated depreciation	(53,226)	(34,631)	(61,760)	(11,799)	(74,082)	–	(235,498)
Net book amount	452,789	29,296	39,790	34,543	77,002	4,761	638,181
Year ended 31 December 2010							
Opening net book amount	452,789	29,296	39,790	34,543	77,002	4,761	638,181
Additions	8,581	65,233	70,163	19,015	33,262	8,946	205,200
Transfer out from construction-in-progress	323	–	–	146	240	(709)	–
Disposals	–	(2,545)	(3,910)	(188)	(1,512)	–	(8,155)
Depreciation charge	(23,565)	(25,792)	(35,072)	(5,173)	(25,046)	–	(114,648)
Closing net book amount	438,128	66,192	70,971	48,343	83,946	12,998	720,578
As at 31 December 2010							
Cost	515,029	120,491	146,331	65,665	178,115	12,998	1,038,629
Accumulated depreciation	(76,901)	(54,299)	(75,360)	(17,322)	(94,169)	–	(318,051)
Net book amount	438,128	66,192	70,971	48,343	83,946	12,998	720,578
Year ended 31 December 2011							
Opening net book amount	**438,128**	**66,192**	**70,971**	**48,343**	**83,946**	**12,998**	**720,578**
Additions	**4,035**	**43,179**	**46,015**	**9,531**	**24,107**	**145,115**	**271,982**
Transfer out from construction-in-progress	**8,880**	**–**	**–**	**1,853**	**487**	**(11,220)**	**–**
Disposals	**(42)**	**(521)**	**(16)**	**(828)**	**(898)**	**–**	**(2,305)**
Depreciation charge	**(21,536)**	**(52,771)**	**(50,458)**	**(6,416)**	**(27,381)**	**–**	**(158,562)**
Closing net book amount	**429,465**	**56,079**	**66,512**	**52,483**	**80,261**	**146,893**	**831,693**
As at 31 December 2011							
Cost	**527,748**	**157,520**	**192,320**	**75,419**	**198,485**	**146,893**	**1,298,385**
Accumulated depreciation	**(98,283)**	**(101,441)**	**(125,808)**	**(22,936)**	**(118,224)**	**–**	**(466,692)**
Net book amount	**429,465**	**56,079**	**66,512**	**52,483**	**80,261**	**146,893**	**831,693**

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB 7,026,000 (2010: RMB10,436,000) are built on land which the Group is in the process of applying for the legal title (Note 7).

Depreciation expenses of RMB59,389,000 (2010: RMB44,725,000) has been charged to cost of sales, RMB65,776,000 (2010: RMB36,779,000) to distribution costs and RMB33,397,000 (2010: RMB33,144,000) to administrative expenses.

As at 31 December 2011, buildings with net book value of RMB20,190,000 (2010: RMB24,239,000) are pledged as securities for the Group's borrowings (Note 22).

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

7. Land use rights – Group

	RMB'000
As at 1 January 2010	
Cost	400,729
Accumulated amortisation	(14,024)
Net book amount	386,705
Year ended 31 December 2010	
Opening net book amount	386,705
Addition	3,250
Amortisation charge	(9,405)
Closing net book amount	380,550
As at 31 December 2010	
Cost	403,979
Accumulated amortisation	(23,429)
Net book amount	380,550
Year ended 31 December 2011	
Opening net book amount	**380,550**
Addition	**150**
Amortisation charge	**(9,004)**
Closing net book amount	**371,696**
As at 31 December 2011	
Cost	**404,129**
Accumulated amortisation	**(32,433)**
Net book amount	**371,696**

All the Group's land use rights are located in the PRC and are held under leases for periods varying from 20 to 50 years. The Group is in the process of applying for the legal title for land use rights with net book value of RMB122,685,000 as at 31 December 2011 (2010: RMB126,696,000).

As at 31 December 2011, land use rights with net book value of RMB14,934,000 (2010: RMB15,442,000) are pledged as securities for the Group's borrowings (Note 22).

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

8. Intangible assets – Group

	Goodwill RMB'000	Trademarks RMB'000	Computer Software RMB'000	License rights RMB'000	Customer relationships & Non-compete agreements RMB'000	Total RMB'000
As at 1 January 2010						
Cost	179,226	117,077	66,231	608,759	41,339	1,012,632
Accumulated amortisation	–	(12,736)	(27,391)	(98,989)	(3,605)	(142,721)
Net book amount	179,226	104,341	38,840	509,770	37,734	869,911
Year ended 31 December 2010						
Opening net book amount	179,226	104,341	38,840	509,770	37,734	869,911
Additions	–	1,161	21,922	13,314	–	36,397
Disposal	–	–	(72)	–	–	(72)
Amortisation charge	–	(6,838)	(12,335)	(63,784)	(5,407)	(88,364)
Impairment charge	–	(3,792)	–	–	–	(3,792)
Closing net book amount	179,226	94,872	48,355	459,300	32,327	814,080
As at 31 December 2010						
Cost	179,226	118,238	88,081	622,072	41,339	1,048,956
Accumulated amortisation and impairment	–	(23,366)	(39,726)	(162,772)	(9,012)	(234,876)
Net book amount	179,226	94,872	48,355	459,300	32,327	814,080
Year ended 31 December 2011						
Opening net book amount	**179,226**	**94,872**	**48,355**	**459,300**	**32,327**	**814,080**
Additions	**–**	**799**	**24,165**	**6,529**	**–**	**31,493**
Amortisation charge	**–**	**(5,603)**	**(15,563)**	**(67,164)**	**(5,407)**	**(93,737)**
Closing net book amount	**179,226**	**90,068**	**56,957**	**398,665**	**26,920**	**751,836**
As at 31 December 2011						
Cost	**179,226**	**119,037**	**112,246**	**628,601**	**41,339**	**1,080,449**
Accumulated amortisation and impairment	**–**	**(28,969)**	**(55,289)**	**(229,936)**	**(14,419)**	**(328,613)**
Net book amount	**179,226**	**90,068**	**56,957**	**398,665**	**26,920**	**751,836**

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

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

8. Intangible assets – Group *(Continued)*

Impairment tests for goodwill

Goodwill is allocated to Double Happiness and Kason, which are cash-generating units (CGUs) at the lowest level within the Group at which the goodwill is monitored for internal management purpose.

