2009 ANNUAL REPORT

Li Ning Company Limited

（李寧有限公司）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

Mission

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

Vision

A world's leading brand in the sports goods industry

Core Values

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

Anything is Possible

Corporate Profile

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

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

This report is printed on environmentally friendly paper

Design & production by HeterMedia Services Limited

Contents

Highlights of 2009

January

- Mr. Li Ning was honoured the "2008 CCTV Businessman of the Year"

March

- Announced the sponsorship of the world famous pole vault champion, Elena Isinbayeva

April

- Announced the sponsorship of the Olympic gold medal-winning team, Chinese National Badminton Team

May

- The LI-NING Centre Laboratory passed the China National Accreditation Service for Conformity Assessment, becoming the first accredited laboratory in the sporting goods industry

May

- In full LI-NING gear, the Chinese National Badminton Team won the championship in "2009 LI-NING Sudirman Cup"

June

- Entered into strategic collaboration with Beijing CSI Bally Total Fitness Investment Management Limited

July

- The grand opening of LI-NING brand flagship store in Singapore
- Publicity of the acquisition of the entire issued share capital of Kason Sports

August

- LI-NING brand as the diamond sponsor and exclusive sports brand for the Fifth East Asian Games and the Torch Relay
- LI-NING brand awarded by CCTV as the "60th Anniversary of the Founding of the PRC - 60 Brands Promoting China's Economy and with Impact on People's Lives"

September

- Opening of the "BWF Super Series - 2009 LI-NING China Masters"

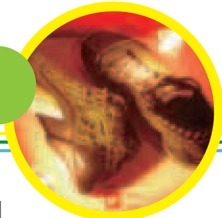
October

- Honoured "Employer of China 2009 - Best Companies to Work For" organised by Watson Wyatt and *Fortune* (Chinese version)

October

- The United Nations World Food Programme appointed Mr. Li Ning as China's first "WFP Goodwill Ambassador against Hunger"

October



- LI-NING brand's "Dragon Scale" basketball shoes, "G-Shark" basketball shoes and "Taichi" football shoes were winners of the "iF Design Award China 2009"

November

- Opening of "BWF Super Series - LI-NING China Open 2009"

December

- LI-NING brand's "X-Claw" cross-country running shoes, "Fossil" upstream shoes and "G-Shark" basketball shoes were awarded the "China Red Star Design Award 2009"

December

- Honoured "The Most Respectable Enterprise in China" for the third time
- The grand opening of the first LI-NING brand badminton store in Hong Kong
- Honoured the "Best 50 Workplaces" and "The Most Favourite Brand by University Students"

Corporate Information

Board of Directors

Executive Directors

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

Non-executive Directors

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

Independent non-executive Directors

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

Executive Committee

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

Audit Committee

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

Remuneration Committee

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

Nomination Committee

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

Authorised Representatives

Mr. ZHANG Zhi Yong
Mr. CHONG Yik Kay

Company Secretary

Ms. LEE Hung

Registered Office

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

Principal Place of Business in Hong Kong

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

Operational Headquarters

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

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisors

Hong Kong law
Baker & McKenzie

PRC law
Beijing Guorui Law Firm

Principal Bankers

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

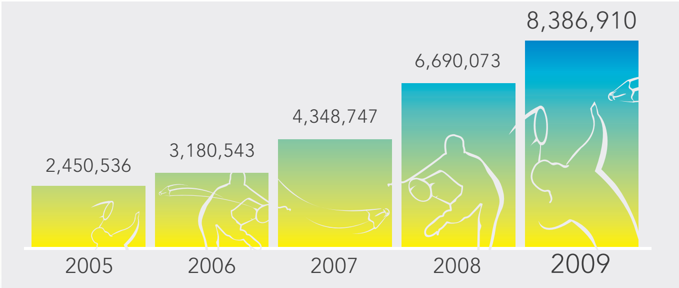
PRC
Industrial & Commercial Bank of China
China Construction Bank
Bank of China
China Merchants Bank
Bank of Beijing
Hang Seng Bank (China) Limited
Standard Chartered Bank (China) Limited

Five-year Financial Highlights

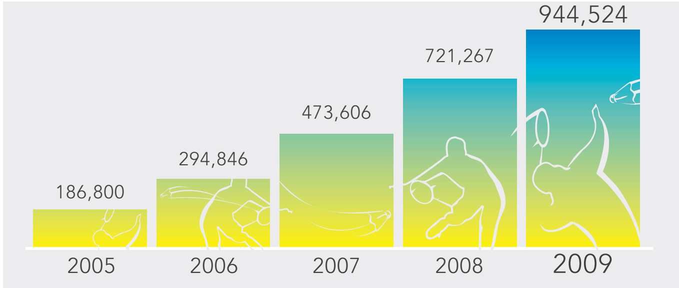
(All amounts in RMB thousands unless otherwise stated)

	Year ended 31 December				
	2009	2008	2007	2006	2005
Operation results:					
Revenue	8,386,910	6,690,073	4,348,747	3,180,543	2,450,536
Operating profit	1,341,896	960,213	609,855	402,518	271,497
Profit before income tax	1,283,130	929,238	618,532	401,153	273,451
Profit attributable to equity holders	944,524	721,267	473,606	294,846	186,800
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,524,911	1,070,516	681,764	438,407	296,435
Assets and liabilities:					
Non-current assets	2,215,895	1,518,985	607,052	276,476	119,615
Current assets	3,161,975	2,817,944	2,173,799	1,888,809	1,463,196
Current liabilities	1,864,928	2,086,843	977,429	688,452	404,515
Net current assets	1,297,047	731,101	1,196,370	1,200,357	1,058,681
Total assets	5,377,870	4,336,929	2,780,851	2,165,285	1,582,811
Total assets less current liabilities	3,512,942	2,250,086	1,803,422	1,476,833	1,178,296
Equity attributable to equity holders	2,674,508	1,896,413	1,744,601	1,399,490	1,160,924
Key financial indicators:					
Gross profit margin	47.3%	48.1%	47.9%	47.4%	46.0%
Margin of profit attributable to equity holders	11.3%	10.8%	10.9%	9.3%	7.6%
EBITDA ratio	18.2%	16.0%	15.7%	13.8%	12.1%
Earnings per share					
– basic (RMB cents)	90.75	69.63	45.83	28.65	18.25
– diluted (RMB cents)	89.61	68.64	45.09	28.25	18.13
Dividend per share (RMB cents)	36.12	49.67	22.85	11.44	7.30
Return on equity holders' equity	41.3%	39.6%	30.1%	23.0%	17.2%
Net tangible assets per share (RMB cents)	153.65	138.44	157.63	127.00	112.42
Debt-to-equity ratio	94.1%	118.5%	59.4%	53.5%	35.0%

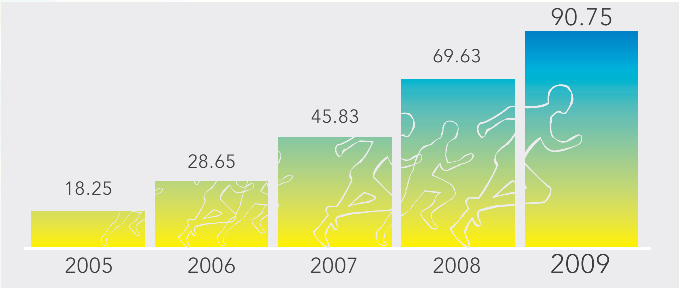
Revenue



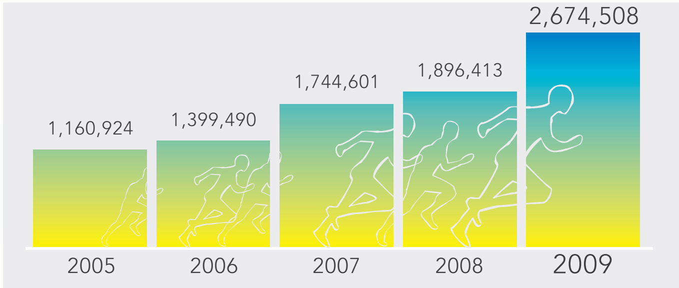
Profit attributable to equity holders



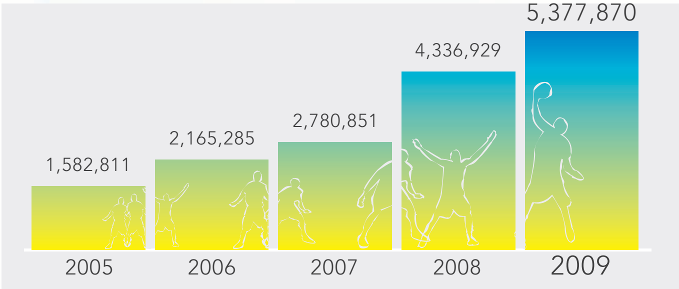
Earnings per share – basic (RMB cents)



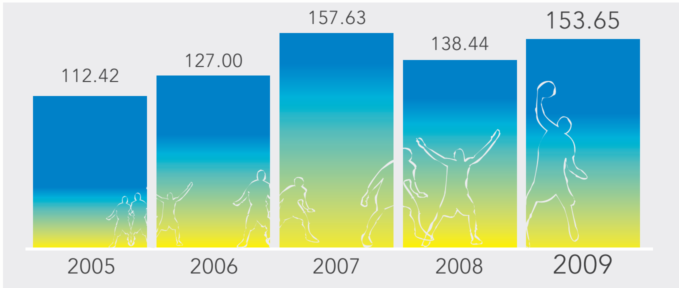
Equity holders' equity

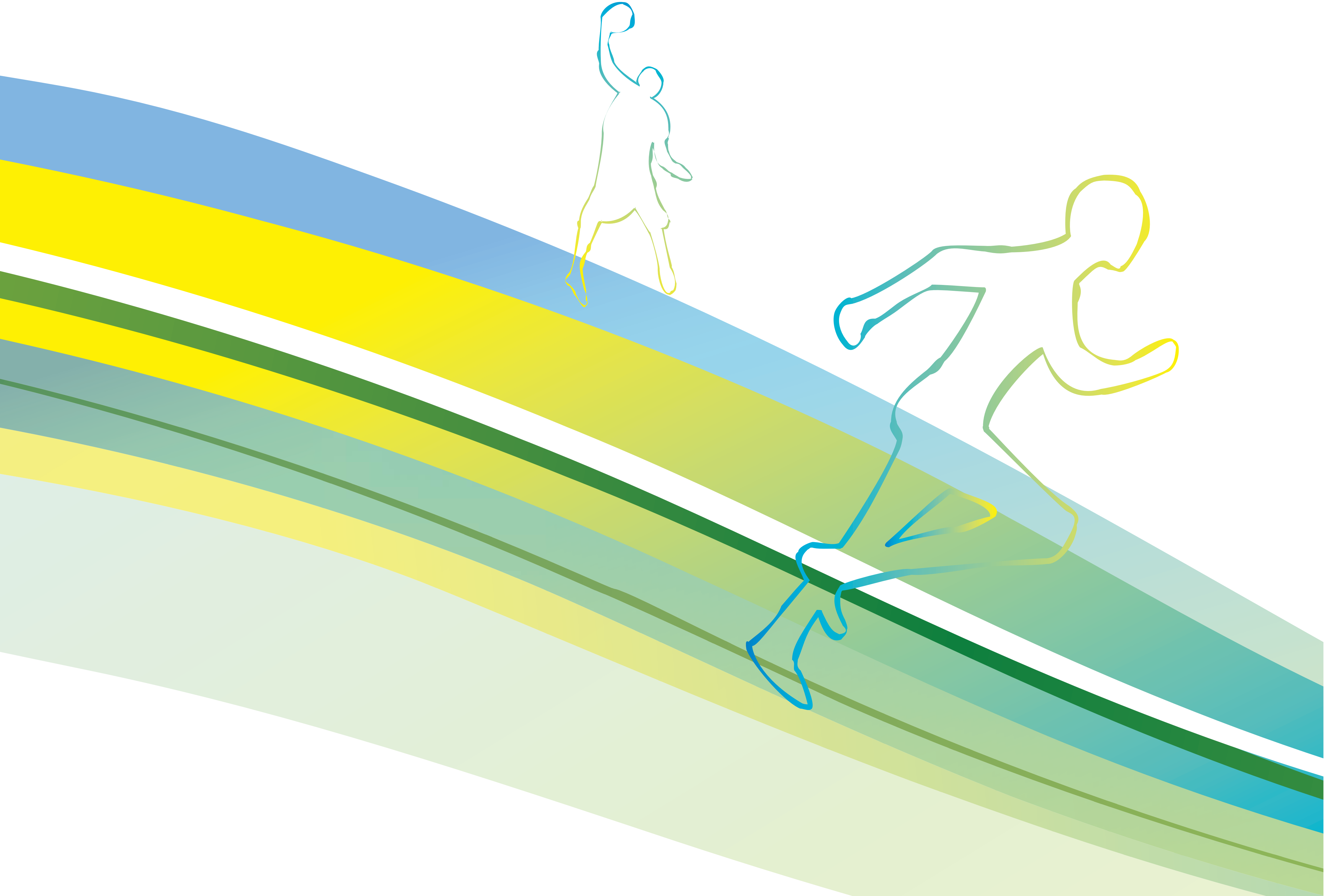


Total assets



Net tangible assets per share (RMB cents)





Anything is Possible

Going the extra mile to deliver consistent performance

Chairman
Mr. LI Ning

Dear Shareholders,

Introduction

2009 was an extremely challenging year with economies around the world swept by the financial turmoil. China was also impacted by this extremely devastating crisis, especially in the first half of the year. The fast-moving consumer goods sector that the Group operates in is highly subject to economic volatility, with weak consumer sentiment further eroding the retail industry as a whole.

The year 2009 marked the beginning of the Group's five-year strategic plan 2009-2013. In light of the difficult economic environment, the Group, under the excellent leadership of the management and relentless efforts of our staff, reinforced its financial strength and boosted its competitiveness in key areas including branding, products and new sports category, thus achieving solid business and financial growth. Such performance is not only a testament to the Group's business strategy and strong execution capabilities, but also a demonstration of the strong resilience of the Group's business model.

Financial Performance

For the year ended 31 December 2009, the Group recorded good results in the areas of revenue, profit, return on equity and cash flow, thanks to a host of sound and effective management measures. During the year, the Group's revenue recorded a 25.4% growth to RMB8,387 million. Profit attributable to equity holders grew 31.0% to RMB945 million. Return on equity attributable to equity holders reached 41.3%, up 1.7 percentage points compared with 2008. Basic earnings per share increased by 30.3% to RMB90.75 cents. The Board has recommended a final dividend of RMB22.54 cents per Share for the year ended 31 December 2009.

Building on Core Strengths

As China's sports goods market becomes increasingly mature, we believe the industry is set to experience a consolidation phase in which weak players will be eliminated by their stronger peers. The focus of competition in the industry will gradually shift from channel expansion to product differentiation and brand innovation.

During the year, the Group further strengthened its core competitiveness in brand building and product design and development, thus enhancing its ability to meet forthcoming challenges, laying a good foundation for fostering steady growth over the long term.

Brand Innovation

The Group's success in integrated marketing and promotion during the 2008 Beijing Olympics created a solid foundation for future enhancement of the LI-NING brand. The brand reputation of the LI-NING brand enables us to bring our brand building to the next level and to communicate with consumers at a greater depth.

The success of a brand hinges on the unique value it creates, underpinned by a core sports category that can support its development over the long term. In 2009, the Group successfully signed up the Chinese National Badminton Team. Playing in full LI-NING gear, the Chinese National Badminton Team was crowned the champion of the "2009 LI-NING Sudirman Cup". This victory symbolised LI-NING brand's successful entry into the badminton segment.

The badminton market experienced rapid expansion in China due to the high level of participation in the sport by the country's population and there is still ample room for further expansion. The proficiency of Chinese nationals in badminton is among the highest in the world, with the national badminton team to amateur badminton players, all playing pivotal roles in promoting the development of the sport in China.

After a long period of preparation, LI-NING brand's core technologies related to design, research and development and production of badminton equipment have achieved a level enabling it to become a competent provider of commercial badminton products as well as a professional sponsor which has won high recognition from the Chinese National Badminton Team. The Group is dedicated to developing badminton to be a sport that has the strongest connectivity with the LI-NING brand, with a view to differentiate it from top international brands.

Product Innovation

The success in brand building hinges on establishing unrivalled advantage in its products. As one of the leading sports brands in China, the Group has invested tremendous efforts in product research and development, so as to provide products that are professional and meet the needs of consumers.

Our professional products come about from in-depth communication between our design, research and development team and the athletes, combined with the advanced technology we deploy, and through repeated product tests and trials before committing to production. The major performance benchmarks for the design and functions of our professional products are nearly on par with those of the international top brands. We are able to equip athletes with fit and comfortable gear that can deliver reliable performance and adequately address their individual needs, thus enabling them to excel in their particular sport categories. Our outstanding professional products series include the professional gear supplied to the various Chinese National Teams sponsored by the Group, the basketball shoes for selected NBA stars, the tennis gear for ATP tennis players, and the gear for the pole vault queen, Elena Isinbayeva, and they all have received high praise and recognition from the sponsored athletes.

While we work on making our products more professional and more international, the LI-NING brand has also blended sports and fashion elements to provide consumers with more and better product perceptions. During the year, a number of the Group's footwear designs won the "iF Design Award China 2009" and the "China Red Star Design Award 2009" (2009年中國創新設計紅星獎). These awards are testimony to the strengths in product design and research and development of the LI-NING brand.

Multi-brand Strategy

The multi-brand strategy constitutes an integral part of the Group's overall strategic planning. It plays a complementary and synergistic role to the core LI-NING brand, and helps harness consistent growth of the Group's business over the long term.

During 2009, the Group put its Lotto brand sports fashion new business into full swing and launched a collection of brand new products and image shops of Lotto brand, which met with positive market response. The diversified and leisure-oriented lifestyle of consumers is driving the rapid growth of the leisure sports fashion market in China. We envisage a positive prospect for the development of the Lotto brand business in China.

As part of the Group's badminton strategy, we have completed the acquisition of the entire issued share capital of Kason Sports. This acquisition enables us to amalgamate Kason brand's industry-leading production technology and research and development capabilities with our core competencies and competitive advantages. It also facilitates us to fully leverage the respective marketing resources in segments which Kason brand and LI-NING brand complement each other, so as to rapidly increase the Group's market share in the badminton segment.

Taking LI-NING Brand International

The value of a sports brand is universal. The Group, therefore, considers grooming LI-NING into a global brand as one of its ultimate goals. The Group considers China is still the most attractive market for the immediate future. As such, the Group still regards China as its major market for the five-year strategic plan 2009-2013. Meanwhile, we are conducting various tests and pilot programmes to better prepare ourselves for the fully-fledged launch of our brand into the international market in our next stage of development.

In 2009, we rolled out the LI-NING brand badminton gear in Southeast Asia, one of the world's largest badminton markets. In July, the first LI-NING brand badminton flagship store was opened at ION Orchard in Singapore. During the East Asian Games in Hong Kong in December, the city's first LI-NING brand badminton gear specialty store was opened. In addition, another LI-NING brand specialty store was opened in Portland, Oregon in the United States in February 2010.

Our research and development capability, persistent efforts in enhancing our brand value and optimisation of our supply chain to accommodate international operations all play crucial roles in preparing us to take the LI-NING brand international. We will continue to build our competencies and further advance our brand internationalisation strategy so as to establish a firm foundation for our expansion into the overseas markets.

Outlook

In response to the various stimulus packages the Central Government has implemented, China's economy exhibited momentum pointing to a revival since the beginning of the second half of 2009. In the sporting goods market, retailers are narrowing the discounts offered to consumers and the industry trade inventory level is improving. We expect the sports goods market to begin a steady recovery in the second quarter of 2010.

In the medium to long term, the country's sporting goods market will be fueled by sustainable growth drivers including on-going urbanisation, increasing per capita disposable income of the urban population, rising domestic consumption power and the escalating demand for leisure lifestyles and sports activities. The series of international sports events, such as the Guangzhou 2010 Asian Games and the World Cup, will continue to broaden the development of China's sporting goods industry.

Meanwhile, we are aware of the intense market competition with the entrance of new participants. We envisage a consolidation within the industry which will see those brands with more unique personalities and being better able to resonate positively with consumers win and emerge as even stronger players.

In 2010, the Group shall continue to adopt a proactive, yet prudent strategy to deploy more resources in building our core competencies and competitiveness relating to branding and products. We will also continue to improve ourselves in the area of integrating the product, retail management and communication with consumers so as to achieve stable operation and steady growth to create greater value for Shareholders and investors.

History has shown us that, for those who are well prepared, challenges and crisis are actually opportunities to nurture existing capabilities and achieve breakthroughs. The Group was born 20 years ago from the dream of an Olympic champion and has overcome many challenges. The Group's management team, distributors, suppliers and employees all applied their wisdom to help improve the Group's core competencies, expand into new businesses and establish the multi-brand business model. These efforts have achieved fruitful results. On behalf of the Board, I am extending my gratitude to the management team and our staff for their wisdom and hard work and the Shareholders for their support. These were instrumental in driving the Group to excel and break new ground in achieving healthy and steady growth during the immensely challenging year of 2009.

Li Ning
Chairman

Hong Kong, 17 March 2010

Interview with the CEO

Chief Executive Officer
Mr. ZHANG Zhi Yong

• The Group has achieved satisfactory results for 2009. What are the areas that you consider the Group can perform even better?

• In 2009 the global financial crisis, combined with the cooling of the Beijing Olympics euphoria, brought about great challenges for China's economy, which resulted in tremendous pressure on the growth of sporting goods industry as a whole and new challenges for the Group. Against this challenging environment, however, the Group was still able to achieve relatively strong results.

In addition to financial performance, I feel one of our major milestones during the year was our successful breakthrough, after meticulous planning, into the badminton sport. The sales revenue and market share we achieved so far in this sector have already exceeded our expectations.

We also successfully rolled out our Lotto brand business as a strategic project during the year. The introduction of new products, new brand promotion campaigns, new store openings as well as major financial indicators for this business segment are well within our expectations and targets.

In terms of store opening, we continued to target strategic growth and penetration in second- and third-tier cities and met our distribution network target for the LI-NING brand stores for the year.

However, due to the impact of macro-economic environment, our performance at the retail level did not meet our expectations. As we expand horizontally, there is still room for us to improve same-store sales growth via the enhancement of retail level management.

• What are the focuses for the Group in 2010?

• Under the Group's strategic plan, our focus in 2010 will be on branding, product development, distribution management, and supply chain management. However, in terms of the depth and strategic focus, we are adopting a carefully-planned, step-by-step approach when it comes to implementation.

If the market in China has one defining feature, it is that customer preferences are changing rapidly and the consumers are becoming increasingly sophisticated. They are looking deeper into a brand's value and seeking relevance of this value with the essence of sports. As you are probably aware, we have been putting increasing emphasis on brand and product innovation over the last few years because we believe that these two core competencies are crucial in securing our success in the sporting goods industry in China. In 2010, we will continue our efforts in these two areas and bring about a totally refreshed experience to the market from product research and development through brand marketing all the way to the retail level. We are taking our communication with consumers to greater heights in terms of our brand image, philosophy, and personality in order to expand the sphere of influence of the LI-NING brand.

On the other hand, we will continue to improve management of our distribution channels, providing our distributors with services that align more closely with their needs and help spur their development. We will speed up establishment of teams which focus on the Southern, the Eastern and the Northern regions in China, and implement better-tailored management systems to cater to the specific needs of different regions, especially through providing strategic guidance to our distributors on merchandising and management of product lifecycles to boost efficiency of our retail operations. We will also integrate our supply chain and IT systems further to enhance efficiency at the retail level.

Furthermore, we will drive forward our expansion in strategic businesses and brands, especially in the area of badminton and the Lotto brand business.

• We notice the Group has started making some significant inroads into its expansion into the international market in 2009. How does the Group develop its internationalisation strategy?

• In our external communications, we have been emphasising that for the five years from 2009-2013, we plan to establish the foundations and nurture our capabilities for our international expansion, including human resources, distribution model management, supply chain management, products and market intelligence. During this period, as we gradually increase our investment in resources, we expect to gain a wealth of experience through market testing so that we fully comprehend the potential risks and challenges in order to ensure a smooth roll-out of our internationalisation strategy from 2014 to 2018.

In terms of market selection, we have already begun with our regional neighbours, including Singapore and Hong Kong. These markets share similar consumer characteristics and culture with mainland China and similar level of enthusiasm for badminton, a demographic that can help the LI-NING brand develop badminton into a core business segment. These pilot projects can also test that the Group's existing supply chain can support retail operations in Hong Kong and other Southeast Asian regions, or what resources we need to invest to ensure a robust and effective supply chain.

In early 2010, we opened the first LI-NING brand store in the United States and began communicating our forthcoming launch into the country's mainstream retail channels. Our in-depth research shows that, compared with Continental Europe, the distribution channels in the USA are more mature and that product mix is key to success. As such, we will focus on testing of human resources, supply chain and product planning, etc. in the United States market.

Having said that, the China market remains our primary focus of attention and we will concentrate our resources on reinforcing our leading position in China and becoming an even stronger industry player in order to have a strong foundation from which to launch our internationalisation strategy.

• **What do you consider are the biggest challenges facing the Company, both internally and externally and why?**

• With humble beginning as a dream by a Chinese national athlete, the Group has gone through many difficulties and challenges to secure its present position as a leader in the sporting goods industry in China. The sporting goods industry in China is wide open to competition and has very few entry barriers. This is an industry that features co-existence of extremely divergent market opportunities, business models and participants in different stages of their corporate lifecycles. The retail environment is also changing rapidly, as are consumers' preferences. In addition to our persistent efforts on improving distribution and the supply chain, the Group has continuously reached out to the market to keep on top of changes in consumer environment and consumption behaviour in order to enhance its brand influence and introduce other products so as to accommodate rapidly shifting demand. Our conviction "to entice consumers using the essence of sports" is in itself a very challenging mission. We have been working diligently on this mission and generating good results.

As far as management within the organisation is concerned, we constantly remain vigilant in reviewing and perfecting our management systems, organisation structure, culture and human resources in order to manage the Group's overall development. As we navigate our way through this rapidly changing environment, we are investing in new ways to improve our market share, sales volume, average selling price and gross margin, in order to achieve consistent and steady development.

• **As the Group's CEO, what keeps you up at night?**

• I have been serving the Company for almost 18 years. The Company's growth in the last two decades in essence mirrors my own development as a growing adult. As the Company has matured in the areas of management structure, management team, branding and supply chain management, product development and distribution channel management, I have been relieved of much of my burden in overseeing these areas. There is no doubt in our belief that the long-term growth of this business lies in the development of strong distributed management with a systematic structure rather than a handful of individual leaders with superior personal acumen.

The Company has today grown to a considerable scale. On the other hand, the Company has shouldered much of the responsibility to perform and excel from all stakeholders, large and small, including consumers, Shareholders, myself, the management team, staff members and business partners. Admittedly, these expectations have applied much pressure on myself.

On the other hand, I am crystal clear that the Company has picked the right industry in the right economic environment. The Company aspires to be an outstanding player in the sporting goods industry in China and in the world. I, and all of my colleagues, share this same aspiration. Personally, it is this guiding light which gives me the passion and drive to succeed.

I have been often asked myself the question: "How can I ensure that the Group will continue to grow steadily for a prolonged period at a pace faster than industry average?" My thoughts have always been concentrated on long-term strategic planning for the Group's future development. What keeps me awake at times is reflecting on my experiences in strategic planning and implementation. Nonetheless, I am glad and delighted to have these reflections. They give me strength and help support the Group's long-term development.

In addition, talent development and organisational capabilities are also my major areas of concern. Talent is the lifeblood of the long-term development of an organisation. In this regard, we have a clear objective – to establish the Company as the best company in China in terms of attracting and nurturing talent. We strongly believe that we need to amass and develop our experience steadfastly to achieve this end.

Interview with the CFO

• What is your assessment of the financial performance of the Group in 2009?

• Echoing the points that our Chairman and CEO have mentioned, 2009 was a year full of challenges for both the Company and the sporting goods industry in China as a whole. Thanks to the relentless hard work of our colleagues at all levels and the ongoing support from suppliers, distributors and consumers, the Group's performance in key financial indicators including revenue, profit and ROE (return on equity), etc, managed to meet the Group's internal targets. I am particularly delighted to see the significant improvements in our management of cash, working capital and operating overheads as these are areas very important for us to ensure we grow our market share and maintain our competitiveness. On the whole, I am glad to see significant improvements in these aspects after completing my first year of service with the Company.

• What makes the Company continue to be an attractive investment?

• Our investors are very smart and highly qualified to establish their own judgments on the value of a particular company with reference to their own sets of criteria. From our experience of maintaining regular dialogue with them, I believe they are particularly interested in the following areas:

Firstly, I believe it is the Company's position as a pioneer of the sporting goods industry in China and track record of consistent and steady growth. We have evolved into one of the leading players in the industry in China after almost two decades of development. Yet we constantly pursue improvements, breakthroughs and sustainable growth day in, day out. Since our listing in 2004, our revenue and profits have exhibited a steady growth trend. Our enthusiasm, capability and good track record have helped us earn recognition and respect from investors. These have not come from sheer luck, but we have been able to consistently execute over the years.

Secondly, investors have high regard for the forward-looking approach the Group adopted in its strategic planning. For example, we placed our emphasis on the potential offered by second- and third-tier cities in China earlier than our peers. We started ahead of schedule to consider changes in our business growth model, focusing on brand building, product innovation and increasing communication with consumers. When we communicate with investors, we discuss with them the thoughts of the management from a strategic perspective, outlining each and every execution step and the potential consequences.

I can say responsibly that investors will not be surprised to see the Group, even at its current scale of business, continue to experience higher than industry average growth. They also expect that this forward-looking management style will help the Group continue its growth at a pace faster than the industry average. This in-depth communication with investors is what I believe to be one of the many things that we does well.

Thirdly, the pragmatic and reasonable business model that the Group has embraced has evolved into one of the highlights that helps attract investors' interest. We have adhered strictly to our long-standing emphasis on brand building, product design, research and development, distribution management and supply chain management as our key strategies. As for the core LI-NING brand, we still continue to adopt an asset-light business model.

The last point that deserves special mention is that our high-quality management team and our highly efficient management structure ensure the Company's steady development over the long term. This provides an extra layer of confidence to our investors.

• As the Group's CFO, what are the things that always preoccupy you?

• A very important part of my job is to be on top of the potential risk and problems the Group may encounter during its development. Nonetheless, the internal control and governance structure of the Group is relatively mature and systematic while operations are very streamlined, which indeed saves me quite some time and concern. I have been spending much of my time looking at the future. The challenges the Company will face are set to escalate as its business continues its rapid growth in a fast-changing operating environment. I think about how the Group's internal control and management model can be enhanced further to accommodate needs for ongoing development.

However, as the CFO and a member of the Board, my job goes beyond pure financial management. I believe that unrelenting efforts in improving our organisation and business structure are what we need in creating a world class team. To develop talents and to provide financial support for our business development is very important. I have been telling my colleagues that, to be outstanding financial managers, we need to remind ourselves regularly that we must add value to the Company and have the courage and determination to achieve breakthroughs and outstanding performances, instead of staying within our comfort zones. I encourage my colleagues to unlock more value from a financial perspective, including strategic financial and business planning and cost management. We also need to gain more in-depth understanding of the Group's businesses. This forward-looking dimension of management adds colour to my job, especially when I see my team improve, and the Company achieve better results. I am glad to embrace these achievements.

Chief Financial Officer
Mr. CHONG Yik Kay

Nurturing core competencies to embrace new challenges

Anything is Possible

Chief Executive Officer
Mr. ZHANG Zhi Yong

Overview

The impact of the financial crisis, which began in 2008, continued into 2009 and prompted the global economy, including China, to adjust amid the financial turmoil. China's economy began to pick up in mid-2009 due to the massive economic stimulus package implemented by the Central Government. The retail sector also began to stabilise following months of fluctuations. Meanwhile, the post-Beijing Olympics effect impacted the pace of growth of the sporting goods industry in 2009, and competition in the industry intensified.

Regardless of the challenging external environment, the Group achieved strong results in revenue, profit, return on equity and cash flow. In 2009, the Group recorded a 25.4% year-on-year growth in revenue, amounting to RMB8,386,910,000. Profit attributable to equity holders also increased by 31.0% year-on-year to RMB944,524,000. The return on equity holders' equity stood at 41.3%, up 1.7 percentage points from 2008. In addition to generating sound financial returns, the Group also increased its market share and brand awareness by enhancing its core competitiveness and stepping up its efforts to nurture new businesses, which validated the Group's business strategy and capability growth-oriented development model.

Financial Review

Key results and financial indicators of the Group for the year 2009 are set out below:

	Year ended 31 December 2009	2008	Change (%)
Items of key statements			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	8,386,910	6,690,073	25.4
Gross profit	3,969,864	3,220,374	23.3
Operating profit	1,341,896	960,213	39.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,524,911	1,070,516	42.4
Profit attributable to equity holders	944,524	721,267	31.0
Net operating cash flow *(Note 1)*	1,306,668	698,967	86.9
Basic earnings per share *(RMB cents) (Note 2)*	90.75	69.63	30.3
Net asset value per share *(RMB cents)*	273.92	201.51	35.9
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	47.3	48.1	
Operating profit margin *(%)*	16.0	14.4	
Effective tax rate *(%)*	24.5	21.7	
Margin of profit attributable to equity holders *(%)*	11.3	10.8	
Return on equity holders' equity *(%)*	41.3	39.6	
Expenses as a % of revenue			
Director and employee benefit expenses *(%)*	7.5	7.1	
Advertising and marketing expenses *(%)*	15.4	17.5	
Research and product development expenses *(%)*	2.7	2.7	
Asset efficiency ratios			
Average inventory turnover *(days) (Note 3)*	53	61	
Average trade receivables turnover *(days) (Note 4)*	47	48	
Average trade payables turnover *(days) (Note 5)*	70	69	

	As at 31 December 2009	2008
Asset ratio		
Debt-to-equity ratio *(%) (Note 6)*	94.1	118.5

Notes:

1. The calculation of net operating cash flow is based on the difference between cash inflow generated from operating activities and cash outflow generated from operating activities.

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.

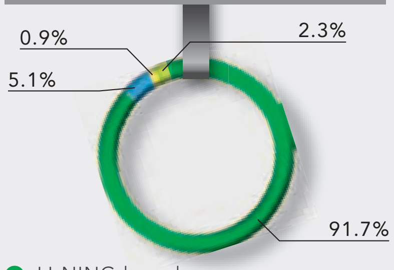
3. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by cost of sales and multiplied by 365 days.

4. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables 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 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.

Percentage of revenue by brand



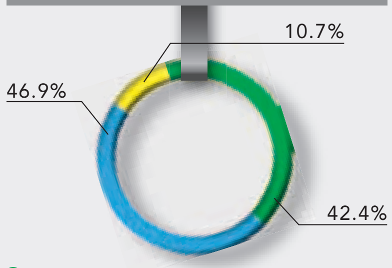
LI-NING brand

Double Happiness brand

Lotto brand

Other brands

Percentage of revenue by product category



Footwear

Apparel

Equipment/accessories

Revenue

The Group's revenue for the year 2009 amounted to RMB8,386,910,000, representing a growth of 25.4% as compared to 2008.

Revenue breakdown by brand and product category

	Year ended 31 December				
	2009		2008		Revenue growth (%)
	RMB'000	% of total revenue	RMB'000	% of total revenue	
LI-NING brand					
Footwear	3,473,889	41.4	2,917,788	43.6	19.1
Apparel	3,787,648	45.2	3,097,695	46.3	22.3
Equipment/accessories	431,726	5.1	338,755	5.1	27.4
Total	7,693,263	91.7	6,354,238	95.0	21.1
Double Happiness brand*					
Equipment/accessories	427,088	5.1	206,493	3.1	106.8
Total	427,088	5.1	206,493	3.1	106.8
Lotto brand**					
Footwear	25,642	0.3	1,546	0.0	1,558.6
Apparel	47,335	0.6	4,159	0.1	1,038.1
Accessories	3,178	0.0	36	0.0	8,727.8
Total	76,155	0.9	5,741	0.1	1,226.5
Other brands***					
Footwear	56,813	0.7	42,332	0.6	34.2
Apparel	95,079	1.1	77,650	1.2	22.4
Equipment/accessories	38,512	0.5	3,619	0.0	964.2
Total	190,404	2.3	123,601	1.8	54.0
Total					
Footwear	3,556,344	42.4	2,961,666	44.2	20.1
Apparel	3,930,062	46.9	3,179,504	47.6	23.6
Equipment/accessories	900,504	10.7	548,903	8.2	64.1
Total	8,386,910	100.0	6,690,073	100.0	25.4

* On 21 July 2008, the Group completed the acquisition of 57.5% equity interest in Shanghai Double Happiness, which has been consolidated into the Group's accounts since then.

** The Group commenced the Lotto brand business since 1 January 2009.

*** Including AIGLE, Z-DO and Kason.

The Group's core brand, the LI-NING brand achieved revenue of RMB7,693,263,000, which accounted for 91.7% of the Group's total revenue and represented an increase of 21.1% as compared to 2008.

The overall operating environment for China's sporting goods industry was challenging in 2009 due to the negative impact of the global financial crisis and the post-Beijing Olympics effect. In spite of these market uncertainties, LI-NING brand achieved stable revenue growth by: (i) continuing expansion of sales channel coverage, especially in second- and third-tier cities; (ii) establishing retail operation standards which enhanced the management of retail store operations; (iii) reinforcing new business development, such as the successful launch of the LI-NING brand badminton business; and (iv) increasing operational efficiency of the supply chain.

The Group continued to expand its multi-brand strategy and launched the Lotto brand business during the year. Through continuous marketing efforts, preliminary response from consumers to the fashion and quality characteristics of the Lotto brand has been encouraging.

Percentage of revenue of the respective brands by sales channel

	Year ended 31 December		
	2009 % of revenue of the respective brands	2008 % of revenue of the respective brands	Change (%)
LI-NING brand			
PRC market			
Sales to franchised distributors	86.6	86.4	0.2
Sales by directly-managed retail stores	12.4	12.8	(0.4)
International markets	1.0	0.8	0.2
Total	100	100	
Double Happiness brand*			
PRC market	88.7	89.6	(0.9)
International markets	11.3	10.4	0.9
Total	100	100	
Lotto brand**			
PRC market	100	100	
Total	100	100	
Other brands***			
PRC market	100	100	
Total	100	100	

* On 21 July 2008, the Group completed the acquisition of 57.5% equity interest in Shanghai Double Happiness, which has been consolidated into the Group's accounts since then.

** The Group commenced the Lotto brand business since 1 January 2009.

*** Including AIGLE, Z-DO and Kason.

As far as the LI-NING brand is concerned, revenue generated from sales to franchised distributors amounted to RMB6,660,497,000, representing a year-on-year increase of 21.4% and accounting for 86.6% of the total revenue of the LI-NING brand for the year. Revenue generated from sales by directly-managed retail stores amounted to RMB952,862,000, representing a year-on-year increase of 16.8% and accounting for 12.4% of the total revenue of the LI-NING brand for the year. This revenue growth trend was in line with the sales model for LI-NING brand, which employs franchised distributors as the major sales channel.

Revenue breakdown by geographical location

		Year ended 31 December				
		2009		2008		Revenue growth
	Note	RMB'000	% of total revenue	RMB'000	% of total revenue	(%)
LI-NING brand						
PRC market						
Eastern region	*1*	3,016,914	36.0	2,556,346	38.2	**18.0**
Northern region	*2*	3,168,568	37.8	2,599,215	38.9	**21.9**
Southern region	*3*	1,427,876	17.0	1,146,181	17.1	**24.6**
International markets		79,905	1.0	52,496	0.8	**52.2**
Double Happiness brand*						
PRC market		378,956	4.5	185,064	2.8	**104.8**
International markets		48,132	0.6	21,429	0.3	**124.6**
Lotto brand**						
PRC market		76,155	0.9	5,741	0.1	**1,226.5**
Other brands***						
PRC market		190,404	2.2	123,601	1.8	**54.0**
Total		8,386,910	100.0	6,690,073	100.0	**25.4**

* On 21 July 2008, the Group completed the acquisition of 57.5% equity interest in Shanghai Double Happiness, which has been consolidated into the Group's accounts since then.

** The Group commenced the Lotto brand business since 1 January 2009.

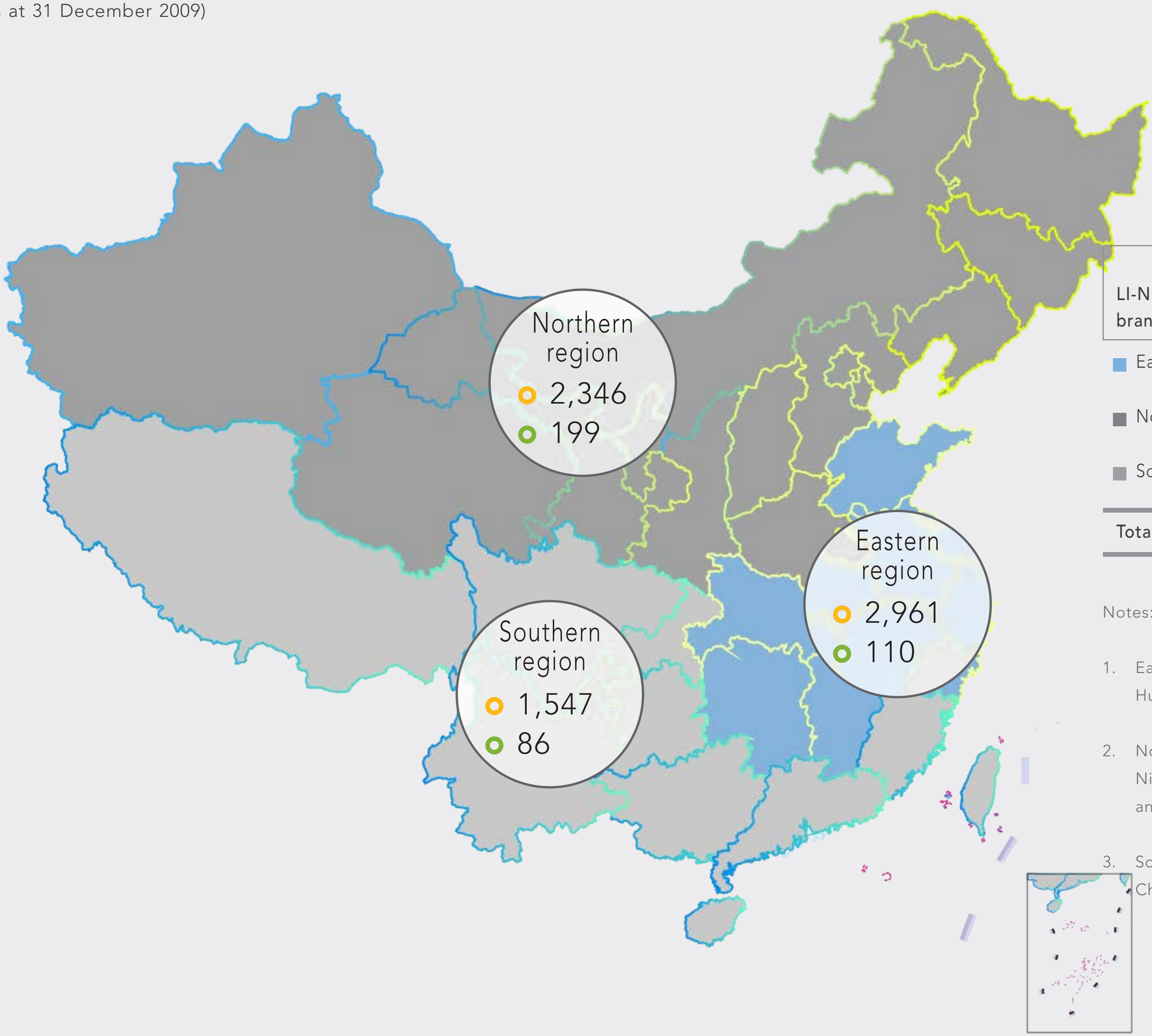
*** Including AIGLE, Z-DO and Kason.

Notes:

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

Nationwide Distribution and Retail Network

(As at 31 December 2009)



LI-NING brand stores	Franchised retail stores	Directly-managed retail stores	Total number of stores
Eastern region *(Note 1)*	2,961	110	3,071
Northern region *(Note 2)*	2,346	199	2,545
Southern region *(Note 3)*	1,547	86	1,633
Total	6,854	395	7,249

Notes:

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

LI-NING brand has an extensive distribution network which covers all major cities in China. During the year, the Group further increased its network coverage in the second- and third-tier cities and stepped up its efforts in the implementation of retail operations standards and strengthening store operations management to ensure sustained and stable growth in different regions. At the same time, the Group increased its efforts in developing new international markets such as the Southeast Asian region, especially Singapore. As a result, LI-NING brand's revenue in the international markets increased by 52.2% as compared to 2008.

Cost of Sales and Gross Profit

In 2009, overall cost of sales for the Group amounted to RMB4,417,046,000 (2008: RMB3,469,699,000), and overall gross profit margin was 47.3% (2008: 48.1%). Overall gross profit margin was slightly lower than 2008, mainly due to (i) LI-NING brand's pricing strategy which provided profit concession to distributors; (ii) the increased proportion of Double Happiness brand's revenue of the Group's total revenue; (iii) the lower gross profit margin of Lotto brand caused by the relatively higher research and product development expenses; and (iv) the disposal of old products of Kason brand at discounted price.

Cost of sales of LI-NING brand amounted to RMB3,960,625,000 (2008: RMB3,249,010,000), and gross profit margin was 48.5% (2008: 48.9%). Faced with the uncertainties of the macro economy and weakness in consumer confidence in 2009, the Group adopted an appropriate pricing strategy in line with LI-NING brand's competitiveness in order to strengthen its competitiveness at the retail end and obtain a win-win situation with distributors. Such measure, together with greater cost control, enabled the Group to maintain a stable gross profit margin level.

Cost of sales of Double Happiness brand amounted to RMB263,985,000 (2008: RMB134,436,000), and gross profit margin was 38.2% (2008: 34.9%). Gross profit margin of Double Happiness brand was slightly higher than 2008, which is in line with its brand positioning.

Cost of sales of Lotto brand amounted to RMB55,526,000, and gross profit margin was 27.1%. In line with the Group's long-term sustainable development strategy towards Lotto brand, spending on research and development at the preliminary stage of development caused the relatively higher research and product development expenses being included under the cost of sales for the year, resulting in the lower gross profit margin. This treatment is consistently applied by the Group in its financial statements prepared in accordance with International Accounting Standards. The gross profit margin for Lotto brand, excluding such expenses, would have been 52.2%.

Distribution Costs

In 2009, the Group's overall distribution costs amounted to RMB2,152,150,000 (2008: RMB1,883,206,000), accounting for 25.7% of the Group's total revenue (2008: 28.1%).

Distribution costs of LI-NING brand amounted to RMB1,973,612,000 (2008: RMB1,820,716,000), which accounted for 25.7% of the LI-NING brand's revenue and represented a decrease of 3.0 percentage points from 28.7% in 2008. Advertising and marketing expenses of LI-NING brand for the year amounted to RMB1,191,152,000 (2008: RMB1,128,240,000), representing a year-on-year increase of 5.6%. During the year, in line with its strategic plan, the Group focused its spending on major projects and enhanced efficiency in the use of resources, thereby lowering the percentage of advertising and marketing expenses to revenue of LI-NING brand. In addition, through effective management of expenses, the percentage of transportation and logistics costs to revenue of LI-NING brand decreased by 0.1 percentage points, the percentage of sundry expenses to revenue of LI-NING brand dropped by 0.5 percentage points, the percentage of rental expenses of stores, salaries and benefits of sales staff, depreciation expenses, etc. to revenue of LI-NING brand remained stable. As a result, the overall percentage of distribution costs of LI-NING brand to revenue of LI-NING brand decreased as compared to 2008.

Distribution costs of Double Happiness brand amounted to RMB36,009,000, which accounted for 8.4% of Double Happiness brand's revenue and was lower than the percentage of distribution costs of LI-NING brand to LI-NING brand's revenue. This matched with the fact that the gross profit margin level of Double Happiness brand was lower than that of LI-NING brand and was in line with the business characteristics of Double Happiness brand. The distribution cost of Double Happiness brand mainly comprised advertising expenses, sponsorship fees and other marketing expenses, as well as salaries and benefits for sales staff.

Distribution costs of Lotto brand amounted to RMB91,973,000, which included the amortisation fee of license rights of RMB19,690,000 for the year in relation to the 20-year license relating to Lotto trademarks (the "Lotto License").

According to International Accounting Standards, the Lotto License carries a present value of RMB393,798,000 which was recognised as "Intangible assets – license rights" and amortised in each relevant period using straight-line method starting from the year 2009 and included in the distribution costs. In addition, recognition of the unrecognised finance cost amounted to RMB555,102,000 and was amortised in each relevant period using the effective interest rate method starting from the year 2009 and included in the finance costs. During the year, the amortisation fee of license rights amounted to RMB19,690,000 and the amortisation fee of finance cost was RMB30,414,000. The impact of these two costs on profit before tax for 2009 was RMB-50,104,000.

Being the new focus for the Group's business development, the Group launched extensive channel expansion and brand promotion for Lotto brand in 2009, resulting in a relatively higher level of marketing expenses for advertising, special promotions in shopping centres and channel establishment during the year.

Administrative Expenses

In 2009, the Group's overall administrative expenses amounted to RMB602,929,000 (2008: RMB441,842,000), which accounted for 7.2% of the Group's total revenue (2008: 6.6%).

Administrative expenses of LI-NING brand amounted to RMB522,566,000 (2008: RMB386,794,000), which mainly comprised directors' and staff costs, management consulting expenses, office rental, depreciation and amortisation charges and other sundry expenses. Administrative expenses of LI-NING brand accounted for 6.8% of LI-NING brand's revenue, which was higher than the 6.1% in 2008. To cater for the Group's strategic plan and mid- to long-term strategic needs, the Group increased its recruitment of management and design talent during the year, resulting in a rise in costs for human resources and a slight rise in total administrative expenses.

Administrative expenses of Double Happiness brand amounted to RMB56,703,000, which accounted for 13.3% of Double Happiness brand's revenue. Such expenses mainly comprised staff costs, depreciation and amortisation charges and other sundry expenses.

Administrative expenses of Lotto brand amounted to RMB5,569,000, which accounted for 7.3% of Lotto brand's revenue. Such expenses mainly comprised staff costs, depreciation and amortisation charges and other sundry expenses.

Earning Before Interest, Tax, Depreciation and Amortisation (EBITDA)

In 2009, the Group's EBITDA amounted to RMB1,524,911,000 (2008: RMB1,070,516,000), representing an increase of 42.4% as compared to 2008.

EBITDA of LI-NING brand, amounted to RMB1,502,344,000 (2008: RMB1,061,927,000), representing an increase of 41.8% as compared to 2008. This was mainly attributable to the growth of revenue, stable gross profit margin and the significant reduction of the ratio of distribution costs.

EBITDA of Double Happiness brand amounted to RMB89,792,000.

Lotto brand was at its preliminary stage of development and promotion, which involved relatively higher product research and development expenses and brand promotion expenses. As a result, EBITDA of Lotto brand during the year was RMB-56,935,000.