The recoverable amounts for the CGUs have been determined based on values-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 for Double Happiness and Kason are 3.5% and 6.4% per annum respectively 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 CGUs operate. The pre-tax discount rates used are 17.3% and 16.08% which reflect specific risks relating to Double Happiness and Kason respectively. Management's assessment of Double Happiness' and Kason's values-in-use exceeds their carrying values, therefore no impairment provision was recorded by management.

9. Available-for-sale financial assets – Group

	2011 **RMB'000**	2010 RMB'000
Unlisted investments, at cost	**46,930**	46,930

10. Investment in subsidiaries – Company

	2011 **RMB'000**	2010 RMB'000
Investment in unlisted shares, at cost	**79,568**	79,568
Loan to subsidiaries	**446,368**	292,495
Contribution to the Restricted Share Award Scheme Trust	**52,415**	67,552
	578,351	439,615

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

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company *(Continued)*

The following is a list of the principal subsidiaries as at 31 December 2011:

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
Directly held:				
RealSports Pte Ltd.	The British Virgin Islands, 8 October 2002 Limited liability company	US$1,000	100%	Investment holding
Indirectly held:				
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
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
上海悦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
廣東悦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%	Manufacture of sports goods
李寧(中國)體育用品有限公司 (Li Ning (China) Sports Goods Co., Ltd.)	The PRC, 6 July 2007 Limited liability company	RMB50,000,000	100%	Sale of sports goods

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(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
Li Ning Sports USA, Inc. (李寧體育美國有限公司)	USA, 28 August 2007 Limited liability company	US$1,000	100%	Design of athletic shoes and apparel
Li Ning Spain, S.L. (李寧西班牙有限公司)	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

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(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
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
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
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

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(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
成都一動體育用品銷售有限公司 (Chengdu 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
深圳一動體育用品銷售有限公司 (Shenzhen Edosports Goods Sales Co., Ltd.)	The PRC, 7 May 2009 Limited liability company	RMB1,000,000	100%	Sale of sports goods
蘭州一動體育用品銷售有限公司 (Lanzhou Edosports Goods Sales Co., Ltd.)	The PRC, 13 May 2009 Limited liability company	RMB1,000,000	100%	Sale of sports goods
厦門悦奧商貿有限公司 (Xiamen Yue Ao Trading Co., Ltd.)	The PRC, 26 October 2009 Limited liability company	RMB1,000,000	100%	Sale of sports goods
大連悦奧商貿有限公司 (Dalian Yue Ao Trading Co., Ltd.)	The PRC, 13 June 2010 Limited liability company	RMB3,000,000	100%	Sale of sports goods
杭州悦奧體育用品銷售有限公司 (Hangzhou Yue Ao Sports Goods Sales Co., Ltd.)	The PRC, 17 December 2010 Limited liability company	RMB1,000,000	100%	Sale of sports goods
合肥一動體育用品銷售有限公司 (Hefei Edosports Goods Sales Co., Ltd.)	The PRC, 21 March 2011 Limited liability company	RMB1,000,000	100%	Sale of sports goods
福州悦奧體育用品有限公司 (Fuzhou Yue Ao Sports Goods Co., Ltd.)	The PRC, 6 April 2011 Limited liability company	RMB1,000,000	100%	Sale of sports goods

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(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
長春一動體育用品銷售有限公司 (Changchun Edosports Goods Sales Co., Ltd.)	The PRC, 2 August 2011 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
Lining Sports Singapore Pte. Ltd. (李寧體育新加坡有限公司)	Singapore 20 October 2008 Limited liability company	SGD500,000	100%	Sale of sports goods
李寧體育(天津)有限公司 (Lining Sports (Tianjin) Co., Ltd.)	The PRC, 19 January 2009 Limited liability company	RMB20,000,000	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%	Manufacture 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
北京紅雙喜體育用品銷售有限公司 (Beijing Double Happiness Sports Goods Sales Co., Ltd.)	The PRC, 27 December 2010 Limited liability company	RMB2,000,000	57.5%	Sale of sports goods
上海紅雙喜體育用品蘇州有限公司 (Suzhou Double Happiness Guan Du Sports Goods Co., Ltd.)	The PRC, 10 August 2002 Limited liability company	RMB15,000,000	43.1%	Manufacture and 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