Finance Costs

In 2009, the Group's net finance costs amounted to RMB58,766,000 (2008: RMB30,975,000), representing 0.7% of the Group's total revenue, amongst which the interest expense charged in the year for the discounted license fee payable for the Lotto License was RMB30,414,000 (2008: Nil) using the effective interest rate method in accordance with International Accounting Standards.

Income Tax Expenses

In 2009, income tax expenses of the Group amounted to RMB313,799,000 (2008: RMB201,938,000). The effective tax rate was 24.5% (2008: 21.7%). This was mainly affected by the expiration of preferential tax rates of the Group's subsidiaries in low tax areas.

Consolidated Profitability

In 2009, the Group's profit attributable to equity holders amounted to RMB944,524,000 (2008: RMB721,267,000), representing an increase of 31.0% as compared to 2008. Margin of profit attributable to equity holders for the year was 11.3% (2008: 10.8%), representing an increase of 0.5 percentage points as compared to 2008.

During the year, the Group's return on equity was 41.3% (2008: 39.6%), representing an increase of 1.7 percentage points as compared to 2008. The Group's relatively higher return on equity recorded was a result of the management's goal of maximising the benefit for Shareholders through full utilisation of the Group's resources, professional management and operation, and reasonable cost control.

Provision for Inventories

The Group's policy in respect of provision for inventories for 2009 was the same as that in 2008. Inventories are stated at the lower of cost and net realisable value. In the event that net realisable value falls below cost, the difference is taken as provision for inventories.

As at 31 December 2009, accumulated provision for inventories was RMB72,526,000 (31 December 2008: RMB68,151,000).

Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for 2009 was the same as that in 2008.

As at 31 December 2009, the accumulated provision for doubtful debts was RMB1,184,000 (31 December 2008: RMB5,305,000), accounting for 0.01% of the Group's total revenue (2008: 0.08%). During the year, the Group further optimised the ageing structure of trade receivables and strengthened the fund collection, thereby enhancing the efficiency of capital turnover significantly.

Liquidity and Financial Resources

The Group's net cash inflow from operating activities for the year 2009 amounted to RMB1,306,668,000 (2008: RMB698,967,000). As at 31 December 2009, 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 RMB1,264,343,000, representing a net increase of RMB477,416,000 as compared with the position as at 31 December 2008. The increase was brought about by the following items:

Items	Year ended 31 December 2009 RMB'000
Net cash inflow generated from operating activities	1,306,668
Net capital expenditure*	(198,441)
Cash payment for acquisition of additional interests in a subsidiary**	(6,420)
Cash outflow for acquisition of Kason Sports	(112,318)
Dividends paid	(274,235)
Net proceeds from bank borrowings	(347,370)
Net decrease of restricted bank deposits	103,421
Other net cash inflow	6,111
Net increase in cash and cash equivalents	477,416

* Net capital expenditure has deducted the amount of government grant received for purchase of a land use right.

** The subsidiary is Suzhou Double Happiness Guan Du Sports Goods Co. Ltd.

The Group has always pursued a prudent treasury management policy. The Group places strong emphasis on the safety and liquidity of funds and is in a strong liquidity position. Through effective finance management, bank borrowings as at the end of the year decreased to RMB259,970,000 from RMB607,480,000 at the beginning of the year, which reduced the interest expense related to bank borrowings.

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 2009, the Group's available banking facilities amounted to RMB1,656,510,000, amongst which, the outstanding bank borrowings amounted to RMB259,970,000. The outstanding bank borrowings to equity holders' equity ratio (i.e. the gearing ratio) was 9.7% (31 December 2008: 32.0%).

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

Foreign Exchange Risk

The operation of the Group is mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. 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 pays dividends in Hong Kong Dollars when dividends are declared. In addition, the Group pays certain license fees and sponsorship fees in United States Dollars or Euros, and repays part of bank borrowings in Hong Kong Dollars. During the year, the Group established a subsidiary in Singapore for expansion of international business and Singapore Dollars is used as the local functional currency. As international business of the Group continues to develop, transactions settled in foreign currencies will increase gradually.

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 a financial impact on the Group.

Pledge of Assets

As at 31 December 2009, buildings with net book value of RMB29,799,000 (31 December 2008: RMB45,469,000) and land use rights with net book value of RMB39,324,000 (31 December 2008: RMB79,525,000) of the Group were pledged to secure certain bank borrowings of the Group companies.

Contingent Liabilities

During the year, the Group terminated a financial guarantee for the benefit of an affiliated company in respect of a banking facility. As at 31 December 2009, the Group had no significant contingent liabilities.

Operation Review

2009 marked the year when the Group transitioned from the successful completion of its Beijing Olympics strategy to the beginning of its new five-year plan. In the midst of the worldwide macro-economic downturn and intense industry competition, the Group proactively managed the challenges by continuing its long-term efforts to enhance the capabilities in brand marketing and promotion, product design, research and development, sales channel expansion and management, as well as supply chain management. These ongoing efforts helped the Group to strengthen its competitiveness in the key areas of brand recognition, product performance, as well as entrance into new sports categories. Furthermore, the Group increased its market share and achieved stable business development.

LI-NING Brand

Brand Marketing and Promotion

Brand building is the focus of the Group's business and reflects the Group's core competence. The Group was awarded "2009 Best Advertisers" by *Advertising Age*, a professional publication in the communications industry, as well as the "2009 Creative Marketing in Chinese Media (Silver Award)" by the China Advertising Association. In August 2009, LI-NING brand was the only sporting goods brand honoured by CCTV in the "60th Anniversary of the Founding of the PRC – 60 Brands Promoting China's Economy and with Impact on People's Lives". This fully demonstrates the influence and the good brand image of the LI-NING brand.

During the year, the Group continued to cultivate its sports sponsorship resources:

- In March 2009, the Group announced the sponsorship of Elena Isinbayeva, a Russian pole vault athlete, who, in addition to being a two-time Olympics gold medalist, is also a three-time winner of the International Association of Athletics Federations' World Female Athlete of the Year and 27-time world record holder.

- In April 2009, the Group successfully signed up the Chinese National Badminton Team, expanding the Group's roster of sponsored Chinese National Teams which already includes the four gold medal-winning national teams in table tennis, diving, gymnastics and shooting.

In February 2010, the Group signed up Espanyol, a strong team in Spain La Primera, which became the first European football team sponsored by the Group. The Group's arsenal of international top-class sports sponsorship resources, including, the Spanish Basketball Team and the Argentina Basketball Team, continued to perform remarkably in various major sports tournaments after the Beijing Olympics, which effectively raised the professional image and profile of the LI-NING brand.

The Group implemented the following key marketing initiatives for the different sports categories during the year:

Badminton

During the year, the Group officially tapped into the badminton arena by signing up the Chinese National Badminton Team. In May 2009, the Chinese National Badminton Team claimed a sweeping victory in the "2009 LI-NING Sudirman Cup" in full LI-NING gear. Badminton enjoys a high level of participation in China and is one of the country's fastest growing sports. Tapping into the badminton market represents an important step in the Group's sports category differentiation strategy, and badminton products will be a key focus of the Group's strategic plan. During the year, the Group carried out a series of activities which integrated marketing, product and retail as a whole in the badminton sector, which significantly enhanced consumers' impression of the LI-NING brand badminton products and the association of the LI-NING brand with badminton.

- Sponsored the "2009 LI-NING Sudirman Cup", "BWF Super Series – 2009 LI-NING China Masters" and "BWF Super Series – LI-NING China Open 2009", raising the profile of the LI-NING brand in professional badminton, while further promoting the cultural development of badminton tournaments.

- Continuously placed badminton product advertisements in CCTV sports channel (CCTV-5) and print sports media and developed a large sports community on the website of Sina.com. The Group also deepened its cooperation with professional badminton websites to make detailed online coverage on major badminton tournaments such as the Sudirman Cup. All these efforts helped nurture the LI-NING brand's recognition and popularity among the badminton community in China.

- During the year, LI-NING brand badminton products made their entry into Southeast Asia, one of the world's biggest badminton markets. In June 2009, the Group announced its sponsorship for the Singaporean National Badminton Team and the Singapore Open, and established the first badminton flagship store in the country's ION Orchard in July. During the East Asian Games in December, the first LI-NING brand badminton store in Hong Kong was opened at Tsim Sha Tsui, a busy shopping district, which further promoted the Group's attempt of its internationalisation strategy and laid a solid foundation for the Group's overseas expansion.

Running

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

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

- With the debut of the sixth generation of superlight series of running shoes "Cicada's Shadow" (蟬影) during the year, the Group launched the theme "Fun Run". In May, a night run themed activity "LI-NING FUNRUN Super Night" was held in Beijing. Approximately 5,000 participants experienced the pleasure of running the 6km night run, which reinforced the trendiness and consumers' positive impression of the brand.

- All of the 18 provincial track and field teams sponsored by the Group took part in the 11th National Games held during the year. Athletes wearing the LI-NING gear, including Huang Xiao Xiao (黃瀟瀟), a female 400m hurdle athlete, made a strong showing at the Games by netting a tally of 28 gold medals in track and field, thus increasing the exposure of LI-NING brand.

Fitness

- The Group strived to highlight brand differentiation and brand personality in the promotion of fitness. Emphasizing the unique beauty of oriental women and the LI-NING brand personality, the Group collaborated with Beijing's Nirvana Yoga to launch the "Inner Shine" campaign. The campaign included the holding of the second session of the "Charming Yoga Lady" (魅力伽人) competition, which, together with a variety of communication platforms including television, the Internet and outdoor advertisements, resulted in extensive positive feedback from female consumers.

- The Group entered into a cooperation agreement with Beijing CSI Bally Total Fitness Investment Management Limited ("CSI") in June 2009. CSI is established by the first listed sporting group in China. The Group will collaborate with two clubs of CSI, namely "CSI Fitness Club" (community fitness club) and "CSI Bally Total Fitness Club" (commercial fitness club) on fitness promotions.

- In January 2010, the Group entered into an agreement with Lesmills China with respect to in-depth joint brand promotions on a nationwide basis. Lesmills is the leading international provider of products for the fitness industry. Lesmills China has over 200 franchise fitness clubs in Mainland China. It sets the industry standards and is the mainstream provider of fitness programmes.

The Group's collaboration with Beijing's Nirvana Yoga, CSI and Lesmills China all help further strengthen LI-NING brand's foothold in the fitness market.

Basketball

During the year, the Group carried out a series of marketing activities around its valuable international basketball sports marketing resources, including the launch of a limited edition of Shaquille O'Neal's All-star MVP Shoes at flagship stores and the running of the brand marketing campaign, "Fearless", which attracted a large number of consumers. In July, the three NBA players sponsored by the Group, Shaquille O'Neal, Baron Davis and Jose Calderon made a seven-day tour to China. During the tour, the three stars participated in a number of fan gatherings held in major cities such as Beijing and Shanghai. These activities generated a large number of media exposure and praises for the LI-NING brand among consumers.

During the year, the Group signed up another NBA player, Hasheem Thabeet, the second draft pick of the Memphis Grizzlies, which further enriched the valuable sports sponsorship resources the Group continues to build in the basketball sector.

Tennis

Tennis enjoys growing popularity among teenagers in China. During the year, in addition to the continuous sponsorship of LI-NING International Junior Tennis Championship, the Group maintained its collaboration with the Association of Tennis Professionals (ATP). The Group sponsored about 20 players under the "Apparel Sponsorship Plan for ATP Players", including Ivan Ljubicic, the champion of the 2009 ATP World Tour – Lyon tournament, and Wesley Moodie, a runner-up in the men's tennis doubles finals of the 2009 French Open. Meanwhile, Sun Sheng Nan (孫勝男), a tennis player sponsored

by the Group, won the championship title in women's doubles at the 2009 China Open. During the year, the Group announced the sponsorship of Yan Zi (晏紫), the female tennis player who has achieved a glorious record in Chinese tennis and Yang Tsung-hua (楊宗樺), the Taipei-based player who was once ranked No. 1 in the international junior tennis league. At the beginning of 2010, the Group further signed up Peng Shuai (彭帥), another famous female tennis player in China, whose highest world ranking was 31 and won four golden medals in the 11th National Games, namely female singles, female doubles, mixed doubles and female team event. All the aforesaid players have become mainstays of the tennis resources of the Group.

Community Marketing Events

The Group also held marketing activities targeting the mass population through sponsorship and organisation of various sports events targeting sports enthusiasts and young people. These included:

- Sponsorship of the China University Football League (CUFL) and organisation of the LI-NING China Basketball Draft Camp and China Junior Basketball League, etc.

- The Group's meticulously planned programme, "LI-NING Hero Vans" (李寧英雄大篷車), which aims at encouraging sports enthusiasts to participate in sports activities and enjoying the pleasure of sports, featured a tour covering 68 cities over a span of 206 days during the year, attracting over 320,000 participants.

- During the year, the "LI-NING Sports World" (李寧運動天地) website went live on the sports section of the official website of CCTV, and the LI-NING online store also came into operation. The presence of LI-NING brand in mainstream online media in China creates a positive impact on promoting the brand.

LI-NING was once again voted the "The Most Favourite Brand by University Students" in 2009, demonstrating the brand's strong recognition among university students and young consumers. Anchoring the Group's marketing activities on this important group of existing and potential consumers of sports products will have a positive impact on brand-building and the Group's long-term development.

Product Design, Research and Development

The Group places strong emphasis on product design and innovation in research and development with a view to offering products that cater best to the needs of both consumers and professionals.

R&D and Design Centre

The Group has design, research and development centres in mainland China, Hong Kong and Portland, Oregon in the United States, each staffed by an excellent team of professionals. The Group has also worked on an ongoing basis with reputable education institutions and professional bodies in conducting research and development. Established in November 2008, the Li Ning Sports Science Research and Development Centre specialises in sports science research, product testing, research and development of core technology and enhancement of product functionality, taking the Group's technological standard to a higher level.

Products for Professional Sponsorships

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

- Badminton has a high technological requirement on its sports gear. With in-depth knowledge of the latest trends in badminton technology and in light of the characteristics of the sport, the Group's research and development team has used special techniques in developing a comprehensive range of specialised professional products for the Chinese National Badminton Team. Armed with full LI-NING gear, the Chinese National Badminton Team won the Sudirman Cup in May 2009. The technological performance and practical experience of the LI-NING badminton gear, including the handle grip and attacking power of rackets, comfort and protection of footwear products, as well as fitting, moisture-absorption and quick-dry ability of apparel products, have all met the professional needs of the Chinese National Badminton Team.

- The Group tailor-makes professional sports products for a number of world-renowned athletes. It has designed the professional badminton shoes, "Champion" (奪帥), for men's single badminton player, Lin Dan (林丹). The shoes fully meet Lin's specific needs in terms of product functionality, aesthetics and other personalised features. The Group has also designed sports shoes and apparel for Elena Isinbayeva, the world's No. 1 pole vault athlete, who has heaped praise on the products. The "BD Doom" shoes developed for NBA star, Baron Davis, have not only gone beyond Davis' own expectations, but also been well received by consumers in the US market. In addition, the golden spike shoes which the Group designed for hurdler Huang Xiao Xiao (黃瀟瀟), the "Fish Fin" (奇魚) sports shoes for tennis star Ivan Ljubicic and the tennis gear used by Yan Zi (晏紫) at the French Open have all won strong recognition and appreciation from these first-class athletes, reflecting the Group's capabilities in design, research and development.

Footwear Products

The Group continued its in-depth development of the core patented "LI-NING BOW" (李寧弓) anti-shock technology, the "LI-NING Shoe Tree" (李寧楦) technology used in developing the shoe tree that best fits the foot shape of most Chinese consumers, as well as the development and improvements in shoe sole technology.

The Group attaches much importance to product segmentation and strives to highlight the unique positioning of its products. Apart from providing professional gear to athletes, it also offers a vast array of product options for general sports lovers. "Cicada's Shadow" (蟬影), the sixth generation of the superlight series of running shoes launched during the year, employs the principle of bionics in design. This places strong emphasis on reducing the weight of the shoes and ensuring superior ventilation, while maintaining support and protection in the shoe front as well as a powerful grip configuration in the sole. This series has been well received by consumers. From the first generation of super lightweight series of running shoes, "Runfree", to the sixth generation "Cicada's Shadow" (蟬影), each generation of the lightweight LI-NING running shoes has provided consumers with the experience of comfort, while attaining professional standards in lightweight and stability, demonstrating the Group's innovation and competence in research and development.

The Group is well recognised by the industry for its achievements in footwear design and research and development. In October 2009, three LI-NING brand products, namely basketball shoes "Dragon Scale" (龍鱗) and "G-Shark" (年輪), and football shoes "Taichi" (太極), won the "iF Design Award China 2009". This highly authoritative and influential award is judged by 10 attributes including quality of design, craftsmanship, innovation and creativity, environmental protection, practicality, safety and brand value. In December 2009, "G-Shark" (年輪) basketball shoes also won the "China Red Star Design Award 2009" (2009年中國創新設計紅星獎). The Group's

"X-Claw" (貓爪5代) cross-country running shoes and "Fossil" (化石) upstream shoes were also among the winners. The "China Red Star Design Award" (中國創新設計紅星獎) attaches importance to product innovation and ground-breaking features in terms of function, appearance, materials and environmental friendliness, creativity, vision and orientation.

Apparel Products

On the apparel technology front, the Group continued to collaborate with core material suppliers for the development of a series of functional products applying the AT DRY SMART technology to improve moisture-absorption and ventilation, bringing better comfort to consumers.

It has been an invariable goal of LI-NING brand to be a professional and international brand. The Group is also committed to demonstrating its mixed style of sports and fashion in other areas with a view to strengthening consumer loyalty to its products. In November 2009, the Group formally launched the Lin Dan (林丹) sports lifestyle series, which took many style-savvy consumers by storm.

The Group has also launched the Thinsulate cotton series, the LI-NING Eco-circle series and the LI-NING green organic cotton series. The new products embody the Group's environmental protection efforts and its full support for the viability of green apparel.

The Group also places great emphasis on improving the efficiency of product design, research and development and streamlining the flow of research and development. During the year, the apparel division has started to adopt the Product Lifecycle Management System, with an aim to applying information technology management on apparel products from product planning, design, development to ordering, enabling internal share of information, and making the workflow more professional and efficient. The Group has also set up the libraries of apparel materials in Beijing, Foshan and Hong Kong to share the latest technological information and industry trends. In addition, the Group has established an innovative product R&D lab, which is of great importance to product segmentation and in-depth product research.

Sales Channel Expansion and Management

During the year, the number of LI-NING brand retail stores continued to grow steadily. As at 31 December 2009, there were 7,249 LI-NING brand retail stores in China, representing a net increase of 1,004 stores for the year and the distribution and retail networks comprised:

- 128 distributors operating a total of 6,854 LI-NING brand franchised retail stores across China; and
- a total of 395 directly-managed LI-NING brand retail stores in Beijing, Shanghai and 15 provinces in China.

Number of franchised and directly-managed retail stores

LI-NING brand stores	31 December 2009	31 December 2008	Change (%)
Franchised retail stores	6,854	5,935	15.5
Directly-managed retail stores	395	310	27.4
Total	7,249	6,245	16.1

The Group considers the second- and third-tier cities in China to have the highest growth potential and has increased its investments in sales channel development in these market segments. More than 80% of the newly-opened LI-NING brand stores and the newly expanded sales area during the year were located in these cities, which further enhanced the density of store coverage. In addition to the strategic channel penetration focusing on second- and third-tier cities, there is a nationwide distribution and retail network of the LI-NING brand products, covering all provinces and municipalities in China.

Number of stores by geographical location

LI-NING brand stores	31 December 2009	31 December 2008	Change (%)
Eastern region (Note 1)	3,071	2,587	18.7
Northern region (Note 2)	2,545	2,204	15.5
Southern region (Note 3)	1,633	1,454	12.3
Total	7,249	6,245	16.1

Notes:

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

Apart from these integrated retail stores, the Group has, since 2008, expanded new types of sales channels, including specialty stores which sell single-category or limited categories products.

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

- Actively expanded the sales channel coverage, with the total number of stores growing satisfactorily, and in which the second- and third-tier cities were the major markets for sales channel expansion;

- Promoted the sales channel reform with a focus on increasing the influence on the management capability and service quality of the distributors, sub-distributors and retail stores, aiming at enhancing store efficiency and retail market share in all aspects;

- Continued to open flagship stores in major cities in China to increase market influence of the LI-NING brand and boost sales. As at 31 December 2009, there were a total of 11 LI-NING brand flagship stores operating in China; and

- Continued to upgrade the store image and launched the sixth-generation image pilot stores at the end of the year. The trendy and stylish decor of these stores echoes the professionalism of sports and the oriental ambience so as to better demonstrate LI-NING brand's characteristics, values and spirit and to promote the sporting and consumption experience among consumers.

Supply Chain Management

The Group endeavoured to transform its traditional supply chain system into a demand-driven, flexible and effective one. During 2009, the Group undertook the following measures in respect of LI-NING brand's supply chain management:

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

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

- Optimised the procurement system and the cost management, established procurement centres, integrated resources to improve the procurement efficiency and reduce procurement costs;

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

- Established a supplier information database to enable monitoring of the order statistics by delivery dates, accumulated output of finished goods, unfinished goods and goods in the pipeline, and to provide support for future demand shift;

- Invited a number of core suppliers to set up production facilities in Jingmen Industrial City, Hubei in order to ensure that the supply chain can adapt to the needs of the market in a timely manner while mitigating the pressure from increasing costs. The first phase of construction of the production facilities commenced in September 2009. The Group is also planning to set up the "LI-NING Logistics Centre" in Jingmen Industrial City, which will be developed into an integrated base for both manufacturing and distribution, in order to enhance the response of the supply chain;

- Continued to optimise supply chain and inventory management which shortened the inventory turnover to 53 days from 61 days in 2008, underscoring the improvements in asset turnover capability; and

- Exercised prudent credit control and improved the management of receivables, which shortened the average trade receivables turnover to 47 days from 48 days in 2008.

In the future, the Group will continue to improve the supply chain management so as to better accommodate business growth.

Double Happiness Brand

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

Double Happiness continued to adopt sponsorship of sports stars and sports events as its core marketing and promotion strategy. Double Happiness signed up leading table tennis players in China including Wang Hao (王皓), Wang Li Qin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiao Xia (李曉霞) as spokesmen for its table tennis equipment. In addition, Double Happiness also actively sponsored various professional tournaments in China and around the world. In 2009, Double Happiness sponsored the Table Tennis World Tour (with 17 stops), Table Tennis World Cup (Male and Female) as well as China Table Tennis Super League by providing professional competition equipment. Early in the year, Double Happiness and the International Table Tennis Federation ("ITTF") finalised an umbrella agreement for the provision of professional table tennis equipment for more than 10 major tournaments, including the 2010 Singapore Youth Olympics and 2012 London Olympics.

Double Happiness maintains a strong product research, development and design capability. In line with the reform stipulated by ITTF, Double Happiness commenced research and development in inorganic glue in 2007 and, in about two years, has made remarkable breakthroughs in the development of a new generation of inorganic glue and related equipment. These products have passed ITTF's examination and have become one of the first batches of professional gear to be used in international tournaments. The gear was also used and tested in the 50th World Table Tennis Championships held in Yokohama in 2009 where it earned recognition from the Chinese National Table Tennis Team. In addition to professional gear, Double Happiness also successfully rolled out the "Inorganic Product Solutions" in 2009, under which new product series such as the "NEO" series have been launched. These product series cater to the demand of different consumers, and fill the gaps in the inorganic glue market. Double Happiness also continued to step up its market survey efforts, while strengthening new product development. New products developed in 2009 are expected to be launched in 2010.

Double Happiness also paid attention to the reform of its product appearance. Based on the original "Rainbow" table tennis tables, it launched a new series called "Golden Rainbow" during the year, which was used in the China Table Tennis Open held in June 2009.

Double Happiness brand products are distributed mainly via wholesale and integrated sporting goods stores. It has adopted a wholesale model with a relatively stable clientele across 30 provinces and municipalities in China. Apart from introducing sales incentive policies to motivate customers in early 2009, Double Happiness stepped up its investment in the retail market by establishing specialised areas dedicated to displaying the full range of Double Happiness brand products in about 400 professional equipment stores.

To cater for market demand and to establish a competitive supply chain, Double Happiness embraced the following strategies during the year:

- Implemented the SAP-R/3 software system to streamline business operations and shorten the product supply cycle;

- Improved the inventory management to ensure sufficient product supply and satisfy customers' needs; and

- Adjusted the business model to outsource the manufacturing work of low value-added products under the OEMs in order to lower production costs.

On 5 November 2009, Shanghai Double Happiness entered into an equity transfer agreement with Wujiang Daoboer Sporting Goods Co., Ltd. (吳江道勃爾體育用品有限公司) ("Daoboer"), pursuant to which Shanghai Double Happiness acquired 20% equity interest in Suzhou Double Happiness Guan Du Sports Goods Co., Ltd. (蘇州紅雙喜冠都體育用品有限公司) ("Suzhou DHS") for a consideration of RMB6,420,000. The acquisition was completed at the end of 2009. The equity interest in Suzhou DHS held by Shanghai Double Happiness therefore increased to 75% from 55%. Suzhou DHS is principally engaged in the manufacture of table tennis equipment and related sports goods, and is the major production base of table tennis equipment of Double Happiness brand. In light of the growing production role of Suzhou DHS to Double Happiness brand, it is in the interest of the Shareholders as a whole for Shanghai Double Happiness to increase its equity interest in Suzhou DHS.

Indoor sports enjoy immense popularity in China, with many players reaching top-notch international standards. Given its competitive edge in table tennis, the Group believes that Double Happiness will help solidify the Group's position in the table tennis sector in China. LI-NING and Double Happiness brands will continue to enjoy synergies in respect of brand marketing and promotion, sports tournament sponsorships and sales channel expansion.

Lotto Brand

Lotto Sport has granted a wholly-owned subsidiary of the Group an exclusive license of 20 years to use specified Lotto trademarks in China in connection with the development, manufacture, marketing, distribution and sale of licensed products of Lotto brand. Lotto is one of the leading sports brands in Europe, with an impressive track record in soccer and tennis.

During the first half of 2009, a brand launch press conference featuring the main theme "Live it up" (represents style, personality, creativity and energy) was successfully staged. Leveraging Lotto brand's positioning as a brand of taste and sensuality, the Group rolled out an all-rounded brand promotion strategy supported with the following major measures:

- Researched into the brand's positioning to establish and implement a branding strategy, implemented integrated marketing events to draw consumers' attention, enhance their awareness of the brand and establish Lotto's image as a brand of style;
- Developed and implemented a specific product strategy based on Lotto's brand positioning in order to establish a unique style of product design, which has won preliminary recognition from consumers;
- Implemented digital marketing initiatives, including the launch of the Lotto brand's official website in China as the major channel of communications with consumers; and
- Enhanced the brand's influence and awareness through media placements, marketing communications, event marketing and a series of entertainment and marketing initiatives, including sponsorships of television programmes, drama series, events and artistes.

During the year, Lotto brand has developed 29 distributors covering 53 cities in 20 provinces in China. Lotto brand stores are mostly shop-in-shop in landmark malls in metropolitan and first-tier cities and ground shops located in prime commercial districts in China. As at 31 December 2009, there were 171 Lotto brand stores, of which 58 were directly managed by the Group and 113 were managed by distributors.

2009 marked the first year the Group started its new business of Lotto brand. Revenue of Lotto brand for the year outperformed the target albeit an operation loss which was controlled within the budgeted level. The Group will continue to improve the product structure and design to establish a unique brand personality for Lotto brand, expand its retail network coverage and raise the public awareness of the brand so as to capture market share.

The sports lifestyle market in China has experienced a rapid growth in recent years as consumers continued to lead a more versatile and leisure-filled lifestyle. Leveraging its solid distribution platform, as well as its deep understanding of the China market, the Group plans to achieve good development of the Lotto brand within the next 2 to 3 years.

Other Brands

Kason

The Group has completed the acquisition of the entire issued share capital of Kason Sports for a consideration of RMB165,000,000. Kason Sports and its subsidiary (collectively, "Kason") have been consolidated into the Company's accounts since May 2009. Kason is principally engaged in the research and development, manufacture and sale of professional badminton equipment, including rackets, strings, shuttlecocks, apparel, footwear and accessories under Kason brand. Kason brand was established in 1991 and is a well-known badminton equipment brand in China. Its sponsorships include the Chinese National Youth Badminton Team and a number of provincial badminton teams in China.

The acquisition of Kason forms an integral part of the Group's badminton strategy. It not only combines Kason's leading manufacturing techniques and research and development capabilities with the Group's core competitive edges, but also fully utilises the mutual advantages in sports marketing resources, thus enabling the Group to increase its market share in the badminton sector.

At present, the Group has completed the integration and streamlining of Kason's business, including the integration of functions, reorganisation and staff reallocation, while retaining Kason's key professional management and technical teams. The Group will establish a research and development and production centre for LI-NING brand badminton products based on Kason's existing technology research and development centre and manufacturing facilities. The Group will also continue to rearrange and consolidate Kason's brand positioning, product mix, research and development and sales channel.

Z-DO

Z-DO is a subsidiary brand of the Group, which adopts hypermarkets as its sales channel and shares resources with the LI-NING brand to achieve economies of scale. However, there are large differences between the two brands in terms of sales model, sales network and product portfolio. Z-DO brand's operation model is maturing and is projecting a positive development trend.

During the year, the major operation measures implemented for Z-DO brand included the following:

- Shifting the sales model gradually from solely shop-in-shop in hypermarkets set up by distributors to establishing direct cooperation with hypermarkets to take better advantage of the characteristics of the hypermarket channel;

- Continuing to expand its sales network. As at 31 December 2009, Z-DO brand products were available in 702 stores in 169 cities across China via 62 distributors;

- Enhancing store efficiency through improving store layouts to uplift the brand image;
- Optimising the structure of suppliers and improving the supply chain system, while implementing reasonable cost control to enable suitable pricing for the hypermarket channel, thereby increasing the competitiveness of Z-DO brand products among its competitors;
- Completing consolidation of the distributors, assisting in improving the distributors' operating system while attracting high quality distributors to establish a sizeable core distributor system; and
- In-depth research into the consumption behaviour, product preferences and purchasing power of target consumers, streamlining the product mix, enhancing product design and planning capability, thereby significantly increasing the price to value correlation to meet the demand of the target consumers of hypermarkets.

AIGLE

AIGLE brand specialises in high-end outdoor sports and casual apparel and footwear products. It serves as the Group's stepping stone to explore the outdoor sporting goods sector. AIGLE brand products are sold mostly to metropolitan and first-tier cities in China and its business model is maturing. Customers are increasingly favouring core products of AIGLE brand due to the unique competitiveness of the brand. During the year, AIGLE brand reported satisfactory performance of its new stores and a substantial growth in same store sales. It is expected that the AIGLE brand business can achieve a break-even level in the near future.

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

- Defining a clear product position and building unique competitive edges by developing functional yet fashionable products;
- Appropriate spending of marketing expenses including continuous placement of print advertisements in travel and other outdoor magazines to enhance brand image and awareness;
- Launching the membership system to develop a core customer group;
- Collaborating with Asia product lines of AIGLE France and AIGLE Hong Kong to enhance product mix and to lower the costs as well as working with suppliers in France and Hong Kong to develop a localised production supply chain;
- Applying the management style and experience of the directly-managed retail stores and key strategic stores in metropolitan cities to the stores established by distributors in order to promote the channel and market expansion; and
- Upgrading the quality of retail stores by adopting the international standards on store layout promulgated by the AIGLE brand.

The Group envisages a bright future for the high-end outdoor sporting goods market in China. The Group will continue to exploit opportunities in this segment through strengthening the product and retail management of the AIGLE brand while expanding the sales channel on the basis of improving same store growth so as to boost sales and to develop the AIGLE brand as a complement to the LI-NING brand.

Human Resources

As at 31 December 2009, the Group had 4,432 employees (31 December 2008: 4,001). The Group outsourced selected functions and continued to improve organisation efficiency, with the core team remaining stable.

The Group regards its workforce as an important asset and has placed special emphasis on the recruitment, nurturing, motivation and retention of staff. During the year, to meet its strategic development needs, the Group made significant investments in human resources for the establishment of the organisation structure and organisation efficiency monitoring system, the recruitment system, the talent development and motivation systems, the human resources information system and the professional and leadership skills development system. The Group has strived to be a trustworthy employer who is able to meet the professional career development needs of its staff.

The Group adopts a comprehensive capability-based performance management system for its staff, which provides solid support for its sustainable development and pursuit of outstanding performance. The system not only aims to motivate staff to meet short-term targets, but also focuses on comprehensive development of their leadership skills, professional capabilities and other potential. The system tailors individual career development plans for its staff and encourages staff to improve their capabilities to meet performance targets. The system also emphasizes a comprehensive management process from the establishment of individual goals, tracking and counseling, to feedback and reward or penalty, so as to ensure that the strategic goals will be achieved at individual levels.

With respect to remuneration, the compensation packages for individual staff members are an effective integration of corporate performance, departmental objectives and individual merit. This system serves to reward outstanding staff and motivate staff's passion and creativity in their work, while aligning individual goals to the overall strategic objectives. In addition to the base salary, key employees with outstanding performance will be rewarded by way of cash, restricted shares, share options, individual awards, or a combination of them, with a view to effectively aligning the interests of the employees to that of the Company.

In December 2009, the Company was once again awarded the "Best 50 Workplaces" (50佳第一工作場所) and "The Most Respectable Enterprise in China" (中國最受尊敬企業), endorsing the Company's principle of being a people-oriented enterprise with a high sense of social responsibilities.

Outlook

While the fast-moving consumer goods industry in which the Group operates was battered by the economic crisis in 2009, the sporting goods industry continued to exhibit attractive, long-term growth opportunities. China's expansionary macro-economic policies helped revive China's economy, making it more reasonable to expect resurgence in the year 2010. The Central Economic Work Conference held in late 2009 stipulated a gradual relaxation of residency constraints in small and medium cities, encouraging continued urbanisation. Such measures are expected to stimulate consumption and are, therefore, good news to the sporting goods industry as a whole. Based on order value from trade fairs for the first and second quarters of 2010 hosted by the Group for LI-NING brand, which grew by 11.6% and 15.4%, respectively, the Group envisages stronger growth for the sporting goods industry in 2010 than 2009.

From a medium- to long-term viewpoint, China's sporting goods industry is in the midst of a major growth trend and still has ample room for further development. As urbanisation continues to gather pace, the per capita disposable income of urban residents and domestic consumption power will grow steadily. Their increasing aspiration for sports and leisure activities will drive the medium-to-long term growth of the sporting goods market. The successful hosting of the Beijing Olympics boosted the Central Government's determination to develop the country into a sports superpower. This provides a layer of policy protection for the sporting goods industry. Following the 2008 Beijing Olympics, the 11th National Games and the East Asian Games held in late 2009, and the forthcoming Asian Games 2010 to be held in Guangzhou, the sporting goods industry will continue to gain attention of the public with such continuous sports events.

Challenges breed opportunities. While key macro-economic data indicates that China's economy will start to recover in 2010 with an improving operating environment, there are still large uncertainties in the macro-economic environment while major issues in the economy of the world and the PRC are yet to be eliminated. Meanwhile, competition in the sporting goods industry will continue to be fierce. Industry players with advantages will continue to invest more resources, leading to increasing concentration among a few major brands in the increasingly intensified environment.

The Group will continue to implement its proactive, yet prudent strategy to cope with its strategic objectives for years 2009-2013. In 2010, the Group will concentrate on the following areas:

- Further establish the unique positioning and personality of the LI-NING brand to enhance its core competencies through effective integration of brand, products and retail-level operations focusing on targeted consumer groups;

- Promote same store performances by speeding up reforms in the sales channel system and boosting retail management capabilities, while reinforcing and enhancing the LI-NING brand's market standing by intensifying expansion and penetration of the retail network;

- Continue to develop and expand strategic business lines. Following the successful roll-out of the businesses in badminton and sports lifestyle in 2009, the Group will strive to increase its share in the badminton market by further leveraging its advantages in sales channels, products and integrated marketing capabilities. The Group will also seek to promote the establishment of a sustainable, healthy rapid-growth model for its sports lifestyle business; and

- Enhance the response, efficiency and flexibility of its supply chain through ongoing system optimisation to cope with the Group's rapid development.

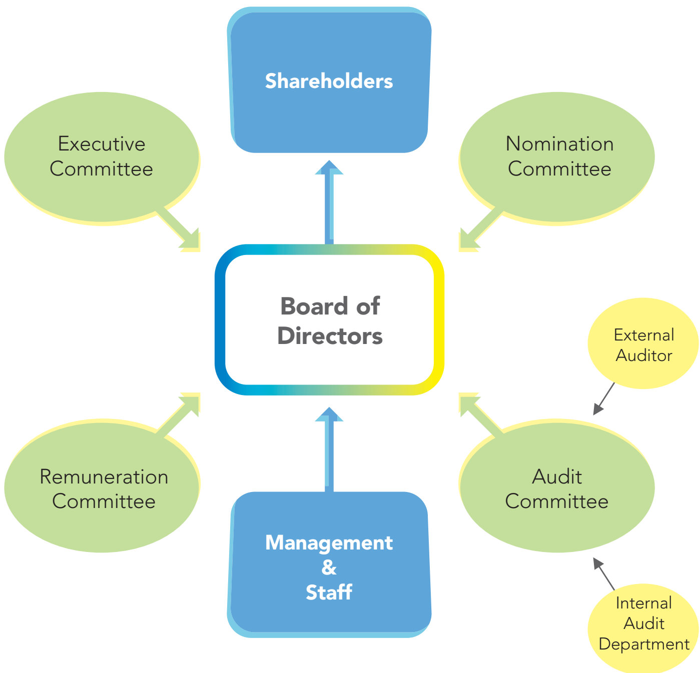
In parallel, the Group will continue to strengthen its organisation and execution capabilities in pursuit of excellence in operational performance so as to ensure steady operation and sustainable development and to create better returns for Shareholders and investors.

The Board is committed to promoting and upholding good corporate governance in order to fulfil its mission of creating value for and maximising returns to the Shareholders.

Throughout the year 2009, 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"). The corporate governance structure and major corporate governance practices adopted by the Company are described below.

Corporate Governance Structure

The Company's corporate governance structure is as follows:



The Board of Directors

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 success of the Group by directing and supervising the Company's affairs.

Composition of the Board

As at the date of this report, the Board comprised the following ten 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 the Shareholders
Executive Directors		
Mr. Li Ning *(Chairman)*	3 April 2004	11 May 2007
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. Stuart Schonberger	6 May 2004	9 May 2008
Mr. Chu Wah Hui	1 June 2007	9 May 2008
Mr. James Chun-Hsien Wei	1 September 2007	9 May 2008
Independent non-executive Directors		
Mr. Koo Fook Sun, Louis	6 May 2004	11 May 2007
Ms. Wang Ya Fei	6 May 2004	15 May 2009
Mr. Chan Chung Bun, Bunny	6 May 2004	9 May 2008

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. Biographical details of the Directors are set out on pages 59 to 63 of this annual report. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board.

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 success 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.

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.

All members of the Board

Non-executive Directors and Independent Non-executive Directors

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

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. 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 considers that all independent non-executive Directors are independent as required under the Listing Rules.

Principal Responsibilities of the Board

While delegating authority and responsibility for implementing business strategy and managing the day-to-day operations of the Group's business to the management, the Board is collectively responsible for formulating the strategic business direction of the Group and setting objectives for 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; and
- carrying out major acquisitions and disposals, formation of joint ventures and capital transactions.

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 of Directors. The meeting agenda is set after consulting with members of the Board. The agenda and accompanying papers are normally sent to Directors one week before the date of the meeting.

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

Directors are required to declare their direct or indirect interests, if any, in any matter to be considered at Board meetings and interested Directors are required to abstain from voting and will not be counted in the quorum present in the Board meetings.

The Board held four meetings in 2009 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	3 out of 4
Mr. Zhang Zhi Yong	4 out of 4
Mr. Chong Yik Kay	4 out of 4
Non-executive Directors	
Mr. Lim Meng Ann	4 out of 4
Mr. Stuart Schonberger	4 out of 4
Mr. Chu Wah Hui	4 out of 4
Mr. James Chun-Hsien Wei	4 out of 4
Independent non-executive Directors	
Mr. Koo Fook Sun, Louis	4 out of 4
Ms. Wang Ya Fei	4 out of 4
Mr. Chan Chung Bun, Bunny	4 out of 4

Directors' Appointment and Re-election

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

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 resources to discharge their duties and report regularly to the Board, addressing major issues and findings, and making valuable recommendations to assist the Board in its decision making.

Executive Committee

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

Mr. Zhang Zhi Yong *(Chairman of the Committee)*	Executive Director & Chief Executive Officer
Mr. Li Ning	Chairman of the Board & Executive Director
Mr. Chong Yik Kay	Executive Director & Chief Financial Officer
Mr. Guo Jian Xin	Vice President & Chief Operating Officer
Mr. Fang Shih Wei	Vice President & Chief Marketing Officer
Mr. Zhang Hui	Vice President

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

- setting the Group's strategic, operational and financial plans for approval by the Board;
- examining and approving the strategic business directions at subsidiary level;
- examining and approving financial arrangements of member companies of the Group within a limit approved by the Board; and
- deciding on the appointment and removal of senior management members of the Group.

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

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 as its terms of reference which are available on the Company's websites. Its primary role is to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession of Directors based on certain criteria adopted by the Committee, including appropriate skills, knowledge and industry experience, personal ethics and integrity and time commitment to the Board's affairs. The process ensures that the Board comprises a sufficient number of Directors and consists of Directors having sound knowledge, experience and/or expertise pertaining to the business operations and development of the Group. The Nomination Committee considers the current structure, size and composition of the Board suitable for directing the Group's development and made no recommendations to the Board on any proposed changes during the year.

In 2009, the Nomination Committee, together with the Board, assessed the independence of each of the independent non-executive Directors and considers that all independent non-executive Directors are independent as required under the Listing Rules. The Nomination Committee itself did not hold any meeting during the year.

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

The Remuneration Committee met two times in 2009 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 2009:

- annual review and determining of remuneration packages for Directors and senior executives;
- review and determining of the bonus execution plan for year 2009 according to the key performance indicators for year 2009; and
- review and setting of key performance indicators and bonus plan for year 2010.

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.

The primary goal of the Group's remuneration policy for executive Directors is to enable the Company to retain and motivate executive Directors by linking their compensation with their individual performance as measured against the Group's corporate objectives and operating results, taking into account also the comparable market conditions. The principal elements of the remuneration package of an executive Director include director's fee, basic salary, discretionary bonus, participation in the Company's share schemes and other benefits and allowances. Remuneration of non-executive Directors (including independent non-executive Directors) includes mainly director's fee which is a matter for the Board to decide by reference to the duties and responsibilities of non-executive Directors (including independent non-executive Directors) and the comparable market conditions. Non-executive Directors are also be 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 2009 are set out in note 25 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. To ensure compliance with the amended Corporate Governance Code effective from 1 January 2009, the terms of reference of the Audit Committee have been revised by the Board to include the oversight role of the Audit Committee to review the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. The current terms of reference are available on the Company's websites.

The Audit Committee currently consists of the following three Directors:

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

The Audit Committee met three times in 2009 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
Mr. Stuart Schonberger	3 out of 3
Ms. Wang Ya Fei	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 a meeting with the external auditor without the presence of the management.

The following is a summary of the work performed by the Audit Committee in 2009:

- review of and recommendation for the Board's approval of the 2008 annual financial statements and 2009 interim financial statements with a focus on compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;

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

- discussion with the external auditor and the management on possible accounting risks;

- review of internal audit findings in 2009 and recommendations and approval of 2010 internal audit plan;
- review of the effectiveness of the Company's internal control system, including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions, and their training programmes and budget;
- approval of the audit fees and terms of engagement of the external auditor; and
- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor.

External Auditor

For the year ended 31 December 2009, the total remuneration for the audit services provided by the external auditor amounted to RMB4,050,000 (2008: RMB4,150,000). The audit fees were approved by the Audit Committee.

For the year ended 31 December 2009, the total remuneration for permissible non-audit services provided by the external auditor and its affiliates amounted to RMB1,386,000 (2008: RMB1,461,000). 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 2009, the Audit Committee had received a confirmation from the external auditor on their independence and objectivity.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on page 94 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

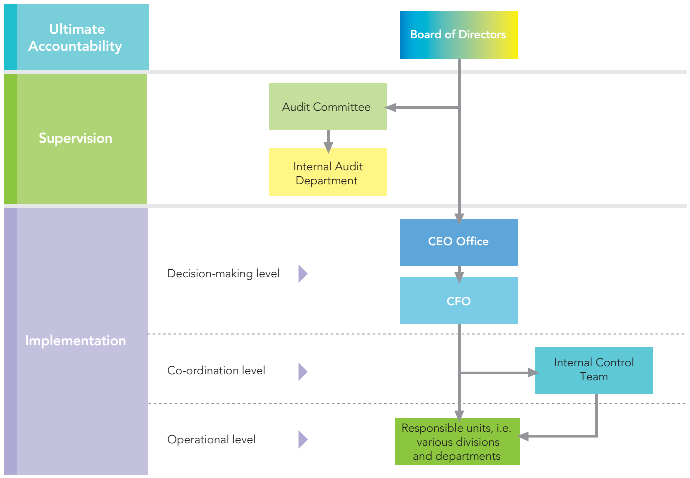
The Board has the responsibility to ensure that the Group's internal control system is sound and effective to safeguard the Shareholders' investment and the Company's assets. Accordingly, the Board has always attached great importance to internal control and offered support thereto. Particularly, in light of the impact of the global financial crisis in 2009, the Group had further strengthened its internal control in various operational and financial aspects so that it has managed to deliver continuous satisfactory results under the challenging economic environment.

Internal Control System

Based on the experience in operation control over the years, the Company has streamlined all major operational procedures, and has identified major risks and formulated control measures necessary to reduce such risks, putting 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 in the following aspects:

(1) Continued to drive the normal operation of the organisational structure of internal control set up on the basis of the COSO internal control framework 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, 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 organisational structure, staff and business flow, the staff organisation under the internal control organisational structure was promptly updated and necessary training was carried out. The Internal Control Team convenes regular internal control work meetings and reports to the Audit Committee at least twice a year in relation to the Group's internal control work plans and progress for the supervision and guidance of the Audit Committee and the Board.

(2) Possession of effective and forward-looking strategic management and operation management information 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) Continued the 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. The Internal Control Manual is updated 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 the coordination of the Internal Control Team, 276 detailed control procedures of the Internal Control Manual were amended by relevant departments during the year 2009, with such amended procedures 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) testing the reasonableness of the existing internal control mechanism, evaluating control risk, so as to provide a way to rectify any inadequacy of internal control in a timely and effective manner;

(ii) prompting the middle to senior management and personnel in key positions to review, evaluate and reinforce the implementation of internal control regarding their respective areas of duties; and

(iii) assisting the Audit Committee and the Board in assessing the effectiveness of the Group's internal control system.

(5) Independent reviews of risks associated with and internal control on key operations and financial and compliance functions are performed by the Internal Audit Department. Significant issues, if any, together with recommendations for improvement, are reported in detail to the Audit Committee or the Board.

(6) In order to ensure rapid and healthy development of the Group in terms of business diversification and internationalisation, based on the internal control foundation of the Company and assisted by an external consulting firm, risk management theory and methodology were introduced into the Company during the year 2009 on the basis of the COSO risk management framework (COSO-ERM). These efforts have put in place the initial establishment of a risk management system framework, including the preliminary establishment of a risk management organisational system for the Group on the basis of the internal control organisational system described above and the formulation of the "Risk Management Manual of Li Ning Company Limited (Trial)" for the guidance of risk management mechanism of the Company and support of risk management functions at the corporate level as well as individual division and department levels. It serves the purpose of an extension of the existing internal control to risk management regime. The various functions of the aforesaid risk management system will be gradually implemented from 2010, and it is believed that, based on the new risk management system, the existing internal control management will be more focused and efficient, thereby enhancing the overall risk management capability of the Group.

The Company pays much attention to the internal promotion on implementation of internal control and risk management. Internal control awareness was raised among the Company in various manners such as training programmes, regular briefing sessions and posters. An in-house newsletter "Internal Control Developments" (內控動態) is issued regularly to share with management staff material internal control and risk related events in the external environment, and to raise 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 the 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 concerning 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 2009, the Company made improvements to the methods and strategies for the self-assessment, which included simplifying questionnaires, completing the questionnaires on information technology platform, increasing the number of interviews and extending the self-assessment to cover more than 70 systems or departments in line with the Company's organisational restructuring and business expansion. In addition, senior management members are requested to assess the effectiveness of the internal control system against the elements outlined by the COSO internal control system, including control environment, risk assessment, information and communication, and control. Through the review process, the persons in-charge are able to verify whether the internal control system is working as intended, to identify failures or weaknesses and to take relevant remedial actions. The Internal Audit Department will also carry out independent examination and analysis on the reviewing process and results. Based on the results, the Chief Executive Officer and the Chief Financial Officer will submit a declaration to the Audit Committee and the Board, certifying the adequacy and effectiveness of the Group's internal control system.

The results of the review conducted for the year ended 31 December 2009 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. Deficiencies and weaknesses have been identified and remedial actions have either been taken or designated to be taken. No material deficiencies have been identified so far and there were no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board received also the annual review results with regard to the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting, 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 an adequate number of accounting and financial reporting staff, so as to effectively perform the accounting and financial reporting functions, and all accounting and financial reporting staff have the professional qualification and practicing experience needed for their respective functions, and there has been sufficient training 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 2009.

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 free from all restrictions, so as to disclose potential risks, and to follow up with related remedy 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 provide objective assurance to the Audit Committee and the Board that a sound internal control system is maintained and operated and that the risks associated with the achievement of business objectives are being managed properly and circumvented. The Internal Audit Department reports directly to the Chief Financial Officer and can refer matters to the Audit Committee directly. The head of the Internal Audit Department attends each and every meeting of the Audit Committee and maintains constructive dialogue with the Company's external auditor.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk level, and engages in related jobs with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular audit and evaluation of the operation effectiveness and efficiency of various business and functional systems; and (ii) special reviews in various concerned areas identified by the management and the Audit Committee based on the assessment of risks. In the year 2009, the Internal Audit Department conducted audit on various business systems of the LI-NING brand such as product, marketing, sales and supply chain management, and various functional systems including the finance system, as well as on new business areas such as Double Happiness and the badminton business division, and submitted the relevant audit reports to the Audit Committee, Chief Executive Officer and Chief Financial Officer.

For material audit discoveries and risks, the Internal Audit Department will notify the Audit Committee and the management timely of such risks, and will regularly follow up with the improvement progress. As at 31 December 2009, various audit findings and risks had been or were being properly handled by the management, and there were no material irreparable audit findings or risk points. Based on the risk assessment and the Group's strategic focus, the Internal Audit Department has planned to carry out audits focusing on brand, sales channel, supply chain, overseas business and new business in 2010.

The Internal Audit Department plays an important role in the realm of internal control and is responsible for reviewing and assessing the adequacy and compliance level of the Group's internal control system and formulating an independent and impartial opinion on the effectiveness of the system. Following the establishment of the Group's risk management system, the Internal Audit Department will also evaluate the operation efficiency of the risk management system.

Price-sensitive Information

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

During the year, the Company had reviewed 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.

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 2009.