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(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
上海紅雙喜服飾有限公司 (Shanghai Double Happiness Apparel Co., Ltd.)	The PRC, 27 July 2011 Limited liability company	RMB10,000,000	100%	Sale of sports goods
樂途體育用品有限公司 (Lotto Sports Goods Co., Ltd.)	The PRC, 19 January 2009 Limited liability company	RMB200,000,000	100%	Sale of sports goods
樂途(大慶)體育用品有限責任公司 (Lotto (Daqing) Sports Goods Co., Ltd.)	The PRC, 24 January 2011 Limited liability company	RMB5,000,000	100%	Sale of sports goods
樂途(四川)體育用品有限責任公司 (Lotto (Sichuan) Sports Goods Co., Ltd.)	The PRC, 9 September 2011 Limited liability company	RMB5,000,000	100%	Sale of sports goods
樂途(廣東)體育用品有限責任公司 (Lotto (Guangdong) Sports Goods Co., Ltd.)	The PRC, 31 October 2011 Limited liability company	RMB10,000,000	100%	Sale of sports goods
李寧(福建)羽毛球科技發展有限公司 (Li Ning (Fujian) Badminton Technology Development Co., Ltd.)	The PRC, 30 June 2008 Limited liability company	RMB19,577,000	100%	Manufacture and sale of sports goods
Kason Sports (Hong Kong) Ltd. (凱勝體育(香港)有限公司)	Hong Kong, 15 January 2008 Limited liability company	HK$1	100%	Investment holding
Li Ning International Trading (Hong Kong) Co., Ltd. (李寧國際貿易(香港)有限公司)	Hong Kong, 27 August 2010 Limited liability company	HK$10,000	100%	Sales of sports goods
李寧(湖北)體育用品有限公司 (Li Ning (Hubei) Sports Good Co., Ltd.)	The PRC, 2 November 2010 Limited liability company	RMB20,021,699	100%	Manufacture and sale of sports goods

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

The following financial information reflects the Group's 50% share of the consolidated assets and liabilities, and consolidated revenue and results of Li-Ning Aigle Ventures and its subsidiary as at 31 December 2011 and for the year then ended, which have been included in the consolidated balance sheet and consolidated income statement.

	2011 **RMB'000**	2010 RMB'000
Assets		
Non-current assets	**4,382**	3,038
Current assets	**29,640**	16,302
Total assets	**34,022**	19,340
Liabilities		
Non-current liabilities	**4,887**	–
Current liabilities	**27,261**	22,939
Total liabilities	**32,148**	22,939
Net assets/(liabilities)	**1,874**	(3,599)

	2011 **RMB'000**	2010 RMB'000
Revenue	**48,858**	23,137
Expenses	**(43,298)**	(24,223)
Net profit/(loss)	**5,560**	(1,086)

As at 31 December 2011 and 2010, 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 2011 and 2010.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

12. Share of loss of/investment in an associate

The Group has a 19.9% equity interest in Digital Li-Ning Company Limited ("Digital Li-Ning") which is a limited liability company incorporated in the Cayman Islands in 2011 with paid-up-capital of US$10,000,000. Digital Li-Ning is principally engaged in the marketing and distribution of sports goods in the United States.

The Group exercises significant influence over Digital Li-Ning by virtue of its contractual right to appoint director to the board of directors of Digital Li-Ning and has the power to participate in the financial and operating policy decisions of Digital Li-Ning.

Group

	2011 **RMB'000**	2010 RMB'000
Share of net assets, as at 1 January	**–**	–
New investment	**12,830**	–
Share of loss	**(1,527)**	–
Share of net assets, as at 31 December	**11,303**	–

13. Inventories – Group

	2011 **RMB'000**	2010 RMB'000
Raw materials	**34,041**	23,552
Work in progress	**40,576**	24,857
Finished goods	**1,245,857**	872,271
	1,320,474	920,680
Less: Provision for write-down to net realisable value	**(187,509)**	(115,082)
	1,132,965	805,598

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB4,547,477,000 for the year ended 31 December 2011 (2010: RMB4,713,032,000).

The Group realised a loss of approximately RMB72,427,000 for the year ended 31 December 2011 (2010: RMB42,556,000) 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.

14. Trade receivables – Group

	2011 **RMB'000**	2010 RMB'000
Accounts receivable	**2,105,590**	1,613,155
Notes receivable	**250**	917
	2,105,840	1,614,072
Less: provision for impairment of trade receivables	**(11,400)**	(1,382)
	2,094,440	1,612,690

14. Trade receivables – Group *(Continued)*

Customers are normally granted credit terms within 90 days. As at 31 December 2011, trade receivables that were neither past due nor impaired amounted to RMB1,575,401,000 (2010: RMB1,455,532,000). Trade receivables that were past due but not impaired amounted to RMB519,039,000 (2010: RMB157,158,000) which relate to a number of independent customers for whom there is no recent history of default and with outstanding receivables aged from 91 to 180 days as at 31 December 2011.

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

	2011 **RMB'000**	2010 RMB'000
0 – 30 days	**728,962**	813,082
31 – 60 days	**386,433**	344,873
61 – 90 days	**460,006**	297,577
91 – 180 days	**519,039**	157,158
181 – 365 days	**10,496**	387
Over 365 days	**904**	995
	2,105,840	1,614,072

As at 31 December 2011, trade receivables of RMB11,400,000 (2010: RMB1,382,000) were impaired on 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:

	2011 **RMB'000**	2010 RMB'000
As at 1 January	**1,382**	1,184
Provision for impairment of trade receivables	**10,246**	474
Trade receivables written off during the year as uncollectible	**(228)**	(276)
As at 31 December	**11,400**	1,382

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.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

15. Other receivables and prepayments – Group and Company

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advances to suppliers	**22,495**	10,426	**–**	–
Prepayment for advertising expenses	**28,464**	47,137	**–**	–
Rental and other deposits	**126,238**	109,516	**–**	–
Prepaid rentals	**200,879**	198,315	**–**	–
Staff advances and other payments for employees	**3,034**	3,302	**–**	–
Prepayment for other investment	**10,000**	–	**–**	–
Others	**41,320**	42,330	**–**	1,495
	432,430	411,026	**–**	1,495
Less: non-current portion	**(87,903)**	(108,207)	**–**	–
Current portion	**344,527**	302,819	**–**	1,495

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

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

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

As at 31 December 2011, 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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and cash equivalents	**1,196,474**	1,470,435	**5,958**	26,978
Restricted bank deposits	**13,194**	2,045	**–**	–
	1,209,668	1,472,480	**5,958**	26,978

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

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Denominated in RMB	**1,168,122**	1,413,768	**–**	–
Denominated in HK$	**19,316**	42,322	**5,958**	26,974
Denominated in US$	**11,388**	4,880	**–**	4
Denominated in EUR	**1,191**	4,028	**–**	–
Denominated in SGD	**9,651**	7,482	**–**	–
	1,209,668	1,472,480	**5,958**	26,978

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

16. Cash, cash equivalents and bank deposits – Group and Company *(Continued)*

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 certain banking facilities. The maximum exposure to credit risk at the reporting date is the carrying amounts of the Group's restricted bank deposits mentioned above.