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. During the year, certain internal procedures to regulate employees in dealing shares of the Company were reviewed and streamlined. No incident of non-compliance was noted by the Company in year 2009.

Shareholders' Rights

Under the Company's articles of association, any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board to require an extraordinary general meeting to be called by the Board for transactions of any business specified in such requisition.

The Company has adopted poll voting in its general meetings since listing before poll voting was made mandatory for all general meetings effective from 1 January 2009 under the Listing Rules. All resolutions put forward at any Shareholders' meeting are voted by poll so that each Share is entitled to one vote.

For the year 2009, there was no change made in the Company's articles of association.

Shareholders may send their enquiries which require the Board's attention to the Company's principal place of business in Hong Kong. Relevant contact information is set out on page 5 of this annual report and is also available on the Company's websites. Important Shareholders' dates are set out on page 68 of this annual report and posted on the Company's websites.

Shareholders' Meetings

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

The last annual general meeting, which was also the last Shareholders' meeting of the Company, was held on 15 May 2009. The full Board and the Company's external auditor were present at the meeting. 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 2008;
- declaration of final dividend;
- re-election of four Directors;
- re-appointment of auditor and the authorisation of the Directors to fix their remuneration;
- amendments to share option scheme adopted by the Company on 5 June 2004; and
- providing Directors with general mandates to repurchase and issue and allot shares of the Company subject to the relevant limits under the Listing Rules.

All the resolutions proposed at the last annual general meeting were approved by Shareholders. Details of the poll results were declared at the meeting and the poll results announcement made pursuant to the Listing Rules has been published on the Company's websites.

No extraordinary general meeting was held during the year. The next annual general meeting of Shareholders will be held on 14 May 2010. Details of the meeting and necessary information on issues to be considered in the meeting are set out in the circular dispatched to Shareholders together with the Company's annual report 2009.

Way Forward

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	**Chong Yik Kay**
Executive Director &	*Executive Director &*
Chief Executive Officer	*Chief Financial Officer*

Hong Kong, 17 March 2010

Directors

Executive Directors

Mr. LI Ning, aged 47, 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 20 years to the development of the Group's business, making great contribution to the development of the PRC's sports goods industry. Mr. Li holds a bachelor's degree in law from School of Law of Peking University (北京大學), an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院), a technical honorary doctorate from Loughborough University in the United Kingdom and a degree of Doctor of Humanities honoris causa of The Hong Kong Polytechnic University.

Mr. Li Ning has also been actively involved in charities via his "Li Ning Fund Association" (李寧基金會) 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 41, 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 sports goods industry in China, Mr. Zhang has accumulated 18 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 42, is the Chief Financial Officer and an executive Director. Mr. Chong joined the Group in February 2009. Mr. Chong has 18 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.

Non-executive Directors

Mr. LIM Meng Ann, aged 46, 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. Stuart SCHONBERGER, aged 51, is a non-executive Director and a member of the Audit Committee. Mr. Schonberger joined the Group in January 2003. Mr. Schonberger is a managing director of CDH Investments Management (Hong Kong) Limited, the management company for various private equity funds focused on investments in the PRC, including CDH China Fund, L.P.. Prior to joining CDH Investments Management (Hong Kong) Limited, Mr. Schonberger worked in the private equity group of China International Capital Corporation from 1998 to 2002. Prior to that, Mr. Schonberger worked for the First National Bank of Chicago in New York City. Mr. Schonberger received his M.B.A. degree from New York University's Graduate School of Business and B.A. degree from Wesleyan University. Mr. Schonberger is also currently a director of GEM Services Inc. and eBIS Company Limited.

Mr. CHU Wah Hui, aged 58, is a non-executive Director and a member of the Nomination Committee. Mr. Chu joined the Group in June 2007. Mr. Chu is currently an executive director and chief executive officer of Next Media Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. He is also a director and a nominating and corporate governance committee member of the board of Mettler-Toledo International Inc., a U.S. corporation listed on the New York Stock Exchange. Mr. Chu was 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 52, is a non-executive Director. Mr. Wei joined the Group in September 2007. Mr. Wei has been appointed as an executive board member of Beiersdorf Aktiengesellschaft, a global skin and beauty care company listed on the German Stock Exchange, with effect from 1 June 2009. 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 10 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 53, 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. and Xingda International Holdings Limited (all of which are listed on the Main Board of the Hong Kong Stock Exchange) and Richfield Group Holdings Limited (listed on the Growth Enterprise Market of the Hong Kong Stock Exchange). Mr. Koo graduated with a bachelor's degree in business administration from University of California, Berkeley in the United States and is a certified public accountant.

Ms. WANG Ya Fei, aged 54, 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 19 years of experience in management and corporate finance matters. Ms. Wang has been the director and deputy general manager of Beijing Investment Consultants Inc. since 1996. She has also been an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) since 1995. She holds a bachelor's degree in international politics from Fudan University (復旦大學) in Shanghai and was an exchange scholar in Maryland University, College Park in the United States. Ms. Wang also holds a M.B.A. degree from University of Lancaster in the United Kingdom.

Mr. CHAN Chung Bun, Bunny, aged 52, is an independent non-executive Director. Mr. Chan joined the Group in June 2004. Mr. Chan has about 30 years of experience in the garment industry and is currently the chairman of Prospectful Holdings Ltd.. Mr. Chan is active in community affairs in Hong Kong. He is currently the chairman of Kwun Tong District Council of Hong Kong and has been appointed as the chairman of the Commission on Youth of Hong Kong for a term of two years commencing 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

Group and Functional Divisions

Mr. GUO Jian Xin, aged 40, is a Vice President and Chief Operating Officer of the Group. Mr. Guo joined the Group in October 1997. Mr. Guo is primarily responsible for the overall operation management of the Group, including the sales and operation divisions of LI-NING brand. Mr. Guo has over eight years of experience in logistics and procurement management, and was the Deputy General Manager of the operation division of LI-NING brand. Mr. Guo graduated from South China Normal University (華南師範大學) majoring in mathematics, and completed the "Fly High @ HKUST Executive Diploma in Management" of the Business School of The Hong Kong University of Science and Technology in 2007.

Mr. FANG Shih Wei, aged 46, is a Vice President and Chief Marketing Officer of the Group and the General Manager of the marketing division of LI-NING brand. Mr. Fang joined the Group in June 2007. Mr. Fang is primarily responsible for the marketing and communications, public relations, sports marketing, event marketing and digital marketing of LI-NING brand. Prior to joining the Group, Mr. Fang worked in various multinational companies and has extensive experience in marketing and product management. Mr. Fang obtained a master's degree in zoology from Taiwan University in 1989 and master's degrees in both journalism and telecommunications from Ohio University in the United States in 1994.

Mr. HSU Mao Chun, Morrison, aged 45, is a Vice President and Chief Product Officer of the Group and the General Manager of the apparel products division of LI-NING brand. Mr. Hsu joined the Group in November 2007. Mr. Hsu is primarily responsible for the integration of the apparel products division and the footwear products division, and the product innovation, planning, design and development according to the brand positioning. Prior to joining the Group, Mr. Hsu worked in well-known international sports brand companies and has extensive experience in marketing and product management in Asia Pacific Region. Mr. Hsu graduated from University of California, Berkeley in the United States, with a bachelor's degree in international business marketing.

Mr. ZHANG Hui, aged 39, is a Vice President of the Group. Mr. Zhang joined the Group in November 2000. Mr. Zhang is primarily responsible for the Group's new business operation management, strategic planning and analysis system building as well as supply chain project management. Mr. Zhang holds a bachelor's degree from Financial and Banking Institute of China (中國金融學院) and a master's degree in international business management from Tsinghua University (清華大學).

Ms. DAI Qian, aged 38, is the General Manager of the human resources division. Ms. Dai joined the Group in June 1997. Ms. Dai is primarily responsible for establishing and improving the strategic human resources system, employee cultivation system, compensation and benefit system, and personnel administration and management. She has more than ten years of experience in human resources management and administration. Ms. Dai holds a bachelor's degree from Beijing University of Science and Technology (北京科技大學) and a master's degree in business management from Renmin University of China (中國人民大學).

Mr. ZHANG Jun, aged 41, is the General Manager of the information technology division. Mr. Zhang joined the Group in July 2005. Mr. Zhang is primarily responsible for strategic planning, project development, information operation and resource management of the information technology system of the Group. Prior to joining the Group, he held a management position in a reputable information technology group in the PRC. Mr. Zhang holds a bachelor's degree in communications engineering from Beijing University of Posts and Telecommunications (北京郵電大學).

Mr. DU Dao Li, aged 41, is the Financial Controller. Mr. Du joined the Group in September 1996. Mr. Du is primarily responsible for the financial management of the Group. He has over ten years of experience in accounting and financial management. Mr. Du holds a bachelor's degree in accounting from Beijing Information Science and Technology University (北京信息科技大學).

Mr. CHEN Shao Wen, aged 38, is the General Manager of the strategic development division. Mr. Chen joined the Group in July 2004. Mr. Chen is primarily responsible for the strategic planning and control as well as establishment of knowledge management system of the Group. Prior to joining the Group, Mr. Chen held management positions in several local and overseas reputable companies. Mr. Chen holds a bachelor's degree in Economics from Tongji University (同濟大學) and a master's degree in business administration from the Stuttgart Institute of Management and Technology in Germany.

LI-NING Brand

Mr. HU Nan, aged 44, is the General Manager of the sales division of LI-NING brand. Mr. Hu joined the Group in March 1993. Mr. Hu is primarily responsible for the formulation and implementation of the nationwide sales plan of LI-NING brand, overall operation management of the sales subsidiaries, overall development of sales channels as well as formulation and execution of customer development strategies. Mr. Hu has over ten years of experience in sales management. He graduated from Anhui University (安徽大學), majoring in Chinese language. He also graduated from the Department of Human Sociology of Sports of Huazhong Normal University (華中師範大學) in November 2006.

Mr. DONG Jun, aged 42, is the General Manager of the supply chain management division of LI-NING brand. Mr. Dong joined the Group in December 2002. Mr. Dong is primarily responsible for the procurement, manufacturing, quality control and logistics management of the LI-NING brand products. Prior to joining the Group, he worked in a number of local and overseas large-scale manufacturing enterprises and has over 15 years of experience in management of large-scale manufacturing enterprises and six years of enterprise resources planning counselling experience. Mr. Dong graduated from the Department of Materials of Central South University of Technology (中南工業大學) with a bachelor's degree in metallic science.

Mr. Paul Arthur ZADOFF, aged 46, is the General Manager of the footwear products division of LI-NING brand. Mr. Zadoff joined the Group in January 2010. Mr. Zadoff is primarily responsible for the planning, research and development and design of footwear products of LI-NING brand. Prior to joining the Group, Mr. Zadoff worked in a renowned international sports company and has extensive experience in multi-category products management and cross-regional business management. Mr. Zadoff graduated from University of Oregon in the United States with a bachelor's degree in history.

Other Business Units

Mr. WU Xian Yong, aged 38, is the General Manager of the Lotto brand business. Mr. Wu joined the Group in February 2004. Mr. Wu is primarily responsible for market development, product planning and design, research and development, comprehensive analysis and sales of Lotto brand products. Mr. Wu has over ten years of experience in marketing and brand management, and was the Deputy General Manager of the marketing division, Deputy General Manager of the footwear products division and Deputy General Manager of the apparel products division of LI-NING brand successively. Prior to joining the Group, he held various management positions in charge of several brands of a multi-national consumer goods company. He obtained a bachelor's degree from Xi'an Jiaotong University (西安交通大學) and a bachelor's degree in international commerce from Renmin University of China (中國人民大學).

Mr. HONG Yu Ru, aged 44, is the General Manager of the indoor sports business of LI-NING brand. Mr. Hong joined the Group in 1990. Mr. Hong is primarily responsible for the formulation of brand strategies and operation management of badminton and table tennis products of LI-NING brand. Prior to joining the Group, Mr. Hong was a professional badminton player.

Mr. Jay LI, aged 40, is the Chief Representative of the US Creativity Centre and the General Manager of Li Ning Sports USA, Inc.. Mr. Li joined the Group in December 2007. Mr. Li is primarily responsible for the establishment, operation and day-to-day affairs of the US Creativity Centre as well as the commencement of the trial operation in the United States' market. Mr. Li was the Deputy General Manager of the footwear products division of LI-NING brand. Prior to joining the Group, Mr. Li held a management consulting position in a corporate management consulting company in the United States. Mr. Li holds a bachelor's degree in arts from Middlebury College in the United States.

Mr. Elson CHANG, aged 45, is the General Manager of AIGLE brand business. Mr. Chang joined the Group in November 2007. He is responsible for the strategy formulation and operations management of AIGLE brand. Prior to joining the Group, Mr. Chang held senior management positions in the PRC subsidiaries of various multinational companies and has over ten years of experience in marketing and product promotion management. Mr. Chang graduated from National Chengchi University, Taiwan with a master's degree in marketing.

Mr. HUANG Yong Wu, aged 58, is the Chairman of Shanghai Double Happiness, which has become a non-wholly owned subsidiary of the Group since July 2008. Mr. Huang has been engaged in manufacturing of sports equipment for almost 40 years and has his unique ideas and practical experiences in management relating to the industry. Mr. Huang has experience and understanding in corporate strategic management, brand operation and product promotion strategies particularly. Mr. Huang is qualified as one of the First Batch of National Grade One Professional Managers (國家一級職業經理人) in the PRC.

Mr. LOU Shi He, aged 53, is a Director and the General Manager of Shanghai Double Happiness, which has become a non-wholly owned subsidiary of the Group since July 2008. Mr. Lou has been engaged in manufacturing of sports equipment for more than 30 years and has extensive experience in quality management, marketing, product research and development and public relations. Mr. Lou is qualified as one of the First Batch of National Grade One Professional Managers (國家一級職業經理人) in the PRC.

Anything is Possible

Inspired by sport,
motivated by consumers

Investor Relations Report

Overview

Maintaining high standards in its investor relations (IR) work has always been an important foundation of the Company's commitments. The IR department regards consistent and effective communication with all stakeholders, including Shareholders, investors and the media to maintain a high degree of transparency as its topmost priorities.

Adhering to the Group's management philosophy, and under the guidance of the management, the IR Department strives to continuously provide, in a timely manner, an open and accurate flow of information regarding the Group's long-term development strategies, competitive landscape, financial performance as well as the operating data, in order to help the public and the investment community establish a full and complete understanding of the Group's businesses.

Not only does this proactive sharing of information with the public and investors allow the Company to maintain close communication with them, it also allows the Group to collect valuable feedback, which the Company may take into account in planning its future business strategies and directions.

The Company has maintained its long-standing practice of building and nurturing good relationships with the investment community. These efforts have led to encouraging results for the Group. In 2009, the Company was delighted to be commended with the following honours:

- "200 Best Under A Billion" by *Forbes*
- "Best Managed Company (Mid-Cap) for China" by *Asiamoney*
- No. 1 in the "Most Promising Company – Retail Sector" by *The Asset* in the publication's "Triple A China's Most Promising Companies Awards 2009"
- "Galaxy Awards" by *MerComm* for the Company's Annual Report 2008
- Honours in the "Cover Photo/Design" category in ARC Awards by *MerComm* for the Company's Annual Report 2008
- "Bronze" on overall presentation – consumer products category in *the International MERCURY Awards 2009/10* for the Company's Annual Report 2008

These accolades were all presented by widely-recognised international competition organisations, with judging criteria based on contestants' overall business performance, management strategies and the transparency of IR. They are powerful endorsements to the Company's sound planning and implementation of high standards in IR principles and practices.

Comprehensive IR Programme

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

In order to keep the investment community up to date with information of the Company's activities, the Group constantly seeks new channels to interact with investors, bringing them closer to the Company's latest developments, on the top of annual and interim results presentations.

– International roadshows and investment forums:

As a customary practice, the Group's management participated in a number of international roadshows and investment forums hosted by leading financial international institutions in Asia, the United States, Europe and Australia in 2009. These events presented great opportunities for the Group's management to maintain direct dialogue with investors and explain to them the Group's latest developments.

– Ongoing communication with the investment community

The IR Department is manned by dedicated professionals who coordinate the hosting of a range of regular IR activities and proactively arrange the management to attend meetings and telephone conferences with investors and analysts, as well as store visits and investor site visits. During these activities the management addresses investors' enquiries and allowing them to establish an understanding of the Group in greater detail.

In addition, the Company initiates a wide range of investor communication events, to give timely updates to investors regarding the Group's latest developments and business operations. For example, in July 2009, after the Company issued a press release regarding the acquisition of the entire issued share capital of Kason Sports, one of the leading badminton brands, a telephone conference was hosted to allow the management to take questions from investors directly. On 19 October 2009 and 14 January 2010, telephone conferences were held to allow the Company to share with analysts the Company's performances in the third and fourth quarters at the retail and operation levels.

– Reverse roadshows and store visits

Store visits are one of the best ways to allow investors to better understand the Company's day-to-day business operations. In May 2009, the Company invited analysts to visit one of its stores in Guangzhou, from which they were briefed with first-hand details about the Company's retail operations. They were then invited to attend "2009 LI-NING Sudirman Cup" – a badminton tournament sponsored by the LI-NING brand. This Guangzhou trip allowed analysts to experience in person the Group's business operation and witness the Group's badminton strategy as it unfolded.

– Investor Opinion audit

The Company puts great value on its relationship with investors. Since being a company listed on Hong Kong Stock Exchange in 2004, the Company has conducted investor opinion audits every year to gauge in-depth investors' perceptions about the Group's businesses and development strategies and to assess the effectiveness of its communications efforts, as well as the quality of its IR activities. These audit exercises continue to provide valuable insight and guidance for the Company in its development of better business strategies.

– Media Relations

The Company considers that strong media relations constitute an integral part of its IR strategies. The IR Department has been exploiting the full use of various media channels, including news releases, press conferences and media interviews to disseminate information to the public.

Summary

During the year under review, the management has initiated to conduct more IR activities, especially participating in more roadshows and investment forums, thereby enhancing the breadth and depth communications of the public and investors. Even though the number of regular face-to-face meetings and conference-calls were not increased, the efficiency was improved.

Details of these activities are as follows:

Event type	2008	2009
Results presentations for investors and media	2 times	2 times
Roadshows	9 times (119 meetings in all)	12 times (124 meetings in all)
Investment forums	7 times (50 meetings in all)	8 times (59 meetings in all)
Investors group tours	6 times	5 times
Media interviews	3 times	3 times
Regular face-to-face meetings with investors	101 slots	92 slots
Conference-calls with investors	67 times	32 times
Visits to the Company's store	34 times	32 times
Analysts conference-call	2 times	2 times
Investor opinion audit	1 time	1 time

Corporate Websites

To ensure that Shareholders simultaneously have access to the Company's important information and to enable the disclosure of the latest information, the Company makes extensive use of its corporate websites www.lining.com, www.irasia.com/listco/hk/lining and www.li-ning.com for the dissemination of its latest information. To ensure that, the Company updates its websites regularly to allow members of the investment community and the public to access information on the Group's activities, corporate governance, management, operating and financial performance, latest business developments and share price performance. These websites constitute a platform from which the Company's announcements, interim and annual reports and other corporate communications are disseminated to all Shareholders in a timely manner.

Information for Investors

Share Information

Listing: Main Board of Hong Kong Stock Exchange on 28 June 2004
Stock code: 2331
Board lot: 500 Shares
Number of Shares in issue as at 31 December 2009: 1,047,445,501
Market capitalisation as at 31 December 2009: approximately HK$30,899,642,000

Dividends for 2009

Interim dividend: RMB13.58 cents per Share
Proposed final dividend: RMB22.54 cents per Share

Financial Calendar

Announcement of interim results: 26 August 2009
Announcement of annual results: 17 March 2010
Closure of register of members*: 13 May 2010 – 14 May 2010
Dividend Entitlements Record date*: 14 May 2010
Annual general meeting: 14 May 2010
Payment date of final dividend: on or about 24 May 2010

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

IR Contact

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

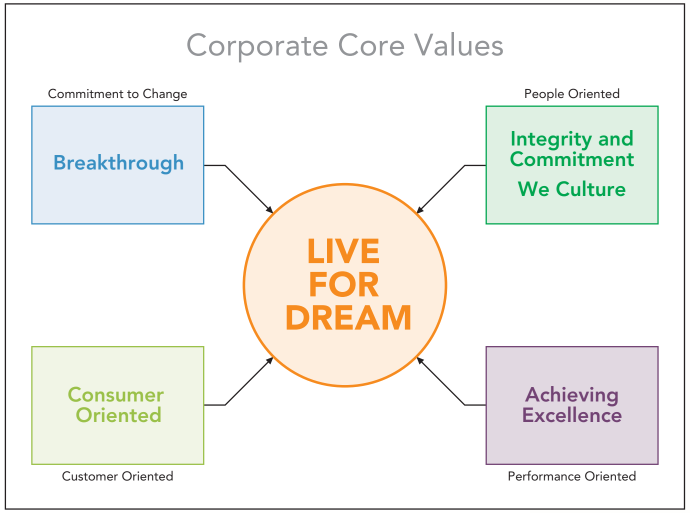
As a responsible corporate citizen, while striving to maximise return for Shareholders, the Company is also committed to its social responsibilities. We uphold the principle of sustainable development and endeavour to make contributions to the society.

Employees

In order to attract outstanding, ambitious and professional people, both in China and from overseas, the Group is committed to being a trustworthy employer and providing fulfilment to its employees in pursuit of their career development. The Group places great emphasis on the well-being, skills building and career development of its employees. The Group constantly strives to enhance its employees' solidarity, to create a greater sense of belonging and to improve their individual abilities with a view to achieve the mutual growth of the Group and its employees.

Corporate Culture

The "heartfelt" corporate culture of the Group is forged to enhance team cohesion, where core values of "Live for Dream; Integrity and Commitment; We Culture; Achieving Excellence; Consumer Oriented and Breakthrough" are all promoted. The Group fosters communications between the staff and the management and



advocates its corporate culture and values through various platforms, including the intranet, internal publications, and senior management e-magazines. Meanwhile, the Group adopts cross-team training to foster better team-building and culture experience across its business units and functions.

For the well-being of its employees, the Group advocates athleticism and encourages participation in sports. Through sports, the Group hopes to enhance cohesion within the entire organisation. At the "Li Ning Centre", the Company's headquarters in Beijing covering more than 50,000 square metres, gymnasiums for swimming, basketball, badminton and tennis, as well as an outdoor football field are open for employees, with dedicated coaches to assist them to cultivate their sportsmanship and skills. Funded and supported by the Group, 11 sports clubs for employees are in operation, various internal and public sports activities such as sports games, badminton/basketball/tennis tournaments, Sports Day, Beijing Marathon and football league matches for foreign-invested enterprises in Beijing are held ardently. These sports activities allow employees to understand and appreciate the Group's corporate values and experience its professional sports products. The Group's unique sport culture, which contributes to the well-being of employees and team cohesion, has become an important element for attracting talent. During the year, a library in the "Li Ning Centre" was also opened to provide employees with access to books and magazines or as an environment for communication.

Employee Development

The Group places great importance on skills nurturing and career development of its employees. By building a comprehensive training framework, the Group endeavours to enhance the leadership of management staff and the professional capabilities of key employees. A consistent leadership and professional study programme has also been developed after improving both the lecturing and training management system.

To enhance the leadership skills of management staff, over 90% of them have completed the leadership training programmes and courses. Moreover, the Group actively promotes the application of the Key Development Indicator (KDI), whereby the management staff are encouraged to help advance the potential of their key subordinates, so as to promote the development of the staff and enhance teamwork, with the long-term aim of developing sustainable development in the Group's human resources and competitive edge.

With respect to professional expertise, the Group completed the knowledge, capability and study outline of the Group's core functions including products, markets, sales and retailing, and designed and implemented the core positions and professional capabilities training camps. In 2009, the implementation of training camps by the Group, including retail operation fundamentals, design, integrated marketing, and "Road to Career Top for Staff with Outstanding Professional Expertise" improved the professional capabilities of core employees.

Humanistic Care

The Group also places emphasis on humanistic care. In addition to the timely contribution to social insurance under the state regulations, the Group also provides supplementary commercial medical insurance for its employees. Benefits such as free health check-ups and incentive trips for outperforming employees, measures to ensure healthy and comfortable working conditions and the implementation of the Employee Assistance Programme, are provided to help employees cope with pressure in a positive manner. Furthermore, the Group also organises Open Days regularly as a platform to allow communication between the staff and the management in order to address employees' concerns timely and efficiently. Recognising that the family provides solid foundation for employees to work comfortably and diligently, the Group extends its care to employees' families. Besides the supplementary commercial medical insurance, which covers employees' lineal relatives, it is also the Group's tradition to organise celebratory activities and to distribute gifts at important festivals such as Christmas and International Children's Day. The Group expresses its care in great detail, which in return enhances the employees' sense of belonging and identity with the Group.

Community

The Group always accords great importance to integrating its corporate social responsibilities into the sports industry to achieve a long-term effect. While maintaining an ongoing development on its own business, the Group is also actively committed to its responsibilities and obligations as a corporate citizen. In 2009, the Company further increased its investment in corporate social responsibilities along with its continued business growth and brand internationalisation.

- **Publishing the Report on Corporate Social Responsibilities**
  In March 2009, the Group published its Report on Corporate Social Responsibilities in collaboration with the Public Relations Institute of Renmin University of China (中國人民大學). Covering ongoing dialogue between the Group and its stakeholders in recent years, the report showcased the Group's commitment to, and continuous concern about, social responsibilities in various aspects such as the Company's financial conditions, public welfare, achievements in the Olympics and the value chain, demonstrating the Group's responsible attitude as a corporate citizen towards social responsibilities as well as the Group's confidence in sharpening its core competitiveness, promoting harmonious marketing and reinforcing its competitive advantages through practicing corporate social responsibilities.

- **Continuous investment in the "Let's Do Sports Together" (一起運動) campaign to promote physical education in impoverished regions**
  The Group continued to invest in the "Let's Do Sports Together" (一起運動) campaign, a welfare programme launched together with the State Council Leading Group Office of Poverty Alleviation and Development (國務院扶貧開發領導小組辦公室) to provide public training programmes for physical education teachers in impoverished regions. During the year, under the Group's leadership and assistance, 400 physical education teachers from Huangzhong county of Qinghai, Kulunqi, Tongliao of Inner Mongolia and Xingzi county of Jiangxi received free training which improved their professional teaching abilities.

  At the end of 2009, the "Let's Do Sports Together" (一起運動) campaign has been in operation for four years and has benefited various counties in Heilongjiang, Inner Mongolia, Shanxi, Shaanxi, Qinghai, Jiangsu, Sichuan, Yunnan and Guangxi, etc., which cover more than half of China and have been designated as key areas for state-level poverty alleviation and development. Over 1,400 people in total have participated in the training. During the year, the Group also joined efforts with the China Foundation for Poverty Alleviation (中國扶貧基金會) to promote the "Let's Do Sports Together" (一起運動) campaign and received great support and donations.

- **Attention to world poverty in cooperation with The United Nations World Food Programme**
  In 2009, the Group, together with The United Nations World Food Programme (WFP), hosted a photo exhibition in the core region of Beijing and published public appeal advertisements to call for social attention to the livelihood of underdeveloped regions and to appeal for joint efforts to fight against hunger and poverty.

In October 2009, Mr. Li Ning, the Chairman of the Company, was appointed as China's first "WFP Goodwill Ambassador against Hunger" and visited Bengal at the end of the year. The philanthropic acts of the founder and leader of the Company, while reflecting corporate social responsibilities of the Company, establishes a benchmark for the Group's public interest values as well as demonstrating the Group's vision in actively engaging in public welfare across the globe.

- Building up public welfare image through celebrity charity activities

  The numerous athletes sponsored by the Group also act as ambassadors in publicising corporate social responsibilities and delivering the message about the Group's continuous support to public welfare and environmental activities. The Group's positive corporate image has been widely recognised and publicised through the influence of the celebrities.

  In July 2009, Baron Davis, a NBA star sponsored by the Group, visited Beijing Guan Ai School (北京光愛學校) to share his inspiring story on how he managed to overcome challenges and fight to the top with 105 homeless children adopted by the school, encouraging them to live for their dreams. Baron Davis made the decision on site to build a basketball court for the school, with the hope that the children will grow happily with sports and build their confidence and courage to confront difficult times.

  In September 2009, after visiting the exhibition halls, Elena Isinbayeva, the Russian promotion ambassador for the Shanghai World Expo and an athlete sponsored by the Group, took a bus ride to personally experience the environment-friendly concept of a "low-carbon" World Expo. Her actions in promoting green transit in "Public Transportation Week" (公共交通周) have received positive response from the public and the Internet community.

  During the China Open Badminton Championship in December 2009, the Chinese National Badminton Team sponsored by the Group and the China Foundation for Poverty Alleviation (中國扶貧基金會) jointly initiated the "Love Badminton Racket Programme" (愛心球拍圓夢計劃). The programme invites donations of badminton rackets from the community to children in mountain areas to bring them the joy of sports. The Group donated 2,000 rackets for the programme.

- Rollout of Eco-circle environmentally-friendly technological project

  The Group actively capitalised on its industry competitive edge to align with the global issue of environmental protection. On 20 September 2009, which was the day of the "Clean Up the World Weekend", the "Dress Eco-circle" Chinese City Forum was held in Beijing. The forum was a collaboration of the Group with renowned environmental organisations, including Jane Goodall. During the forum, new products of LI-NING branded Eco-circle environmentally-friendly apparel series were launched. The Group published the "Dress Eco-circle" Chinese City Survey Report on public dressing habits in four representative cities of China, calling for more social attention to carbon emission derived from clothing.

  The concepts "Dress Eco-circle" and "Low-carbon Apparel" raised by LI-NING brand and the environmentally-friendly apparels under the Eco-circle series drew extensive public attention. The Group's awareness of social responsibility and the spirit of humanity as demonstrated in the event further enhanced the reputation of the LI-NING brand and the Group's image as a responsible corporate citizen.

As a conscientious tax payer and contributor to society, the Group fulfils good business ethics and maintains sound longstanding relationships with business partners, aiming to create growth opportunities in a balanced and win-win approach. "The Basic Social Responsibility Requirements for Suppliers of Li Ning Company" (《李寧公司供應商社會責任基準要求》) sets out the requirements for suppliers in performing their social responsibilities in respect of labour, safety and environmental protection, which are used by the Group as one of the criteria in identifying new suppliers and assessing the existing suppliers. Moreover, with "Consumer Oriented" being one of its core values, the Group strives to guarantee product quality and safety. Over 8,000 stock keeping units (SKUs) are created in the research and development centres in the United States, Hong Kong and Beijing each year, and are offered to consumers through more than 7,000 outlets.

Enterprises are a part of the community and both the natural and the social environment are indispensable to enterprises. While creating commercial value, the Group keeps a close eye on the harmonious coexistence of itself with the nature and the society in pursuit of sustainable development.

Recognition

The Group's excellence in performing its corporate social responsibilities has been widely recognised:

- In January 2009, the Company's Chairman, Mr. Li Ning was named the "2008 CCTV Businessman of the Year" (2008年CCTV中國經濟年度人物). The criteria of the award which were based on the principles of "responsibility, exploration, vision and cohesion" went beyond the realm of "business". As the concept of "responsibility" is labelled with paramount importance, the award is designed for entrepreneurs who possess a strong sense of social responsibility, a historical perspective and a vision enabling them to take a leading role in the development of China's economy. The high degree of social responsibility awareness of the Company's founder and leader influences the corporate values of the Group and helps to root the corporate values at every level of the Group's corporate culture, bringing profound and long-lasting positive impact to the Group.

- In August 2009, LI-NING brand was one of the award-winning brands in the "60th Anniversary of the Founding of the PRC – 60 Brands Promoting China's Economy and with Impact on People's Lives" (新中國成立60周年－推動中國經濟•影響民眾生活的60個品牌) survey hosted by CCTV.

- In September 2009, the first "Strategic Execution in China" (戰略執行在中國) summit forum and award ceremony were hosted by AMT, a renowned management and information technology planning consultant in China in conjunction with commercial media, including *Harvard Business Review* and *CEIBS Business Review*. The conference was designed to investigate and assess around 100 Chinese enterprises. The cases submitted by the Group were awarded with three prizes in knowledge management, namely "Knowledge Management in China – Best Practice Enterprise/Organisation", "Knowledge Management in China – Foresight Leaders" and "Knowledge Management in China – Professional Contribution".

- In October 2009, the Company was again honoured "Employer of China 2009 – Best Companies to Work For" (2009卓越僱主－中國最適宜工作的公司) by Watson Wyatt and *Fortune* (Chinese version).

- In December 2009, the Company and LI-NING brand were respectively named the "Best 50 Workplaces" (50佳第一工作場所) and "The Most Favourite Brand by University Students" (大學生至愛品牌) by *Careers Magazine* in collaboration with professional human resources consulting firms. The criteria of the awards included leadership, career development, teamwork, working environment and atmosphere, as well as employee compensation and benefits. The awards reflect the popularity of the LI-NING brand among university students, the acknowledgment of consumers and the recognition in the human resource industry for the Company's human-oriented approach and social responsibility awareness.

- In December 2009, the Company was awarded "The Most Respectable Enterprise in China" (中國最受尊敬企業) for the third time by the Management Cases Research Centre of Peking University (北京大學管理案例研究中心) and *Economic Observer* (《經濟觀察報》). The criteria of the award were based on all-rounded accomplishments in social responsibilities, corporate image and technology. The Company was the only award-winner from the sporting goods industry.

Spurred by the recognitions from the society, the Company will continue to be more introspective, aiming to return to the public and contribute to harmonious and sustainable social development while securing steady and healthy growth. The Company is firmly committed to incorporating social responsibilities into its multi-level accountability framework for shareholders, employees, consumers, government, community and the environment.

Anything is Possible

Gaining new ground through

foresight and professionalism

The Directors submit their report together with the audited financial statements for the year ended 31 December 2009.

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.

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

The Group has acquired the entire issued share capital of Kason Sports, which together with its subsidiary are principally engaged in the research and development, manufacture and sale of badminton equipment under the Kason brand.

Subsidiaries and Jointly Controlled Entities

Particulars of the Company's subsidiaries and its interest in jointly controlled entities as at 31 December 2009 are set out in notes 10 and 11, respectively, to the consolidated financial statements.

Results and Dividends

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 99 of this annual report.

The Company paid an interim dividend of RMB13.58 cents per Share on 25 September 2009 (2008: an interim dividend of RMB9.63 cents per Share and a special dividend of RMB28.90 cents per Share).

The Board has recommended the payment of a final dividend of RMB22.54 cents per Share in respect of the year ended 31 December 2009 (2008: RMB11.14 cents per Share). The final dividend will be paid in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 14 May 2010, being the date of the annual general meeting ("AGM") on which the final dividend is proposed to the Shareholders for approval. Subject to approval of Shareholders at the AGM, the final dividend will be paid on or about 24 May 2010 to Shareholders whose names appear on the register of members of the Company on 14 May 2010. For the purpose of determination of entitlement to the final dividend and to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 13 May 2010 to Friday, 14 May 2010 (both days inclusive), during which period no transfer of Shares will be registered. In order to qualify for the final dividend and be entitled to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 12 May 2010.

Reserves

As at 31 December 2009, distributable reserves of the Company amounted to RMB677,936,000 (2008: RMB265,623,000). Details of movements in reserves of the Group during the year are set out in notes 15 and 16 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	
	2009 % of total revenue	2008 % of total revenue
The largest customer	5.5	5.9
Five largest customers	23.3	22.1
	% of total purchases	% of total purchases
The largest supplier	10.0	12.4
Five largest suppliers	31.0	37.4

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 2009 amounted to RMB259,970,000 (2008: RMB607,480,000). Particulars of the borrowings are set out in note 20 to the consolidated financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to RMB2,874,000 (2008: RMB5,036,000).

Property, Plant and Equipment

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

Ordinary Shares

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

Five-year Financial Highlights

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

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	*(re-elected on 15 May 2009)*
Mr. Chong Yik Kay	*(appointed with effect from 9 February 2009 and re-elected on 15 May 2009)*

Non-executive Directors

Mr. Lim Meng Ann	*(re-elected on 15 May 2009)*
Mr. Stuart Schonberger	
Mr. Chu Wah Hui	
Mr. James Chun-Hsien Wei	

Independent non-executive Directors

Mr. Koo Fook Sun, Louis	
Ms. Wang Ya Fei	*(re-elected on 15 May 2009)*
Mr. Chan Chung Bun, Bunny	

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. Li Ning, Mr. Koo Fook Sun, Louis and Mr. Chan Chung Bun, Bunny shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the AGM.

Biographies of Directors and Senior Management

Biographies of Directors and senior management of the Group are set out on pages 59 to 63 of this annual report.

Directors' Service Contracts

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

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.

None of the abovementioned pension schemes 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 2009 were RMB42,309,000 (2008: RMB32,101,000).

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 2009 are set out in note 31 to the consolidated financial statements.

Pre-IPO Share Option Scheme

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

Details of movements of the options granted under the Pre-IPO Share Option Scheme for the year ended 31 December 2009 are as follows:

	Date of grant	Exercise price per Share HK$	Number of Shares issuable under the options as at 01/01/2009	exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2009	Exercise period (Note 3)
Executive Director								
Zhang Zhi Yong	05/06/2004	1.8275	1,160,000	(1,160,000) (Note 1)	–	–	–	28/06/2005 – 05/06/2010
Employees of the Group								
In aggregate	05/06/2004	1.8275	2,655,667	(1,792,667) (Note 2)	–	–	863,000	28/06/2005 – 05/06/2010
			3,815,667	(2,952,667)	–	–	863,000	

Notes:

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$24.99.

2. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$20.80.

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

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.

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 57,704,002 Shares, representing approximately 5.5% of the issued share capital of the Company as at the date of this report. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be notified by the Board, which must not be more than ten years from the date of grant. Any Share allotted and issued on the exercise of options will rank pari passu with other shares of the Company in issue on the date of allotment.

By an ordinary resolution passed by the Shareholders at the annual general meeting 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.

Details of movements of the options granted under the Post-IPO Share Option Scheme for the year ended 31 December 2009 are as follows:

	Date of grant	Exercise price per Share HK$	Number of Shares issuable under the options: as at 01/01/2009	granted during the year	exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2009	Exercise period (Note 9)
Executive Directors									
Zhang Zhi Yong	04/07/2005	3.685	730,000	–	–	–	–	730,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	208,000	–	–	–	–	208,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	121,600	–	–	–	–	121,600	04/07/2009 – 04/07/2014
	19/01/2009	11.37	–	4,519,400 (Note 1)	–	–	–	4,519,400	19/01/2010 – 19/01/2015
Chong Yik Kay	01/04/2009	13.18	–	688,500 (Note 2)	–	–	–	688,500	01/04/2010 – 01/04/2015
Non-executive Directors									
Lim Meng Ann	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	–	263,400 (Note 1)	–	–	–	263,400	19/01/2010 – 19/01/2015
Stuart Schonberger	04/07/2005	3.685	246,000	–	–	–	–	246,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	90,000	–	–	–	–	90,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	–	263,400 (Note 1)	–	–	–	263,400	19/01/2010 – 19/01/2015
Chu Wah Hui	04/07/2008	17.22	51,400	–	(17,133) (Note 4)	–	–	34,267	04/07/2010 – 04/07/2014
	19/01/2009	11.37	–	263,400 (Note 1)	–	–	–	263,400	19/01/2010 – 19/01/2015
James Chun-Hsien Wei	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	–	263,400 (Note 1)	–	–	–	263,400	19/01/2010 – 19/01/2015

	Date of grant	Exercise price per Share HK$	Number of Shares issuable under the options as at 01/01/2009	granted during the year	exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2009	Exercise period (Note 9)
Independent non-executive Directors									
Koo Fook Sun, Louis	04/07/2005	3.685	82,000	–	–	–	–	82,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	60,000	–	–	–	–	60,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	–	263,400 (Note 1)	–	–	–	263,400	19/01/2010 – 19/01/2015
Wang Ya Fei	04/07/2005	3.685	164,000	–	–	–	–	164,000	04/07/2006 – 04/07/2011
	04/09/2006	8.83	90,000	–	–	–	–	90,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	–	263,400 (Note 1)	–	–	–	263,400	19/01/2010 – 19/01/2015
Chan Chung Bun, Bunny	04/09/2006	8.83	90,000	–	–	–	–	90,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	–	263,400 (Note 1)	–	–	–	263,400	19/01/2010 – 19/01/2015
Employees of the Group									
In aggregate	04/07/2005	3.685	5,600,537	–	(2,558,535) (Note 5)	(334)	–	3,041,668	04/07/2006 – 04/07/2011
In aggregate	03/01/2006	5.50	140,000	–	(126,500) (Note 6)	–	–	13,500	03/01/2007 – 03/01/2012
In aggregate	04/09/2006	8.83	1,398,496	–	(544,165) (Note 7)	(4,835)	–	849,496	04/09/2007 – 04/09/2012
In aggregate	04/07/2008	17.22	2,646,700	–	(325,368) (Note 8)	(71,699)	–	2,249,633	04/07/2009 – 04/07/2014
In aggregate	05/12/2008	10.94	156,700	–	–	(23,500)	–	133,200	05/12/2009 – 05/12/2014
In aggregate	19/01/2009	11.37	–	7,749,000 (Note 1)	–	–	–	7,749,000	19/01/2010 – 19/01/2015
In aggregate	22/10/2009	21.87	–	5,071,600 (Note 3)	–	–	–	5,071,600	(Note 10)
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 (Note 3)	–	–	–	300,000	(Note 10)
			13,133,833	20,172,300	(3,571,701)	(100,368)	–	29,634,064	

Notes:

1. The closing price per Share immediately before the date of grant is HK$11.56.

2. The closing price per Share immediately before the date of grant is HK$12.80.

3. The closing price per Share immediately before the date of grant is HK$21.75.

4. The closing price per Share immediately before the date of exercise of the option is HK$25.60.

5. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$19.85.

6. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$18.10.

7. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$22.22.

8. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$24.18.

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

10. 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 2009 under the Post-IPO Share Option Scheme is set out in note 31 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 of the Company as at the Adoption Date (i.e., 20,555,900 Shares). Apart from the expenses incurred by the trustee attributable or payable in connection with the vesting of the Restricted Shares which shall be borne by the selected participants, vested shares shall be transferred at no cost to the selected participants.

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 2009, 6,000 Restricted Shares were granted to an eligible participant pursuant to the Restricted Share Award Scheme. The total payout, including related expenses, amounted to RMB115,000. 1,749,301 Restricted Shares were vested and 83,609 Restricted Shares lapsed during the year. As at 31 December 2009, the number of Restricted Shares granted under the scheme, except for those lapsed, amounted to 5,296,010 Shares, representing approximately 0.5% of the issued shares of the Company as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2009 are as follows:

		Number of Restricted Shares					
Date of grant	Fair value per Restricted Share (Note) HK$	as at 01/01/2009	granted during the year	vested during the year	lapsed during the year	as at 31/12/2009	Vesting period
22/09/2006	9.01	210,496	–	(208,328)	(2,168)	–	22/09/2007 – 22/09/2009
08/05/2007	15.32	6,667	–	(3,333)	–	3,334	08/05/2008 – 08/05/2010
02/07/2007	18.96	687,719	–	(338,883)	(13,904)	334,932	02/07/2008 – 02/07/2010
16/07/2007	19.90	12,000	–	(6,000)	–	6,000	16/07/2008 – 16/07/2010
29/08/2007	20.85	44,000	–	(22,000)	–	22,000	29/08/2008 – 29/08/2010
07/12/2007	26.75	666,667	–	(333,333)	–	333,334	07/12/2008 – 07/12/2010
06/03/2008	23.90	8,000	–	(2,666)	–	5,334	06/03/2009 – 06/03/2011
04/07/2008	16.70	2,530,300	–	(828,091)	(67,537)	1,634,672	04/07/2009 – 04/07/2011
16/12/2008	11.30	20,000	–	(6,667)	–	13,333	16/12/2009 – 16/12/2011
22/10/2009	21.55	–	6,000	–	–	6,000	01/07/2010 – 22/10/2012
		4,185,849	6,000	(1,749,301)	(83,609)	2,358,939	

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.

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

As at 31 December 2009, 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	326,906,084 (Long position)	1	Interests of controlled corporations	31.210
	1,724,234 (Short position)	1(c)	Interests of controlled corporation	0.165
Zhang Zhi Yong	11,338,400 (Long position)	2	Personal, interest of controlled corporation	1.082
Chong Yik Kay	688,500 (Long position)	3	Personal	0.066
Lim Meng Ann	417,100 (Long position)	4	Personal	0.040
Stuart Schonberger	721,100 (Long position)	5	Personal	0.069
Chu Wah Hui	398,100 (Long position)	6	Personal, family	0.038
James Chun-Hsien Wei	349,100 (Long position)	7	Personal	0.033
Koo Fook Sun, Louis	605,100 (Long position)	8	Personal	0.058
Wang Ya Fei	605,100 (Long position)	9	Personal	0.058
Chan Chung Bun, Bunny	441,100 (Long position)	10	Personal	0.042

* The percentage has been calculated based on 1,047,445,501 Shares in issue as at 31 December 2009.

Notes:

1. Mr. Li Ning is deemed to be interested in an aggregate of 326,906,084 Shares held by Victory Mind Assets Limited ("Victory Mind"), Dragon City Management (PTC) Limited ("Dragon City") and Alpha Talent, respectively, as follows:

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

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

   (c) 3,532,084 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 3,532,084 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 1,724,234 Shares, among the total of 3,532,084 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 2009, 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 31,717,916 Shares have been exercised. The total number of outstanding options as at 31 December 2009 is 1,724,234 Shares.

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

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

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

4. Mr. Lim Meng Ann is interested in 62,100 Shares and is taken to be interested as a grantee of options to subscribe for 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Lim is also taken to be interested as a grantee of 40,200 restricted shares granted under the Restricted Share Award Scheme.

5. Mr. Stuart Schonberger is interested in 52,100 Shares and is taken to be interested as a grantee of options to subscribe for 246,000 Shares at an exercise price of HK$3.685 per Share, 90,000 Shares at an exercise price of HK$8.83 per Share, 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Schonberger is also taken to be interested as a grantee of 18,200 restricted shares granted under the Restricted Share Award Scheme.

6. Mr. Chu Wah Hui is interested in 88,233 Shares, among which 43,233 Shares are held as personal interest and 45,000 Shares are held as family interest. Mr. Chu is also taken to be interested as a grantee of options to subscribe for 34,267 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Chu is also taken to be interested as a grantee of 12,200 restricted shares granted under the Restricted Share Award Scheme.

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

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

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

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

Save as disclosed above, so far as was known to any Director, as at 31 December 2009, 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 2009, 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	326,906,084 (Long position)	1	Interest of controlled corporations	31.210
	1,724,234 (Short position)	2	Interest of controlled corporation	0.165
Li Chun	323,374,000 (Long position)	3	Interest of controlled corporations	30.873
Victory Mind Assets Limited	173,374,000 (Long position)	4	Beneficial owner	16.552
Ace Leader Holdings Limited	173,374,000 (Long position)	5	Interest of controlled corporation	16.552
Jumbo Top Group Limited	173,374,000 (Long position)	6	Interest of controlled corporation	16.552
Equity Trust Company (Cayman) Ltd.	173,374,000 (Long position)	7	Trustee	16.552
Dragon City Management (PTC) Limited	150,000,000 (Long position)	8	Trustee	14.321
Cititrust (Cayman) Limited	150,000,000 (Long position)	9	Trustee	14.321
JPMorgan Chase & Co.	115,243,114 (Long position)	10	Beneficial owner, investment manager, custodian corporation/approved lending agent	11.002
	941,000 (Short position)		Beneficial owner	0.090
	36,017,614 (Lending pool)		Custodian corporation/approved lending agent	3.439
FIL Limited	82,947,000 (Long position)		Investment manager	7.919
Commonwealth Bank of Australia	63,141,500 (Long position)	11	Interest of controlled corporations	6.028
Government of Singapore Investment Corporation Pte. Ltd.	61,045,502 (Long position)	12	Investment manager, interest of controlled corporation	5.828
Minister of Finance (Incorporated)	61,045,502 (Long position)	12	Interest of controlled corporation	5.828

* The percentage has been calculated based on 1,047,445,501 shares in issue as at 31 December 2009.

Notes:

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

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

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

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

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

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

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

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

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

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

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

10. Amongst the total of 115,243,114 Shares held by JPMorgan Chase & Co., 1,995,000 Shares were held as beneficial owner, 77,230,500 Shares were held as investment manager and 36,017,614 Shares were held as custodian corporation/approved lending agent.

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

12. Amongst the total of 61,045,502 Shares, Government of Singapore Investment Corporation Pte. Ltd. is interested in 7,260,502 Shares as investment manager and is deemed to be interested in the 53,785,000 Shares held by Tetrad Ventures Pte. Ltd. Tetrad Ventures Pte. Ltd. is an investment vehicle managed by GIC Special Investment Pte. Ltd., the private equity investment arm of Government of Singapore Investment Corporation Pte. Ltd.. Minister of Finance (Incorporated) as the 100% owner of Government of Singapore Investment Corporation Pte. Ltd. is deemed to be interested in the 61,045,502 Shares.

Save as disclosed above, as at 31 December 2009, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the shares and underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

Connected Transactions and Continuing Connected Transactions

For the year ended 31 December 2009, Shanghai Double Happiness had the following transactions which constituted connected transactions or continuing connected transactions under the Listing Rules. The Company has complied with the relevant disclosure requirements in respect of such connected transactions and continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

Connected Transactions

Guarantee for a Banking Facility

On 22 July 2008, Shanghai Double Happiness, as guarantor, provided a guarantee (the "Guarantee") for the benefit of 上海實業馬利畫材有限公司 (Shanghai SIIC Marie Painting Materials Co., Ltd.) ("Ma Li") in respect of Ma Li's obligations as borrower under a banking facility of RMB5,400,000 in principal. Details of the Guarantee are set out in the Company's announcement dated 13 March 2009. The term of the banking facility was expired on 22 July 2009 and Shanghai Double Happiness terminated the Guarantee subsequently in year 2009.

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

The Guarantee also constituted a related-party transaction which is set out in note 34(f) to the consolidated financial statements.

Acquisition of Equity Interest in an Indirect Non Wholly-owned Subsidiary

On 5 November 2009, Shanghai Double Happiness entered into an equity transfer agreement (the "Equity Transfer Agreement") with 吳江道勃爾體育用品有限公司 (Wujiang Daoboer Sports Equipment Co., Ltd.) ("Daoboer"), a limited liability company established in the PRC, pursuant to which Shanghai Double Happiness agreed to acquire and Daoboer agreed to sell 20% equity interest in 蘇州紅雙喜冠都體育用品有限公司 (Suzhou Double Happiness Guan Du Sports Goods Co., Ltd.) ("Suzhou DHS") for a consideration of RMB6,420,000 (the "Acquisition"). Suzhou DHS is an indirect non wholly-owned subsidiary of the Company. Prior to the Acquisition, Shanghai Double Happiness and Daoboer were interested in 55% and 45% of the equity interest in Suzhou DHS, respectively. The Acquisition was completed in 2009 and since then, Shanghai Double Happiness and Daoboer have become interested in 75% and 25% of the equity interest in Suzhou DHS, respectively.