17. 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 2011 and 2010	10,000,000	1,000,000

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(All amounts in RMB unless otherwise stated)

17. Ordinary shares, share premium and shares held for Restricted Share Award Scheme *(Continued)*

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 2010	1,044,881	110,898	243,553	(53,239)	301,212
Net proceeds from shares issued pursuant to share option schemes *(Note a)*	5,355	466	35,914	–	36,380
Transfer of fair value of share options exercised to share premium	–	–	14,521	–	14,521
Shares vested under Restricted Share Award Scheme	1,481	–	–	28,240	28,240
Shares purchased for Restricted Share Award Scheme *(Note b)*	(1,872)	–	–	(39,509)	(39,509)
As at 31 December 2010	1,049,845	111,364	293,988	(64,508)	340,844
As at 1 January 2011	**1,049,845**	**111,364**	**293,988**	**(64,508)**	**340,844**
Net proceeds from shares issued pursuant to share option schemes *(Note a)*	**2,883**	**240**	**12,170**	**–**	**12,410**
Transfer of fair value of share options exercised to share premium	**–**	**–**	**6,221**	**–**	**6,221**
Shares vested under Restricted Share Award Scheme	**1,330**	**–**	**–**	**24,822**	**24,822**
Shares purchased for Restricted Share Award Scheme *(Note b)*	**(1,647)**	**–**	**–**	**(12,729)**	**(12,729)**
As at 31 December 2011	**1,052,411**	**111,604**	**312,379**	**(52,415)**	**371,568**

Notes:

(a) During the year ended 31 December 2011, the Company issued 2,883,000 shares (2010: 5,355,000 shares) of HK$0.10 each to certain directors and employees of the Group at weighted-average issue price of HK$5.17 (2010: HK$7.72) per share pursuant to the Company's share option schemes (see Note 33).

(b) During the year ended 31 December 2011, the Li Ning Company Limited Restricted Share Award Scheme Trust (the "Trust"), a trust established in Hong Kong, purchased 1,647,000 shares (2010: 1,872,000 shares) of the Company's shares from the open market. The total amount of RMB12,729,000 (2010: RMB39,509,000) paid to acquire the shares was financed by the Company by way of contributions made to the Trust.

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(All amounts in RMB unless otherwise stated)

18. Reserves – Group and Company

Group

	Capital reserves (a) RMB'000	Statutory reserve funds (b) RMB'000	Share-based compensation reserve RMB'000	Currency translation differences RMB'000	Subtotal RMB'000	Retained profits RMB'000	Total RMB'000
As at 1 January 2010	45,634	206,612	80,160	(28)	332,378	2,040,918	2,373,296
Profit for the year	–	–	–	–	–	1,108,487	1,108,487
Value of services provided under share schemes	–	–	53,677	–	53,677	–	53,677
Transfer of fair value of share options exercised to share premium	–	–	(14,521)	–	(14,521)	–	(14,521)
Shares vested under Restricted Share Award Scheme	–	–	(28,240)	–	(28,240)	–	(28,240)
Appropriations to statutory reserves	–	2,131	–	–	2,131	(2,131)	–
Translation difference of foreign currency financial statements	–	–	–	1,222	1,222	–	1,222
Dividends paid	–	–	–	–	–	(465,463)	(465,463)
As at 31 December 2010	45,634	208,743	91,076	1,194	346,647	2,681,811	3,028,458
As at 1 January 2011	**45,634**	**208,743**	**91,076**	**1,194**	**346,647**	**2,681,811**	**3,028,458**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**385,813**	**385,813**
Value of services provided under share schemes	**–**	**–**	**38,890**	**–**	**38,890**	**–**	**38,890**
Transfer of fair value of share options exercised to share premium	**–**	**–**	**(6,221)**	**–**	**(6,221)**	**–**	**(6,221)**
Share options lapsed	**3,874**	**–**	**(3,874)**	**–**	**–**	**–**	**–**
Shares vested under Restricted Share Award Scheme	**–**	**–**	**(24,822)**	**–**	**(24,822)**	**–**	**(24,822)**
Appropriations to statutory reserves	**–**	**11,850**	**–**	**–**	**11,850**	**(11,850)**	**–**
Translation difference of foreign currency financial statements	**–**	**–**	**–**	**3,762**	**3,762**	**–**	**3,762**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(325,605)**	**(325,605)**
As at 31 December 2011	**49,508**	**220,593**	**95,049**	**4,956**	**370,106**	**2,730,169**	**3,100,275**

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(All amounts in RMB unless otherwise stated)

18. Reserves – Group and Company *(Continued)*

Company

	Retained profits RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
As at 1 January 2010	354,223	80,160	434,383
Profit for the year	395,735	–	395,735
Value of services provided under share schemes	–	53,677	53,677
Transfer of fair value of share options exercised to share premium	–	(14,521)	(14,521)
Shares vested under Restricted Share Award Scheme	–	(28,240)	(28,240)
Dividends paid	(465,463)	–	(465,463)
As at 31 December 2010	284,495	91,076	375,571
As at 1 January 2011	**284,495**	**91,076**	**375,571**
Profit for the year	**288,872**	**–**	**288,872**
Value of services provided under share schemes	**–**	**38,890**	**38,890**
Transfer of fair value of share options exercised to share premium	**–**	**(6,221)**	**(6,221)**
Share options lapsed	**–**	**(3,874)**	**(3,874)**
Shares vested under Restricted Share Award Scheme	**–**	**(24,822)**	**(24,822)**
Dividends paid	**(325,605)**	**–**	**(325,605)**
As at 31 December 2011	**247,762**	**95,049**	**342,811**

(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.