Daoboer is a substantial shareholder of Suzhou DHS and thus a connected person of the Company under the Listing Rules. Since the applicable percentage ratios in respect of the Acquisition exceeded 0.1% but were less than 2.5%, the Acquisition constituted a connected transaction under Rule 14A.32(1) of the Listing Rules and was subject to the reporting and announcement requirements but was exempt from independent shareholders' approval requirement under the Listing Rules.

Suzhou DHS is principally engaged in the manufacture of table tennis equipment and related sporting goods and is the major manufacture base of the table tennis equipment of Double Happiness brand. In light of the growing production role of Suzhou DHS to Double Happiness brand, it is in the interest of the Shareholders as a whole for Shanghai Double Happiness to increase its equity interest in Suzhou DHS.

Pursuant to the articles of association of Suzhou DHS amended and approved by Shanghai Double Happiness and Daoboer as a result of the entering into the Equity Transfer Agreement, Shanghai Double Happiness and Daoboer have made capital injection into Suzhou DHS by way of cash in the amount of RMB4,082,000 and RMB1,360,000, respectively, thereby increasing the total registered capital of Suzhou DHS from RMB9,558,000 to RMB15,000,000. The capital injections into Suzhou DHS made by Shanghai Double

Happiness and Daoboer are for the expansion of production capacity of Suzhou DHS and in proportion to the equity interest in Suzhou DHS after completion of the Equity Transfer Agreement. As such, the capital injection made by Daoboer was exempt from the announcement, reporting and independent shareholders' approval requirement under the Listing Rules.

The Directors (including the independent non-executive Directors) consider the terms of the Equity Transfer Agreement to be on normal commercial terms, fair and reasonable, and in the interests of the Shareholders as a whole.

Continuing Connected Transactions

Sale Transactions

During the year, Shanghai Double Happiness entered into the following sale transactions (the "Sale Transactions") with 上海華興體育器材有限公司 (Shanghai Hwa Hing Sport Product Co., Ltd.) ("Hwa Hing") and 上海雙喜日卓乒乓器材有限公司 (Shanghai Double Happiness Nittaku Table Tennis Equipment Co., Ltd.) ("Nittaku"):

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

(2) provision of finished table tennis equipments by Shanghai Double Happiness to Nittaku.

Purchase Transactions

During the year, Shanghai Double Happiness entered into the following purchase transactions (the "Purchase Transactions") with Hwa Hing and DHSG:

(1) provision of finished table tennis rackets by Hwa Hing to Shanghai Double Happiness; and

(2) provision of badminton equipment by DHSG to Shanghai Double Happiness.

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

(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 will expire on 31 December 2011, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to continuing connected transactions are complied with.

Annual caps have been set for the Sale Transactions and the Purchase Transactions for the three financial years ending 31 December 2011. As the applicable percentage ratios for the annual caps for the three financial years ending 31 December 2011 in respect of each of the Sale Transactions and the Purchase Transactions 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. 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 2009, 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 2009 as set out below:

	Amount for the year ended 31 December 2009 (RMB'000)	Annual Cap for the year ended 31 December 2009 (RMB'000)
Sale Transactions		
1. provision of raw materials and semi-finished table tennis rackets by Shanghai Double Happiness to Hwa Hing	3,780	4,800
2. provision of finished table tennis equipments by Shanghai Double Happiness to Nittaku	2,613	3,600
Purchase Transactions		
1. provision of finished table tennis rackets by Hwa Hing to Shanghai Double Happiness	9,734	12,000
2. provision of badminton equipment by DHSG to Shanghai Double Happiness*	17,284	20,000

* Starting from 1 July 2009, Shanghai Double Happiness had ceased purchasing badminton equipment from DHSG.

The Sale Transactions and the Purchase Transactions also constituted related-party transactions which, among other transactions, are set out in notes 34(a) and 34(b) to the consolidated financial statements, respectively.

Annual Review

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

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms; and

(3) 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, has performed certain agreed-upon procedures in respect of the above continuing connected transactions and reported their findings to the Board that the transactions:

(1) have been approved by the Board;

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

(3) have not exceeded the annual caps disclosed in the announcement of the Company dated 13 March 2009.

Other Related-party Transactions

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

Details of other related-party transactions entered into by the Group during the year ended 31 December 2009, which did not constitute connected transactions under Chapter 14A of the Listing Rules are set out in notes 34(d) and 34(e) to the consolidated financial statements.

Changes in Directors' Information

The changes in information on Directors since the date of the interim report of the Company for the six months ended 30 June 2009, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below.

Upon review and recommendation of the Remuneration Committee, the Board has approved the increase of service fee payable to non-executive Directors and independent non-executive Directors under their respective service contracts with the Company with effect from 1 January 2009 as follows:

1. the annual service fee payable to each non-executive Director or independent non-executive Director who also acts as the chairman of the Audit Committee or Remuneration Committee or Nomination Committee has been increased from HK$250,000 to RMB270,000; and

2. the annual service fee payable to each of the other non-executive Directors and independent non-executive Directors has been increased from HK$200,000 to RMB215,000.

Mr. Lim Meng Ann, a non-executive Director, has resigned as director of 2020 ChinaCap Acquirco, Inc., a company listed on the New York Stock Exchange Amex with effect from 21 October 2009.

Mr. Koo Fook Sun, Louis, an independent non-executive Director, has resigned as the vice chairman and chief financial officer of 2020 ChinaCap Acquirco, Inc., a company listed on the New York Stock Exchange Amex with effect from 21 October 2009. Mr. Koo has also retired 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 Limited, with effect from 29 December 2009.

Purchase, Sale or Redemption of the Company's Shares

The Company did not redeem any of its Shares during the year ended 31 December 2009. Except for the Restricted Share Award Scheme Trust, 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 2009 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 2009, 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, 17 March 2010

Independent Auditor's Report

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

We have audited the consolidated financial statements of Li Ning Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 96 to 167, which comprise the consolidated and company balance sheets as of 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and of the Group as of 31 December 2009, and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other matters

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 March 2010

Consolidated Balance Sheet

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	638,181	629,305
Land use rights	7	386,705	324,764
Intangible assets	8	869,911	329,035
Deferred income tax assets	21	193,109	69,441
Other non-current assets	13	127,989	166,440
Total non-current assets		2,215,895	1,518,985
Current assets			
Inventories	9	631,528	650,715
Trade receivables	12	1,069,404	1,090,576
Other receivables and prepayments	13	194,446	182,938
Restricted bank deposits	14	2,254	105,675
Cash and cash equivalents	14	1,264,343	788,040
Total current assets		3,161,975	2,817,944
Total assets		5,377,870	4,336,929

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	15	110,898	110,323
Share premium	15	243,553	200,758
Shares held for Restricted Share Award Scheme	15	(53,239)	(84,118)
Other reserves	16	332,378	257,610
Retained profits	16		
– Proposed final dividend		236,049	115,941
– Others		1,804,869	1,295,899
		2,674,508	1,896,413
Minority interests in equity		187,603	192,535
Total equity		2,862,111	2,088,948
LIABILITIES			
Non-current liabilities			
License fees payable	19	496,812	81,997
Deferred income tax liabilities	21	90,401	79,141
Deferred income	22	63,618	–
Total non-current liabilities		650,831	161,138
Current liabilities			
Trade payables	17	826,433	863,470
Other payables and accruals	18	570,780	541,865
License fees payable – current portion	19	59,330	28,747
Current income tax liabilities		148,415	45,281
Borrowings	20	259,970	607,480
Total current liabilities		1,864,928	2,086,843
Total liabilities		2,515,759	2,247,981
Total equity and liabilities		5,377,870	4,336,929
Net current assets		1,297,047	731,101
Total assets less current liabilities		3,512,942	2,250,086

Zhang Zhi Yong
Executive Director & Chief Executive Officer

Chong Yik Kay
Executive Director & Chief Financial Officer

The notes on pages 103 to 167 are an integral part of these financial statements.

Balance Sheet

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	10	376,956	453,125
Current assets			
Other receivables and prepayments	13	1,495	2,004
Dividends receivable		593,110	77,429
Cash and cash equivalents	14	11,779	21,148
		606,384	100,581
Total assets		983,340	553,706
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	15	110,898	110,323
Share premium and other reserves	15, 16		
– Proposed final dividend		236,049	115,941
– Others		441,887	149,682
Total equity		788,834	375,946
LIABILITIES			
Current liabilities			
Other payables and accruals	18	796	1,380
Borrowings	20	193,710	176,380
Total liabilities		194,506	177,760
Total equity and liabilities		983,340	553,706
Net current assets/(liabilities)		411,878	(77,179)
Total assets less current liabilities		788,834	375,946

Zhang Zhi Yong
Executive Director & Chief Executive Officer

Chong Yik Kay
Executive Director & Chief Financial Officer

The notes on pages 103 to 167 are an integral part of these financial statements.

Consolidated Income Statement

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Revenue	5	8,386,910	6,690,073
Cost of sales	23	(4,417,046)	(3,469,699)
Gross profit		3,969,864	3,220,374
Distribution costs	23	(2,152,150)	(1,883,206)
Administrative expenses	23	(602,929)	(441,842)
Other income	24	127,111	64,887
Operating profit		1,341,896	960,213
Finance income	26	7,422	11,691
Finance costs	26	(66,188)	(42,666)
Finance costs – net		(58,766)	(30,975)
Profit before income tax		1,283,130	929,238
Income tax expense	27	(313,799)	(201,938)
Profit for the year		969,331	727,300
Attributable to:			
Equity holders of the Company		944,524	721,267
Minority interests		24,807	6,033
		969,331	727,300
Earnings per share for profit attributable to equity holders of the Company (RMB cents)			
– basic	28	90.75	69.63
– diluted	28	89.61	68.64
Interim dividend, special dividend and proposed final dividend	29	377,486	516,743

The notes on pages 103 to 167 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Profit for the year	969,331	727,300
Other comprehensive income:		
Currency translation differences	(28)	–
Total comprehensive income for the year	969,303	727,300
Attributable to:		
Equity holders of the Company	944,496	721,267
Minority interests	24,807	6,033
	969,303	727,300

The notes on pages 103 to 167 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

	Note	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000
As at 1 January 2008		1,744,601	–	1,744,601
Profit for the year		721,267	6,033	727,300
Total comprehensive income for the year ended 31 December 2008		721,267	6,033	727,300
Share option schemes:				
– value of services provided	16	51,596	–	51,596
– proceeds from shares issued	15	11,788	–	11,788
Shares purchased for Restricted Share Award Scheme	15	(56,630)	–	(56,630)
Dividends	15, 16	(576,209)	–	(576,209)
Acquisition of subsidiaries		–	186,805	186,805
Acquisition of additional interests in a subsidiary		–	(303)	(303)
As at 31 December 2008		1,896,413	192,535	2,088,948
As at 1 January 2009		1,896,413	192,535	2,088,948
Profit for the year		944,524	24,807	969,331
Other comprehensive income		(28)	–	(28)
Total comprehensive income for the year ended 31 December 2009		944,496	24,807	969,303
Share option schemes:				
– value of services provided	16	65,901	–	65,901
– proceeds from shares issued	15	23,978	–	23,978
Shares purchased for Restricted Share Award Scheme	15	(335)	–	(335)
Dividends to equity holders of the Company	16	(255,945)	–	(255,945)
Dividends to minority interests of a subsidiary		–	(23,319)	(23,319)
Acquisition of additional interests in a subsidiary		–	(6,420)	(6,420)
As at 31 December 2009		2,674,508	187,603	2,862,111

The notes on pages 103 to 167 are an integral part of these financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	1,649,776	944,798
Income tax paid		(343,108)	(245,831)
Net cash generated from operating activities		1,306,668	698,967
Cash flows from investing activities			
– acquisition of subsidiaries, net of cash acquired	33	(112,318)	(175,102)
– acquisition of additional interests in a subsidiary		(6,420)	(303)
– purchases of property, plant and equipment		(140,058)	(202,545)
– purchases of land use rights		(64,907)	(17,939)
– purchases of intangible assets		(67,183)	(39,934)
– proceeds on disposal of property, plant and equipment and intangible assets		9,010	10,899
– interest received		7,422	11,691
– government grant received for purchase of a land use right		64,697	–
– decrease in fixed deposits at banks		–	11,167
Net cash used in investing activities		(309,757)	(402,066)
Cash flows from financing activities			
– dividends paid to equity holders of the Company		(255,945)	(576,209)
– dividends paid to minority interests of a subsidiary		(18,290)	(14,932)
– proceeds from issuance of ordinary shares		23,978	11,788
– proceeds from bank borrowings		457,880	846,180
– repayments of bank borrowings		(805,250)	(420,800)
– purchase of shares for Restricted Share Award Scheme		(335)	(56,630)
– interest paid		(24,954)	(39,260)
– decrease/(increase) in restricted bank deposits		103,421	(105,675)
Net cash used in financing activities		(519,495)	(355,538)
Net increase/(decrease) in cash and cash equivalents		477,416	(58,637)
Cash and cash equivalents at beginning of year		788,040	849,887
Exchange losses on cash and cash equivalents		(1,113)	(3,210)
Cash and cash equivalents at end of year		1,264,343	788,040

The notes on pages 103 to 167 are an integral part of these financial statements.

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 acquired a 100% equity interest in Kason Sports (Hong Kong) Limited ("Kason"), a company incorporated in Hong Kong, which, together with its subsidiary, are principally engaged in the research and development, manufacture and sale of badminton sports equipment in the PRC. Refer to Note 33 for details of such acquisition.

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

The Company's shares are listed on the 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 17 March 2010.

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

The following new standards and amendments to existing standards are mandatory for the first time for the financial year beginning 1 January 2009, which are relevant to the Group.

- IAS 1 (Revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements. Such change only impacts presentation of the financial statements with no impact on the Group's earnings.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

- IAS 23 (Revised), "Borrowing Costs". The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined at the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings. To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. It is the Group's existing accounting policy to capitalise borrowing costs directly attributable to the construction of any qualifying assets as part of the cost of the assets.

- IFRS 2 (Amendment), "Share-based Payment Vesting Conditions and Cancellations". It clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognised over the remainder of the vesting period is recognised immediately.

- IFRS 7 (Amendment), "Financial Instruments: Disclosures". It requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The change does not result in additional disclosures for the Group and there is no impact on the Group's earnings.

- IFRS 8, "Operating segments". IFRS 8 replaces IAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. This new accounting standard has resulted in an increase in the number of the reportable segments presented from one to four as follows, LI-NING brand, Double Happiness brand, Lotto brand and all other brands segments. Operating segments are reported in a manner consistent with the internal reports provided to the chief operating decision-maker of the Group ("management"). Goodwill is allocated by management to groups of cash-generating units on a segment level. Goodwill relating to the previous acquisition of 57.5% equity interest in Shanghai Double Happiness Co., Ltd. ("Double Happiness") remains in Double Happiness brand segment. Goodwill relating to the acquisition of Kason is allocated in all other brands segment. The change in reportable segments has not resulted in any additional goodwill impairment. There has been no further impact on the measurement of the Group's assets and liabilities. Comparatives for 2008 have been provided.

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

The Group has early adopted IFRS 8 (Amendment), "Operating segments" (effective for the financial year beginning on or after 1 January 2010). This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The Group has not disclosed the measure of segment assets because this is not regularly reported to management. IFRS 8 (Amendment) is applied retrospectively.

Other new standards, amendments to standards and interpretations, which are mandatory for the first time for the financial year beginning 1 January 2009, are not currently relevant for the Group or do not have material impact on the Group for the year ended 31 December 2009.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

New or revised standards, interpretations and amendments		Effective for accounting periods beginning on or after
IAS 24 (Revised)	Related Party Disclosures	1 January 2011
IAS 27 (Revised)	Consolidated and Separate Financial Statements	1 July 2009
IAS 32 (Amendment)	Classification of Right Issues	1 February 2010
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement– Eligible hedged items	1 July 2009
IFRS 1 (Revised)	First-time Adoption of International Financial Reporting Standards	1 July 2009
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters	1 January 2010
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions	1 January 2010
IFRS 3 (Revised)	Business Combinations	1 July 2009
IFRS 9	Financial Instruments	1 January 2013
IFRIC-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC-Int 17	Distributions of Non-cash Assets to Owners	1 July 2009
IFRIC-Int 18	Transfer of Assets from Customers	1 July 2009
IFRIC-Int 19	Extinguishing Financial Liabilities with Equity Instruments	1 July 2010

2. Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

		Effective for accounting periods beginning on or after
Improvements to existing standards		
IAS 1 (Amendment)	Presentation of Financial Statements	1 January 2010
IAS 7 (Amendment)	Statement of Cash Flows	1 January 2010
IAS 17 (Amendment)	Leases	1 January 2010
IAS 18 (Amendment)	Revenue	1 January 2010
IAS 36 (Amendment)	Impairment of Assets	1 January 2010
IAS 38 (Amendment)	Intangible Assets	1 July 2009
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement	1 January 2010
IFRS 2 (Amendment)	Share-based Payments	1 July 2009
IFRS 5 (Amendment)	Non-current Assets Held for Sale and Discontinued Operations	1 January 2010
IFRIC-Int 9 (Amendment)	Reassessment of Embedded Derivatives	1 July 2009
IFRIC-Int 16 (Amendment)	Hedges of a Net Investment in a Foreign Operation	1 July 2009

The Group is in the process of assessing the impact of these new standards, amendments to standards and interpretations on the financial statements.

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

2. Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

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

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

(b) Transactions with minority interests

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

(c) Joint ventures

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

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

2.3 Segment reporting

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.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

2. Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(b) Transactions and balances

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

(c) Group companies

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

i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii. income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the translation dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii. all resulting exchange differences are recognised as a separate component of equity.

2.5 Property, plant and equipment

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

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

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

Buildings	20 – 40 years
Leasehold improvement	2 years or over the lease term, whichever is a shorter period
Mould	2 years
Machinery	10 –18 years
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.

2. Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

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

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

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

2.6 Land use rights

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

2.7 Intangible assets

(a) Goodwill

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

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

(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.

2. Summary of significant accounting policies (continued)

2.7 Intangible assets (continued)

(c) Computer software

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

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

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

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

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

2.9 Financial assets

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

As at 31 December 2008 and 2009, the Group's financial assets primarily comprise loans and receivables.

2. Summary of significant accounting policies (continued)

2.9 Financial assets (continued)

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

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

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

2.10 Inventories

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

2.11 Trade receivables and other receivables

Trade receivables 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 (or in the normal operating cycle of the business if longer), 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.

2.12 Cash and cash equivalents

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

2. Summary of significant accounting policies (continued)

2.13 Ordinary shares

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

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

2.14 Trade payables

Trade payables are 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 (or in the normal operating cycle of the business if longer). 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.

2.15 License fees payable

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

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

2.16 Borrowings and borrowing costs

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

Borrowing costs directly attributable to the construction of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed as incurred.

2. Summary of significant accounting policies (continued)

2.17 Current and deferred income tax

The tax expense for the year 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.

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Director and employee benefits

(a) Pension obligations

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

In Hong Kong, the Group 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.

2. Summary of significant accounting policies (continued)

2.18 Director and 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.

2.19 Provisions

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

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

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

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities and 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)

2.20 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.

2.21 Operating leases (as the lessee for operating leases)

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

2.22 Government grants

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

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

Government grants relating to the purchase of property, plant and equipment 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. Summary of significant accounting policies (continued)

2.23 Dividend distribution

Dividend distribution to the Company's equity holders, excluding those relating to the Company's own shares held under the restricted share award scheme, is recognised as a liability in the Group 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.

2.24 Contingent liability

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

3. Financial risk management

3.1 Financial risk factors

The activities of the Group expose it to a variety of financial risks: 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 14). 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 2009.

As at 31 December 2009 and 2008, 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.

	2009 RMB'000	2008 RMB'000
Post-tax profit increase/(decrease)		
– Strengthened 5%	11,987	7,355
– Weakened 5%	(11,987)	(7,355)

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Market risks (continued)

(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 5.17% (2008: 7.31%) for bank borrowings denominated in RMB and 2.04% (2008: 2.95%) for bank borrowings denominated in HK$ as disclosed in Note 20.

(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.

	2009 RMB'000	2008 RMB'000
Banks*		
Bank A	271,550	270,069
Bank B	264,025	138,821
Bank C	186,350	121,694
	721,925	530,584

* 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.

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 20) at all times so that the Group does not breach borrowing limits or convenants (where applicable) on any of its borrowing facilities.

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

	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 2009				
Borrowings	264,089	–	–	–
License fees payable	61,923	67,616	146,720	822,000
Trade payables	826,433	–	–	–
Other payables	395,257	–	–	–
	1,547,702	67,616	146,720	822,000
As at 31 December 2008				
Borrowings	625,374	–	–	–
License fees payable	29,731	33,831	64,928	–
Trade payables	863,470	–	–	–
Other payables	407,473	–	–	–
	1,926,048	33,831	64,928	–

3. Financial risk management (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

	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
Company				
As at 31 December 2009				
Borrowings	195,909	–	–	–
Other payables	796	–	–	–
	196,705	–	–	–
As at 31 December 2008				
Borrowings	179,602	–	–	–
Other payables	1,380	–	–	–
	180,982	–	–	–

3.2 Capital risk management

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

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

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

3. Financial risk management (continued)

3.2 Capital risk management (continued)

The gearing ratios of the Group as at 31 December 2009 and 2008 were as follows:

	2009 RMB'000	2008 RMB'000
Total borrowings	259,970	607,480
Equity holder's equity	2,674,508	1,896,413
Gearing ratio	9.7%	32.0%

The decrease in the gearing ratio as at 31 December 2009 resulted primarily from (i) decrease in short-term bank borrowings and (ii) net increase in equity holders' equity as a result of net profit attributable to equity holders after dividend payments during the year.

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.

(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 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (See Note 8).

(b) Net realisable value of inventories

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

4. Critical accounting estimates and judgements (continued)

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

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

(d) Income taxes

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

Pursuant to the Corporate Income Tax Law and its implementation rules, effective from 1 January 2008, certain non-resident enterprises (for instance, those without an establishment or place of business in the PRC or which have an establishment or place of business in the PRC but whose relevant income is not effectively connected with the establishment or a place of business in the PRC) are subject to withholding tax at the rate of 5% or 10% on various types of passive income such as dividends derived from sources within the PRC. In addition, according to the notice Caishui [2008] No.1 released by Ministry of Finance and the State Administration of Taxation, distributions of the retained profits prior to 1 January 2008 of a foreign-invested enterprise to a foreign investor in 2008 or after are exempt from corporate income tax. Management have no current intention to distribute the retained profits of the Company's subsidiaries in the PRC earned in 2008 and 2009 to the subsidiaries incorporated outside the PRC. Accordingly, no provision for withholding tax has been made in this respect.

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 RMB7,693,263,000, RMB427,088,000, RMB76,155,000 and RMB190,404,000 for the year ended 31 December 2009 and RMB6,354,238,000, RMB206,493,000, RMB5,741,000 and RMB123,601,000 for the year ended 31 December 2008 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.

5. Segment information (continued)

The segment information provided to the management for the reportable segments for the years ended 31 December 2009 and 2008 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 2009					
Total revenue	7,693,263	429,448	114,396	220,037	8,457,144
Inter-segment revenue	–	(2,360)	(38,241)	(29,633)	(70,234)
Revenue from external customers	7,693,263	427,088	76,155	190,404	8,386,910
Operating profit/(loss)	1,360,526	73,435	(76,913)	(15,152)	1,341,896
Distribution costs and administrative expenses	2,496,178	92,712	97,542	68,647	2,755,079
Include:					
– depreciation and amortisation	141,817	16,357	19,978	4,863	183,015
Year ended 31 December 2008					
Total revenue	6,354,238	206,493	5,741	123,601	6,690,073
Inter-segment revenue	–	–	–	–	–
Revenue from external customers	6,354,238	206,493	5,741	123,601	6,690,073
Operating profit/(loss)	962,604	20,382	(12,401)	(10,372)	960,213
Distribution costs and administrative expenses	2,207,510	51,676	13,193	52,669	2,325,048
Include:					
– depreciation and amortisation	99,322	10,709	4	268	110,303

5. Segment information (continued)

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

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
Operating profit	1,341,896	960,213
Finance income	7,422	11,691
Finance costs	(66,188)	(42,666)
Profit before income tax	1,283,130	929,238

Geographical information of revenue

	Year ended 31 December	
	2009 RMB'000	2008 RMB'000
The PRC (including the Hong Kong Special Administrative Region)	8,258,873	6,616,148
Other regions	128,037	73,925
Total	8,386,910	6,690,073

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 2009, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

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 2008							
Cost	216,383	54,213	55,567	23,013	86,045	44,900	480,121
Accumulated depreciation	(32,383)	(32,223)	(23,307)	(8,874)	(43,298)	–	(140,085)
Net book amount	184,000	21,990	32,260	14,139	42,747	44,900	340,036
Year ended 31 December 2008							
Opening net book amount	184,000	21,990	32,260	14,139	42,747	44,900	340,036
Additions	25,351	23,409	38,866	1,312	36,874	112,534	238,346
Acquisition of subsidiaries	11,905	–	–	13,020	1,872	113,053	139,850
Transfer out from construction-in-progress	256,809	–	–	2,959	6,071	(265,839)	–
Disposals	(1,351)	(5,383)	(1,606)	(1,596)	(1,509)	–	(11,445)
Depreciation charge	(11,835)	(14,554)	(31,882)	(2,377)	(16,834)	–	(77,482)
Closing net book amount	464,879	25,462	37,638	27,457	69,221	4,648	629,305
As at 31 December 2008							
Cost	507,063	45,749	83,994	36,290	123,436	4,648	801,180
Accumulated depreciation	(42,184)	(20,287)	(46,356)	(8,833)	(54,215)	–	(171,875)
Net book amount	464,879	25,462	37,638	27,457	69,221	4,648	629,305
Year ended 31 December 2009							
Opening net book amount	464,879	25,462	37,638	27,457	69,221	4,648	629,305
Additions	2,092	25,817	34,527	10,245	31,220	4,417	108,318
Acquisition of subsidiaries (Note 33)	–	–	–	2,180	534	–	2,714
Transfer out from construction-in-progress	2,424	–	–	220	1,660	(4,304)	–
Disposals	(303)	(442)	(3,955)	(1,208)	(1,946)	–	(7,854)
Depreciation charge	(16,303)	(21,541)	(28,420)	(4,351)	(23,687)	–	(94,302)
Closing net book amount	452,789	29,296	39,790	34,543	77,002	4,761	638,181
As at 31 December 2009							
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

6. Property, plant and equipment – Group (continued)

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB11,415,000 (2008: RMB15,889,000) are built on land which the Group is in the process of applying for the legal title (Note 7).