18. Reserves – Group and Company *(Continued)*

(b) Statutory reserve funds *(Continued)*

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.

19. 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:

	2011 RMB'000	2010 RMB'000
0 – 30 days	**750,535**	892,826
31 – 60 days	**456,955**	275,566
61 – 90 days	**128,992**	11,282
91 – 180 days	**116,675**	5,215
181 – 365 days	**1,742**	3,347
Over 365 days	**7,499**	2,724
	1,462,398	1,190,960

20. Other payables and accruals – Group and Company

	Group		**Company**	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Accrued sales and marketing expenses	**318,695**	242,808	**–**	–
Advances from customers	**70,416**	57,341	**–**	–
Wages and welfare payables	**102,031**	114,323	**–**	–
Other tax payables	**8,277**	102,876	**–**	–
Payable for property, plant and equipment	**22,914**	32,202	**–**	–
Other payables	**140,147**	96,474	**1,860**	720
	662,480	646,024	**1,860**	720

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(All amounts in RMB unless otherwise stated)

21. License fees payable – Group

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

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

	RMB'000
As at 1 January 2010	556,142
Acquisition of license rights	13,313
Accruals for royalty fees	3,901
Payment of license fees	(58,857)
Amortisation of discount	41,287
Adjustment for exchange difference	(2,184)
As at 31 December 2010	553,602
As at 1 January 2011	**553,602**
Acquisition of license rights	**6,529**
Payment of license fees	**(64,648)**
Amortisation of discount	**40,389**
Adjustment for exchange difference	**(5,430)**
As at 31 December 2011	**530,442**

	2011 RMB'000	2010 RMB'000
Analysis of license fees payable:		
Non-current		
– over 5 years	**310,355**	316,880
– between 2 to 5 years	**148,438**	166,056
Current	**71,649**	70,666
	530,442	553,602

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

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

	2011 RMB'000	2010 RMB'000
Less than 1 year	**73,822**	73,495
Between 1 and 5 years	**185,687**	202,827
Over 5 years	**733,800**	779,700
	993,309	1,056,022

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(All amounts in RMB unless otherwise stated)

22. Borrowings – Group and Company

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current				
Bank borrowings denominated in				
– RMB	**351,639**	39,960	**–**	–
– HK$	**486,420**	272,288	**486,420**	272,288
	838,059	312,248	**486,420**	272,288
– secured	**14,500**	4,500	**–**	–
– unsecured	**823,559**	307,748	**486,420**	272,288
	838,059	312,248	**486,420**	272,288

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 6.00% (2010: 5.32%) for bank borrowings denominated in RMB and 2.02% (2010: 1.23%) for bank borrowings denominated in HK$ for the year ended 31 December 2011.

Bank borrowings amounting to RMB14,500,000 (2010: RMB4,500,000) were secured by the Group's land and buildings (Notes 6 and 7).

As at 31 December 2011, the Group had undrawn borrowing facilities within one year amounting to RMB931,070,000 (2010: RMB1,157,502,000). These facilities have been arranged to help financing of the Group's working capital.

Movement in borrowings is analysed as follows:

	Group	Company
	RMB'000	RMB'000
As at 1 January 2010	259,970	193,710
Additions	382,320	340,360
Effect of change in exchange rate	(2,960)	(2,960)
Repayments	(327,082)	(258,822)
As at 31 December 2010	312,248	272,288
As at 1 January 2011	**312,248**	**272,288**
Additions	**2,240,053**	**1,071,414**
Effect of change in exchange rate	**(2,820)**	**(2,820)**
Repayments	**(1,711,422)**	**(854,462)**
As at 31 December 2011	**838,059**	**486,420**

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(All amounts in RMB unless otherwise stated)

22. Borrowings – Group and Company *(Continued)*

The exposure of the Group's and the Company's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet date are as follows:

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
– Less than 6 months	**728,059**	291,788	**486,420**	272,288
– Between 6 and 12 months	**110,000**	20,460	**–**	–
	838,059	312,248	**486,420**	272,288

23. 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	Accumulated tax losses RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
Deferred income tax assets								
As at 1 January 2010	20,532	12,681	48,901	–	37,470	66,732	6,793	193,109
Credited to income statement	12,424	1,557	24,919	–	35,510	25,815	4,526	104,751
As at 31 December 2010	32,956	14,238	73,820	–	72,980	92,547	11,319	297,860
As at 1 January 2011	**32,956**	**14,238**	**73,820**	**–**	**72,980**	**92,547**	**11,319**	**297,860**
Credited/(charged) to income statement	**18,912**	**481**	**(40,655)**	**–**	**86,777**	**66,428**	**16,054**	**147,997**
As at 31 December 2011	**51,868**	**14,719**	**33,165**	**–**	**159,757**	**158,975**	**27,373**	**445,857**
Deferred income tax liabilities								
As at 1 January 2010	–	–	–	(90,227)	–	–	(174)	(90,401)
Credited to income statement	–	–	–	4,798	–	–	95	4,893
As at 31 December 2010	–	–	–	(85,429)	–	–	(79)	(85,508)
As at 1 January 2011	**–**	**–**	**–**	**(85,429)**	**–**	**–**	**(79)**	**(85,508)**
Credited to income statement	**–**	**–**	**–**	**4,168**	**–**	**–**	**71**	**4,239**
As at 31 December 2011	**–**	**–**	**–**	**(81,261)**	**–**	**–**	**(8)**	**(81,269)**

23. Deferred income tax – Group *(Continued)*

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

	2011 RMB'000	2010 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	**306,095**	203,032
– to be recovered after more than 12 months	**139,762**	94,828
	445,857	297,860
Deferred income tax liabilities		
– to be recovered within 12 months	**(4,168)**	(4,798)
– to be recovered after more than 12 months	**(77,101)**	(80,710)
	(81,269)	(85,508)

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB13,261,000 (2010: RMB10,388,000) in respect of tax losses amounting to RMB75,498,000 (2010: RMB50,099,000) that can be carried forward against future taxable income and will expire between 2012 and 2016 as management believes it is more likely than not that such tax losses would not be utilised before they expire.

Deferred income tax liabilities of RMB147,863,000 (2010: RMB141,125,000) have not been recognised for the withholding tax that would be payable on the distributable retained profits of the Company's subsidiaries in the PRC earned after 1 January 2008. Such amounts totalling RMB2,957,270,000 (2010: RMB2,822,502,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

24. Deferred income – Group

	RMB'000
As at 1 January 2010	63,618
Credited to income statement	(1,294)
As at 31 December 2010	62,324
As at 1 January 2011	**62,324**
Credited to income statement	**(1,294)**
As at 31 December 2011	**61,030**

The Group received government grant amounting to RMB64,697,000 for purchase of a land use right in the PRC in 2009. Such government grant was recorded as deferred income and would be credited to income statement over the lease period of the corresponding land use right of 50 years using straight-line method. An amount of RMB1,294,000 (2010: RMB1,294,000) has been credited to income statement during the year ended 31 December 2011.

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(All amounts in RMB unless otherwise stated)

25. Expenses by nature

	2011 RMB'000	2010 RMB'000
Cost of inventories recognised as expenses included in cost of sales	**4,547,477**	4,713,032
Depreciation on property, plant and equipment *(Note a)*	**158,562**	114,648
Amortisation of land use rights and intangible assets	**102,741**	97,769
Impairment of intangible assets	**–**	3,792
Advertising and marketing expenses	**1,567,927**	1,427,130
Staff costs, including directors' emoluments	**772,518**	710,253
Operating lease rentals in respect of land and buildings	**539,347**	360,078
Research and product development expenses *(Note a)*	**231,004**	244,749
Transportation and logistics expenses	**180,145**	149,100
Provision for impairment charge of trade receivables	**10,246**	474
Write-down of inventories to net realisable value	**72,427**	42,556
Auditor's remuneration	**3,510**	3,900
Management consulting expenses	**62,846**	65,945
Travelling and entertainment expenses	**132,351**	138,054

Note:

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

26. Other income – net

	2011 RMB'000	2010 RMB'000
Government grants *(Note a)*	**140,717**	187,892
License fee income	**9,084**	6,739
Others	**(6,368)**	–
	143,433	194,631

Note:

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

27. Staff costs

	2011 RMB'000	2010 RMB'000
Wages and salaries	**396,262**	390,740
Contributions to retirement benefit plan *(Note c)*	**53,316**	49,646
Share options and restricted shares granted to directors and employees	**38,890**	53,677
Staff quarters and housing benefits	**19,739**	18,418
Other benefits	**264,311**	197,772
	772,518	710,253

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

27. Staff costs *(Continued)*

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2010 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	–	2,874	960	22	149	4,005
Mr. Zhang Zhi Yong	–	3,666	960	9,329	205	14,160
Mr. Chong Yi Kay	–	1,493	875	2,138	121	4,627
Ms. Wang Ya Fei	266	–	–	378	–	644
Mr. Lim Meng Ann	266	–	–	466	–	732
Mr. Stuart Schonberger *(ii)*	105	–	–	47	–	152
Mr. Koo Fook Sun, Louis	266	–	–	378	–	644
Mr. Chan Chung Bun, Bunny	212	–	–	378	–	590
Mr. Chu Wah Hui	212	–	–	362	–	574
Mr. James Chun-Hsien Wei	212	–	–	362	–	574

The remuneration of each director for the year ended 31 December 2011 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	**–**	**2,877**	**960**	**15**	**125**	**3,977**
Mr. Zhang Zhi Yong	**–**	**5,112**	**660**	**5,649**	**134**	**11,555**
Mr. Chong Yi Kay	**–**	**2,052**	**1,135**	**1,664**	**56**	**4,907**
Ms. Wang Ya Fei	**270**	**–**	**–**	**328**	**–**	**598**
Mr. Lim Meng Ann	**270**	**–**	**–**	**328**	**–**	**598**
Mr. Koo Fook Sun, Louis	**270**	**–**	**–**	**328**	**–**	**598**
Mr. Chan Chung Bun, Bunny	**215**	**–**	**–**	**328**	**–**	**543**
Mr. Chu Wah Hui	**215**	**–**	**–**	**328**	**–**	**543**
Mr. James Chun-Hsien Wei	**215**	**–**	**–**	**328**	**–**	**543**

(i) Other benefits include insurance premium, housing allowance and fair value of share options charged to the consolidated income statement during the year.

(ii) Mr. Stuart Schonberger ceased to be a non-executive director of the Company with effect from 28 June 2010.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

27. Staff costs *(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 2011 and 2010, and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining two individuals whose emoluments were the highest in the Group for the year are as follows:

	2011 **RMB'000**	2010 RMB'000
Salaries and allowances	**4,805**	6,696
Other benefits	**1,192**	2,014
Contributions to retirement benefit scheme	**124**	122
	6,121	8,832

The emoluments fell within the following bands:

	Number of individuals	
	2011	2010
Emoluments bands		
RMB3,000,001 to RMB3,500,000	**2**	–
RMB4,000,001 to RMB4,500,000	**–**	1
RMB4,500,001 to RMB5,000,000	**–**	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 5% to 22% of the employees' basic salary dependent upon the applicable local regulations.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

28. Finance income and costs

	2011 RMB'000	2010 RMB'000
Interest income on bank balances and deposits	**6,198**	7,507
Net foreign currency exchange gain	**10,981**	7,410
Finance income	**17,179**	14,917
Amortisation of discount – license fees payable *(Note 21)*	**(40,389)**	(41,287)
Interest expense on bank borrowings	**(49,104)**	(4,399)
Others	**(9,738)**	(6,492)
Finance costs	**(99,231)**	(52,178)
Finance costs – net	**(82,052)**	(37,261)

29. Income taxes

	2011 RMB'000	2010 RMB'000
Current income tax		
– Hong Kong profits tax *(Note b)*	**1,362**	2,506
– The PRC corporate income tax *(Note c)*	**271,182**	466,346
– Withholding income tax on dividends distributed from subsidiaries in PRC *(Note d)*	**16,100**	18,170
	288,644	487,022
Deferred income tax	**(152,236)**	(109,644)
	136,408	377,378

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 2011 (2010: 16.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2010: 25%) on the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 24% (2010: 22%) under the relevant PRC tax rules and regulations.

(d) Dividends derived from the Company's subsidiaries in the PRC earned after 1 January 2008 are subject to withholding tax at the rate of 5%. During the year ended 31 December 2011, the Group reassessed its needs to make distributions out of its subsidiaries in the PRC. As a result, withholding income tax has been provided for the dividends already distributed during the year and to the extent they are expected to be distributed in future.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

29. Income taxes *(Continued)*

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

	2011 RMB'000	2010 RMB'000
Profit before income tax	**547,377**	1,509,514
Tax calculated at a tax rate of 25% (2010: 25%)	**136,844**	377,379
Effects of different overseas tax rates	**9,030**	2,431
Preferential tax rate on the income of certain subsidiaries	**(781)**	(1,295)
Tax losses for which no deferred taxation is recognised	**13,261**	10,915
Expenses not deductible for tax purposes	**16,169**	9,298
Tax credit granted to subsidiaries	**(41,524)**	(34,570)
Income not subject to tax	**(12,691)**	(4,950)
Withholding tax on dividends from subsidiaries in PRC	**16,100**	18,170
Taxation charge	**136,408**	377,378

The effective tax rate is 24.9% for the year ended 31 December 2011 (2010: 25.0%).

30. Earnings per share

Basic

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

	2011 RMB'000	2010 RMB'000
Profit attributable to equity holders of the Company	**385,813**	1,108,487
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme (in thousands)	**1,051,127**	1,047,363
Basic earnings per share (RMB cents)	**36.70**	105.84

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

30. Earnings per share *(Continued)*

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under its share option schemes and shares held for the Restricted Share Award Scheme. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the 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:

	2011 **RMB'000**	2010 RMB'000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**385,813**	1,108,487
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme (in thousands)	**1,051,127**	1,047,363
Adjustment for share options and awarded shares (in thousands)	**4,069**	14,502
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**1,055,196**	1,061,865
Diluted earnings per share (RMB cents)	**36.56**	104.39

31. Dividends

	2011 **RMB'000**	2010 RMB'000
Interim dividend paid of RMB11.13 cents (2010: RMB22.15 cents) per ordinary share	**116,533**	229,568
Proposed final dividend of nil (2010: RMB19.97 cents) per ordinary share	**–**	213,827
	116,533	443,395

Note:

On 16 March 2011, the Board proposed a final dividend of RMB19.97 cents per ordinary share for the year ended 31 December 2010. The Board did not propose final dividend for the year ended 31 December 2011.

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(All amounts in RMB unless otherwise stated)

32. Statement of cash flows

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

	2011 RMB'000	2010 RMB'000
Profit before income tax	**547,377**	1,509,514
Adjustments for:		
Depreciation	**158,562**	114,648
Amortisation	**102,741**	97,769
Loss on disposal of property, plant and equipment	**236**	–
Provision for impairment charge of intangible assets	**–**	3,792
Provision for impairment charge of trade receivables	**10,246**	474
Write-down of inventories to net realisable value	**72,427**	42,556
Share options and restricted shares granted to directors and employees	**38,890**	53,677
Finance costs – net	**82,052**	37,261
Amortisation of deferred income	**(1,294)**	(1,294)
Share of loss of an associate	**1,527**	–
Operating profit before working capital changes	**1,012,764**	1,858,397
Increase in inventories	**(399,794)**	(216,626)
Increase in trade receivables	**(491,996)**	(543,760)
Decrease/(increase) in other receivables and prepayments	**5,347**	(88,591)
Increase in trade payables	**271,438**	364,527
Increase in other payables and accruals	**29,718**	100,641
Cash inflow generated from operations	**427,477**	1,474,588

33. 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.

Notes to the Consolidated Financial Statements

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33. Share-based compensation *(Continued)*

(a) Share Purchase Scheme *(Continued)*

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

	2011 Weighted average exercise price (per share) HK$	**2011** Outstanding options (Thousands)	2010 Weighted average exercise price (per share) HK$	2010 Outstanding options (Thousands)
As at 1 January	**0.86**	**638**	0.86	1,724
Exercised	**0.86**	**(538)**	0.86	(1,086)
As at 31 December	**0.86**	**100**	0.86	638
Exercisable as at 31 December	**0.86**	**100**	0.86	638

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

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

(b) 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.

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

33. Share-based compensation *(Continued)*

(b) 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:

	2011		2010	
	Weighted average exercise price (per share) HK$	**Outstanding options (Thousands)**	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	**13.360**	**23,324**	12.764	29,634
Granted	**9.896**	**6,699**	–	–
Exercised	**5.172**	**(2,883)**	8.851	(4,493)
Lapsed	**14.036**	**(3,156)**	14.791	(1,817)
As at 31 December	**13.287**	**23,984**	13.360	23,324
Exercisable as at 31 December	**15.683**	**9,614**	12.400	8,635

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

33. Share-based compensation *(Continued)*

(b) Share Option Scheme *(Continued)*

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

	2011		2010	
Expiry date	**Exercise price (per share) HK$**	**Share options (Thousands)**	Exercise price (per share) HK$	Share options (Thousands)
4 July 2011	**3.685**	**–**	3.685	2,269
4 September 2012	**8.830**	**627**	8.830	799
20 November 2012	**9.840**	**300**	9.840	300
19 July 2013	**19.680**	**350**	19.680	350
4 July 2014	**17.220**	**2,011**	17.220	2,225
5 December 2014	**10.940**	**93**	10.940	93
19 January 2015	**11.370**	**9,557**	11.370	11,913
1 April 2015	**13.180**	**689**	13.180	689
22 October 2015	**21.870**	**3,960**	21.870	4,686
15 July 2017	**9.896**	**6,397**	–	–
		23,984		23,324

The fair value of the options granted under the above schemes during the years ended 31 December 2011 and 2010 determined by using Black-Scholes valuation model were as follows:

	2011 RMB'000	2010 RMB'000
Post-IPO Options	**19,294**	–

Significant inputs into the model were as follows:

	2011
Post-IPO Option	
Weighted average share price (HK$)	**8.96**
Weighted average exercise price (HK$)	**9.90**
Expected volatility	**51.4%**
Expected option life (years)	**3.97**
Weighted average annual risk free interest rate	**1.0%**
Expected dividend yield	**2.0%**

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.

The fair values of Alpha Talent Option and Post-IPO Option are charged to the consolidated income statement over the vesting period of the options. The amount charged in 2011 were nil and RMB12,943,000 respectively (2010: RMB353,000 and RMB33,113,000).

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

33. Share-based compensation *(Continued)*

(c) Restricted Share Award Scheme

The Company adopted the 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:

	2011		2010	
	Weighted average fair value (per share) HK$	**Number of restricted shares granted (Thousands)**	Weighted average fair value (per share) HK$	Number of restricted shares granted (Thousands)
As at 1 January	**21.97**	**3,840**	18.31	2,359
Granted	**8.96**	**1,647**	23.20	3,123
Vested	**20.26**	**(1,330)**	19.52	(1,481)
Lapsed	**18.39**	**(618)**	17.28	(161)
As at 31 December	**17.18**	**3,539**	21.97	3,840

The fair value of Restricted Shares charged to the consolidated income statement was RMB25,947,000 during the year ended 31 December 2011 (2010: RMB20,211,000).

34. Commitments

(a) Capital commitments

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Contracted for but not paid				
– property, plant and equipment	**94,729**	63,453	**–**	–

There is no capital expenditure authorised but not contracted for by the Group and the Company as at 31 December 2011 and 2010.

(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:

	2011 RMB'000	2010 RMB'000
Not later than 1 year	**340,652**	245,593
Later than 1 year and not later than 5 years	**581,055**	548,072
Later than 5 years	**196,801**	147,721
	1,118,508	941,386

The Company does not have any operating lease commitments as at 31 December 2011 and 2010.

35. Related-party transactions

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

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

(a) Sales of goods to:

	2011 RMB'000	2010 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd., all being controlled by a key management personnel of a non-wholly owned subsidiary	**4,859**	4,374
Digital Li-Ning, being an associate of the Group	**1,371**	–
	6,230	4,374

Notes to the Consolidated Financial Statements

(All amounts in RMB unless otherwise stated)

35. Related-party transactions *(Continued)*

(b) Purchases of goods from:

	2011 RMB'000	2010 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	**18,996**	5,099

(c) Purchases of services from:

	2011 RMB'000	2010 RMB'000
Subsidiary of Viva China Holdings Limited, being controlled by a key management personnel of the Company	**1,600**	–

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:

	2011 RMB'000	2010 RMB'000
Salaries and other benefits	**17,224**	15,852
Contribution to retirement benefit scheme	**315**	475
Employee share schemes for value of services provided	**6,323**	10,375
	23,862	26,702

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

	2011 RMB'000	2010 RMB'000
Receivables from related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	**179**	–
Digital Li-Ning	**1,555**	–
	1,734	–
Payables to related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	**1,728**	4,600
Subsidiary of Viva China Holdings Limited	**650**	–
	2,378	4,600

36. Subsequent events

On 19 January 2012, the Company entered into subscription agreements with TPG ASIA, Inc. ("TPG") and Tetrad Ventures Pte. Ltd. ("GIC Investor"), an investment vehicle managed by a private equity investment arm of the Government of Singapore Investment Corporation Pte. Ltd., respectively, in relation to its issue of convertible bonds in an aggregate principal amount of RMB750,000,000 ("Convertible Bonds"). The Convertible Bonds bear minimum interest at the rate of 4% per annum and will be due on the fifth anniversary of the date of issue of the Convertible Bonds. The Convertible Bonds are convertible into shares of the Company at an initial conversion price of HK$7.74 per share.

The issue of the Convertible Bonds was completed on 8 February 2012. Convertible Bonds in the principal amount of RMB561,000,000 were issued to TPG Stallion Holdings, L.P. (which is an affiliate of TPG) and Convertible Bonds in the principal amount of RMB189,000,000 were issued to GIC Investor.

Glossary

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

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

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