Depreciation expenses of RMB32,480,000 (2008: RMB34,181,000) has been charged to cost of sales, RMB32,604,000 (2008: RMB19,878,000) to distribution costs and RMB29,218,000 (2008: RMB23,423,000) to administrative expenses.

As at 31 December 2009, buildings with net book value of RMB29,799,000 (2008: RMB45,469,000) are pledged as securities for the Group's borrowings (Note 20).

7. Land use rights – Group

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

7. Land use rights – Group (continued)

	RMB'000
Year ended 31 December 2009	
Opening net book amount	324,764
Addition	70,041
Amortisation charge	(8,100)
Closing net book amount	386,705
As at 31 December 2009	
Cost	400,729
Accumulated amortisation	(14,024)
Net book amount	386,705

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 RMB129,476,000 as at 31 December 2009 (2008: RMB157,053,000).

Amortisation expenses of RMB4,719,000 (2008:RMB1,870,000) has been charged to cost of sales and RMB3,381,000 (2008:RMB1,740,000) to administrative expenses.

As at 31 December 2009, land use rights with net book value of RMB39,324,000 (2008: RMB79,525,000) are pledged as securities for the Group's borrowings (Note 20).

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 2008						
Cost	–	5,057	28,307	87,367	–	120,731
Accumulated amortisation	–	(626)	(12,234)	(20,037)	–	(32,897)
Net book amount	–	4,431	16,073	67,330	–	87,834
Year ended 31 December 2008						
Opening net book amount	–	4,431	16,073	67,330	–	87,834
Additions	–	693	18,433	54,883	–	74,009
Acquisition of subsidiaries	106,839	89,564	–	–	–	196,403
Amortisation charge	–	(4,020)	(5,539)	(19,652)	–	(29,211)
Closing net book amount	106,839	90,668	28,967	102,561	–	329,035
As at 31 December 2008						
Cost	106,839	95,314	46,740	142,250	–	391,143
Accumulated amortisation	–	(4,646)	(17,773)	(39,689)	–	(62,108)
Net book amount	106,839	90,668	28,967	102,561	–	329,035
Year ended 31 December 2009						
Opening net book amount	106,839	90,668	28,967	102,561	–	329,035
Additions	–	226	20,610	466,509	–	487,345
Acquisition of subsidiaries (Note 33)	72,387	21,537	37	–	41,339	135,300
Disposal	–	–	(1,156)	–	–	(1,156)
Amortisation charge	–	(8,090)	(9,618)	(59,300)	(3,605)	(80,613)
Closing net book amount	179,226	104,341	38,840	509,770	37,734	869,911
As at 31 December 2009						
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

8. Intangible assets – Group (continued)

During the year ended 31 December 2009, the Group acquired a license right in respect of Lotto brand carrying a discounted value of approximately RMB393,798,000 with its related license fees payable increased by the same amount (Note 19).

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

Impairment tests for goodwill

Goodwill is allocated to Double Happiness 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 is 6% per annum and a growth rate of zero has been applied from the eleventh year to the twentieth year, which is in accordance with the observed annual growth rate for the related industry combined with management's expectations of declining growth. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGUs operate. The pre-tax discount rates used are 14.77% and 13.54% 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. Inventories – Group

	2009 RMB'000	2008 RMB'000
Raw materials	36,062	31,824
Work in progress	24,191	38,391
Finished goods	643,801	648,651
	704,054	718,866
Less: Provision for write-down to net realisable value	(72,526)	(68,151)
	631,528	650,715

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB4,131,797,000 for the year ended 31 December 2009 (2008: RMB3,274,036,000).

The Group realised a loss of approximately RMB4,375,000 for the year ended 31 December 2009 (2008: RMB16,447,000) in respect of the write-down of inventories to their net realisable value. These amounts have been included in administrative expenses in the consolidated income statement.

10. Investment in subsidiaries – Company

	2009 RMB'000	2008 RMB'000
Investment in unlisted shares, at cost	79,568	79,568
Loan to subsidiaries	241,106	288,056
Contribution to the Restricted Share Award Scheme Trust	56,282	85,501
	376,956	453,125

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

The following is a list of the principal subsidiaries as at 31 December 2009:

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

10. Investment in subsidiaries – Company (continued)

Name	Place of operation/incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
上海狐步物流諮詢服務有限公司 (Shanghai Hubu Logistics Consulting Services Co., Ltd.)	The PRC, 15 July 2004 Limited liability company	RMB3,000,000	100%	Provision of logistics consulting service
上海狐步信息系統有限公司 (Shanghai Hubu Information System Co., Ltd.)	The PRC, 20 April 2000 Limited liability company	RMB2,000,000	100%	Provision of information technology service
上海少昊體育用品研發有限公司 (Shanghai Shao Hao Sports Goods Research and Development Co., Ltd.)	The PRC, 18 December 2001 Limited liability company	RMB3,000,000	100%	Product design, research and development
上海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
李寧體育美國有限公司 (Li Ning Sports USA, Inc.)	USA, 28 August 2007 Limited liability company	US$1,000	100%	Design of athletic shoes and apparel
李寧西班牙有限公司 (Li Ning Spain, S.L.)	Spain, 16 October 2007 Limited liability company	EUR3,006	100%	Sale of sports goods

10. Investment in subsidiaries – Company (continued)

Name	Place of operation/incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
李寧(北京)體育用品商業有限公司 (Li Ning (Beijing) Sports Goods Commercial Co., Ltd.)	The PRC, 19 December 2007 Limited liability company	HK$10,000,000	100%	Sale of sports goods
上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.)	The PRC, 9 July 2001 Limited liability company	RMB10,000,000	100%	Sale of sports goods
鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.)	The PRC, 25 June 1998 Limited liability company	RMB2,750,000	100%	Sale of sports goods
廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.)	The PRC, 6 October 1998 Limited liability company	RMB3,200,000	100%	Sale of sports goods
瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.)	The PRC, 10 June 1999 Limited liability company	RMB3,000,000	100%	Sale of sports goods
濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003 Limited liability company	RMB1,000,000	100%	Sale of sports goods
武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.)	The PRC, 2 June 1999 Limited liability company	RMB1,000,000	100%	Sale of sports goods
北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.)	The PRC, 4 November 1997 Limited liability company	RMB5,000,000	100%	Sale of sports goods
上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.)	The PRC, 8 August 2000 Limited liability company	RMB5,000,000	100%	Sale of sports goods

10. Investment in subsidiaries – Company (continued)

Name	Place of operation/incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
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
成都一動體育用品銷售有限公司 (Chendu Edosports Goods Sales Co., Ltd.)	The PRC, 4 February 2008 Limited liability company	RMB1,000,000	100%	Sale of sports goods
昆明一動體育用品銷售有限公司 (Kunming Edosports Goods Sales Co., Ltd.)	The PRC, 24 September 2008 Limited liability company	RMB1,000,000	100%	Sale of sports goods

10. Investment in subsidiaries – Company (continued)

Name	Place of operation/incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
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
廈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
上海李寧電子商務有限公司 (Shanghai Lining E-business Co., Ltd.)	The PRC, 27 September 2008 Limited liability company	RMB10,000,000	100%	Sale of sports goods
李寧體育新加坡有限公司 (Lining Sports Singapore Pte. Ltd.)	Singapore 20 October 2008 Limited liability company	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

10. Investment in subsidiaries – Company (continued)

Name	Place of operation/incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Equity interest held by the Company	Principal activities
蘇州紅雙喜冠都體育用品有限公司 (Suzhou Double Happiness Guan Du Sports Goods Co., Ltd.)	The PRC, 10 August 2002 Limited liability company	RMB9,557,800	43.1% (Note a)	Manufacture and sale of sports goods
上海紅展體育用品有限公司 (Shanghai Hong Zhan Sports Goods Co., Ltd.)	The PRC, 19 March 2001 Limited liability company	RMB500,000	57.5%	Sale of sports goods
上海紅冠體育用品有限責任公司 (Shanghai Hong Guan Sports Goods Co., Ltd.)	The PRC, 29 July 1998 Limited liability company	RMB500,000	57.5%	Sale of sports goods
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
凱勝體育(香港)有限公司 (Kason Sports (Hong Kong) Ltd.)	Hong Kong, 15 January 2008 Limited liability company	HK$1	100%	Investment holding
凱勝(泉州)運動器材有限公司 (Kason (Quanzhou) Sports Equipment Co, Ltd.)	The PRC, 30 June 2008 Limited liability company	RMB19,577,000	100%	Manufacture and sale of sports goods

Note:

(a) Suzhou Double Happiness Guan Du Sports Goods Co., Ltd. ("Suzhou Double Happiness") is a subsidiary of the Company as it is 75% (2008: 55%) owned by Double Happiness, a non-wholly owned subsidiary of the Company. During the year ended 31 December 2009, Double Happiness acquired an additional 20% equity interests in Suzhou Double Happiness from a minority shareholder for a consideration of RMB6,420,000.

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 2009 and for the year then ended, which have been included in the consolidated balance sheet and the consolidated income statement.

	2009 RMB'000	2008 RMB'000
Assets		
Non-current assets	2,734	642
Current assets	15,411	15,164
Total assets	18,145	15,806
Liabilities		
Non-current liabilities	6,011	13,190
Current liabilities	14,734	3,773
Total liabilities	20,745	16,963
Net liabilities	(2,600)	(1,157)

	2009 RMB'000	2008 RMB'000
Revenue	16,560	15,842
Expenses	(18,488)	(23,922)
Net loss	(1,928)	(8,080)

As at 31 December 2008 and 2009, the Group did not have any material contingent liabilities in respect of its interest in the jointly controlled entities; nor did the jointly controlled entities have any material contingent liabilities as at 31 December 2008 and 2009.

12. Trade receivables – Group

	2009 RMB'000	2008 RMB'000
Accounts receivable	1,028,017	1,055,171
Notes receivable	42,571	40,710
	1,070,588	1,095,881
Less: provision for impairment of receivables	(1,184)	(5,305)
	1,069,404	1,090,576

Customers are normally granted credit terms within 90 days. As at 31 December 2009, trade receivables that were neither past due nor impaired amounted to RMB1,027,215,000 (2008: RMB941,481,000). Trade receivables that were past due but not impaired amounted to RMB42,189,000 (2008: RMB149,095,000) 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 2009.

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

	2009 RMB'000	2008 RMB'000
0 – 30 days	506,049	382,364
31 – 60 days	314,897	301,836
61 – 90 days	206,269	257,281
91 – 180 days	42,189	149,095
181 – 365 days	1,000	2,708
Over 365 days	184	2,597
	1,070,588	1,095,881

As at 31 December 2009, trade receivables of RMB1,184,000 (2008: RMB5,305,000) 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.

12. Trade receivables – Group (continued)

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

	2009 RMB'000	2008 RMB'000
As at 1 January	5,305	4,809
(Reversal of provision)/provision for impairment of receivables	(2,279)	1,477
Receivables written off during the year as uncollectible	(1,842)	(981)
As at 31 December	1,184	5,305

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

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

13. Other receivables and prepayments – Group and Company

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Advances to suppliers	14,263	24,809	–	–
Prepayment for advertising expenses	68,350	14,840	–	–
Rental and other deposits	55,084	39,045	–	–
Prepaid rentals	172,067	206,137	–	–
Staff advances and other payments for employees	2,471	6,209	–	–
Prepayment for licence rights	–	15,053	–	–
Prepayment for land use rights	–	5,134	–	–
Others	10,200	38,151	1,495	2,004
	322,435	349,378	1,495	2,004
Less: non-current portion	(127,989)	(166,440)	–	–
Current portion	194,446	182,938	1,495	2,004

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

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

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

As at 31 December 2009, 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	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Cash at banks and in hand	1,105,343	778,805	11,779	21,148
Short-term bank deposits	159,000	9,235	–	–
Cash and cash equivalents	1,264,343	788,040	11,779	21,148
Restricted bank deposits	2,254	105,675	–	–
	1,266,597	893,715	11,779	21,148

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

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Denominated in RMB	1,200,214	814,418	–	–
Denominated in HK$	42,209	66,067	11,775	21,144
Denominated in US$	13,032	6,976	4	4
Denominated in EUR	7,925	6,254	–	–
Denominated in SGD	3,217	–	–	–
	1,266,597	893,715	11,779	21,148

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

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

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

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

	Number of shares (Thousands)	Approximate amount HK$'000
Authorised at HK$0.10 each		
As at 31 December 2008 and 2009	10,000,000	1,000,000

Issued and fully paid

	Number of share of HK$0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
As at 1 January 2008	1,035,198	110,023	352,830	(44,089)	418,764
Net proceeds from shares issued pursuant to share option schemes (Note a)	3,355	300	11,488	–	11,788
Transfer of fair value of share options exercised to share premium	–	–	14,609	–	14,609
Shares vested under Restricted Share Award Scheme	944	–	–	16,601	16,601
Shares purchased for Restricted Share Award Scheme (Note b)	(2,864)	–	–	(56,630)	(56,630)
Dividends paid	–	–	(178,169)	–	(178,169)
As at 31 December 2008	1,036,633	110,323	200,758	(84,118)	226,963
As at 1 January 2009	1,036,633	110,323	200,758	(84,118)	226,963
Net proceeds from shares issued pursuant to share option schemes (Note a)	6,525	575	23,403	–	23,978
Transfer of fair value of share options exercised to share premium	–	–	19,392	–	19,392
Shares vested under Restricted Share Award Scheme	1,749	–	–	31,214	31,214
Shares purchased for Restricted Share Award Scheme (Note b)	(26)	–	–	(335)	(335)
As at 31 December 2009	1,044,881	110,898	243,553	(53,239)	301,212

Notes:

(a) During the year ended 31 December 2009, the Company issued 6,525,000 shares (2008: 3,355,000 shares) of HK$0.10 each to certain directors and employees of the Group at weighted-average issue price of HK$4.17 (2008: HK$3.87) per share pursuant to the Company's share option schemes (see Note 31).

(b) During the year ended 31 December 2009, the Li Ning Company Limited Restricted Share Award Scheme Trust (the "Trust"), a trust established in Hong Kong, purchased 26,000 shares (2008: 2,864,000 shares) of the Company's shares from the open market. The total amount of RMB335,000 (2008: RMB56,630,000) paid to acquire the shares was financed by the Company by way of contributions made to the Trust.

16. 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 2008	45,634	121,776	44,479	–	211,889	1,113,948	1,325,837
Profit for the year	–	–	–	–	–	721,267	721,267
Value of services provided under share schemes	–	–	51,596	–	51,596	–	51,596
Transfer of fair value of share options exercised to share premium	–	–	(14,609)	–	(14,609)	–	(14,609)
Vesting of shares under Restricted Share Award Scheme	–	–	(16,601)	–	(16,601)	–	(16,601)
Appropriations to statutory reserves	–	25,335	–	–	25,335	(25,335)	–
Dividends paid	–	–	–	–	–	(398,040)	(398,040)
As at 31 December 2008	45,634	147,111	64,865	–	257,610	1,411,840	1,669,450
As at 1 January 2009	45,634	147,111	64,865	–	257,610	1,411,840	1,669,450
Profit for the year	–	–	–	–	–	944,524	944,524
Value of services provided under share schemes	–	–	65,901	–	65,901	–	65,901
Transfer of fair value of share options exercised to share premium	–	–	(19,392)	–	(19,392)	–	(19,392)
Shares vested under Restricted Share Award Scheme	–	–	(31,214)	–	(31,214)	–	(31,214)
Appropriations to statutory reserves	–	59,501	–	–	59,501	(59,501)	–
Translation difference of foreign currency financial statements	–	–	–	(28)	(28)	–	(28)
Dividends paid	–	–	–	–	–	(255,945)	(255,945)
As at 31 December 2009	45,634	206,612	80,160	(28)	332,378	2,040,918	2,373,296

16. Reserves – Group and Company (continued)

Company

	(Accumulated losses)/Retained profits RMB'000	Share-based compensation reserve RMB'000	Total RMB'000
As at 1 January 2008	(104,323)	44,479	(59,844)
Profit for the year	502,363	–	502,363
Value of services provided under share schemes	–	51,596	51,596
Transfer of fair value of share options exercised to share premium	–	(14,609)	(14,609)
Shares vested under Restricted Share Award Scheme	–	(16,601)	(16,601)
Dividends paid	(398,040)	–	(398,040)
As at 31 December 2008	–	64,865	64,865
As at 1 January 2009	–	64,865	64,865
Profit for the year	610,168	–	610,168
Value of services provided under share schemes	–	65,901	65,901
Transfer of fair value of share options exercised to share premium	–	(19,392)	(19,392)
Shares vested under Restricted Share Award Scheme	–	(31,214)	(31,214)
Dividends paid	(255,945)	–	(255,945)
As at 31 December 2009	354,223	80,160	434,383

(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.

16. Reserves – Group and Company (continued)

(b) Statutory reserve funds

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

Statutory reserve funds include Statutory Surplus Reserve and Reserve Fund.

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

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

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

17. Trade payables – Group

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

	2009 RMB'000	2008 RMB'000
0 – 30 days	786,082	652,739
31 – 60 days	9,340	175,007
61 – 90 days	18,851	27,587
91 – 180 days	9,726	1,506
181 – 365 days	1,053	3,618
Over 365 days	1,381	3,013
	826,433	863,470

18. Other payables and accruals – Group and Company

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Accrued sales and marketing expenses	175,523	134,392	–	–
Advances from customers	73,172	158,813	–	–
Wages and welfare payables	132,581	119,291	–	–
Other tax payables	71,560	14,141	–	–
Payable for property, plant and equipment	15,874	47,614	–	–
Payable for acquisition of subsidiaries (Note 33)	16,273	–	–	–
Other payables	85,797	67,614	796	1,380
	570,780	541,865	796	1,380

19. 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 2008	70,838
Acquisition of license rights	54,883
Payment of license fees	(14,861)
Amortisation of discount	5,339
Adjustment for exchange difference	(5,455)
As at 31 December 2008	110,744
As at 1 January 2009	110,744
Acquisition of license rights	452,096
Payment of license fees	(47,243)
Amortisation of discount	40,417
Adjustment for exchange difference	128
As at 31 December 2009	556,142

19. License fees payable – Group (continued)

	2009 RMB'000	2008 RMB'000
Analysis of license fees payable:		
Non-current		
– over five years	320,590	–
– the second to fifth year	176,222	81,997
Current	59,330	28,747
	556,142	110,744

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:

	2009 RMB'000	2008 RMB'000
Less than 1 year	61,923	29,731
Between 1 and 5 years	214,336	98,759
Over 5 years	822,000	–
	1,098,259	128,490

20. Borrowings – Group and Company

	Group		Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Current				
Bank borrowings denominated in				
– RMB	66,260	431,100	–	–
– HK$	193,710	176,380	193,710	176,380
	259,970	607,480	193,710	176,380
Borrowings				
– secured	66,260	81,100	–	–
– unsecured	193,710	526,380	193,710	176,380
	259,970	607,480	193,710	176,380

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

The weighted average effective interest rates per annum of the borrowings were 5.17% (2008: 7.31%) for bank borrowings denominated in RMB and 2.04% (2008: 2.95%) for bank borrowings denominated in HK$ for the year ended 31 December 2009.

Bank borrowings amounting to RMB66,260,000 (2008: RMB71,260,000) were secured by the Group's land and buildings (Notes 6 and 7).

As at 31 December 2009, the Group had undrawn borrowing facilities within one year amounting to RMB1,396,540,000 (2008: RMB420,890,000). These facilities have been arranged to help financing of the Group's working capital.

20. Borrowings – Group and Company (continued)

Movement in borrowings is analysed as follows:

	Group	Company
	RMB'000	RMB'000
As at 1 January 2008	100,000	–
Additions	843,794	173,994
Effect of change in exchange rate	2,386	2,386
Acquisition of subsidiaries	82,100	–
Repayments	(420,800)	–
As at 31 December 2008	607,480	176,380
As at 1 January 2009	607,480	176,380
Additions	457,880	105,660
Effect of change in exchange rate	(140)	(140)
Repayments	(805,250)	(88,190)
As at 31 December 2009	259,970	193,710

21. Deferred income tax – Group

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

	Provisions RMB'000	Share Schemes RMB'000	Unrealised profit on intra-group sales RMB'000	Fair value gains RMB'000	Accumulated tax losses RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
Deferred income tax assets								
As at 1 January 2008	10,511	8,826	7,998	–	–	–	2,266	29,601
Credited/(charged) to income statement	3,762	2,834	32,604	–	–	–	(857)	38,343
Acquisition of subsidiaries	411	–	1,086	–	–	–	–	1,497
As at 31 December 2008	14,684	11,660	41,688	–	–	–	1,409	69,441
As at 1 January 2009	14,684	11,660	41,688	–	–	–	1,409	69,441
Credited to income statement	5,848	1,021	7,213	–	37,470	66,732	5,281	123,565
Acquisition of subsidiaries (Note 33)	–	–	–	–	–	–	103	103
As at 31 December 2009	20,532	12,681	48,901	–	37,470	66,732	6,793	193,109
Deferred income tax liabilities								
As at 1 January 2008	–	–	–	–	–	–	(1,217)	(1,217)
Credited/(charged) to income statement	–	–	–	1,198	–	–	(434)	764
Acquisition of subsidiaries	–	–	–	(78,688)	–	–	–	(78,688)
As at 31 December 2008	–	–	–	(77,490)	–	–	(1,651)	(79,141)
As at 1 January 2009	–	–	–	(77,490)	–	–	(1,651)	(79,141)
Credited to income statement	–	–	–	7,401	–	–	1,477	8,878
Acquisition of subsidiaries (Note 33)	–	–	–	(20,138)	–	–	–	(20,138)
As at 31 December 2009	–	–	–	(90,227)	–	–	(174)	(90,401)

21. Deferred income tax – Group (continued)

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

	2009 RMB'000	2008 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	139,602	58,319
– to be recovered after more than 12 months	53,507	11,122
	193,109	69,441
Deferred income tax liabilities		
– to be recovered within 12 months	(3,040)	(3,833)
– to be recovered after more than 12 months	(87,361)	(75,308)
	(90,401)	(79,141)

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 RMB10,779,000 (2008: RMB19,685,000) in respect of tax losses amounting to RMB71,293,000 (2008: RMB83,914,000) that can be carried forward against future taxable income.

Deferred income tax liabilities of RMB103,784,000 (2008: RMB43,377,000) 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 in 2008 and 2009. Such amounts totalling RMB2,075,671,000 (2008: RMB867,547,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

22. Deferred income

	RMB'000
As at 1 January 2008 and 31 December 2008	–
As at 1 January 2009	–
Addition	64,697
Credited to income statement	(1,079)
As at 31 December 2009	63,618

22. Deferred income (continued)

During the year ended 31 December 2009, the Group received government grant amounting to RMB64,697,000 (2008: Nil) for purchase of a land use right in the PRC. Such government grant was recorded as deferred income and would be credited to income statement over the lease period of the corresponding land use right of 50 years using straight-line method. An amount of RMB1,079,000 (2008: Nil) has been credited to other income during the year ended 31 December 2009.

23. Expenses by nature

	2009 RMB'000	2008 RMB'000
Cost of inventories recognised as expenses included in cost of sales	4,131,797	3,274,036
Depreciation on property, plant and equipment	94,302	77,482
Amortisation of land use rights and intangible assets	88,713	32,821
Advertising and marketing expenses	1,290,620	1,171,175
Director and employee benefit expenses	630,887	472,415
Operating lease rentals in respect of land and buildings	260,075	212,760
Research and product development expenses	229,806	177,444
Transportation and logistics expenses	123,800	109,879
(Reversal of provision)/provision for impairment charge of trade receivables	(2,279)	1,477
Write-down of inventories to net realisable value	4,375	16,447
Auditor's remuneration	4,050	4,150
Management consulting expenses	68,634	50,999
Travelling and entertainment expenses	128,752	105,019
Other expenses	118,593	88,643
Total of cost of sales, distribution costs and administrative expenses	7,172,125	5,794,747

24. Other income

	2009 RMB'000	2008 RMB'000
Government grants (Note a)	127,111	64,887

Note:

(a) This represented subsidies received from various local governments in the PRC for the year ended 31 December 2009.

25. Employee benefit expenses

	2009 RMB'000	2008 RMB'000
Wages and salaries	339,040	238,027
Contributions to retirement benefit plan (Note c)	42,309	32,101
Share options granted to directors and employees	65,901	51,596
Staff quarters and housing benefits	15,939	11,124
Other benefits	167,698	139,567
	630,887	472,415

(a) Directors' and senior management's emoluments

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

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

25. Employee benefit expenses (continued)

(a) Directors' and senior management's emoluments (continued)

The remuneration of each director for the year ended 31 December 2009 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits (i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Mr. Li Ning	1,978	1,349	960	20	142	4,449
Mr. Zhang Zhi Yong	1,537	5,094	960	11,365	167	19,123
Mr. Chong Yik Kay (iii)	1,045	834	2,484	1,832	78	6,273
Ms. Wang Ya Fei	270	–	–	733	–	1,003
Mr. Lim Meng Ann	270	–	–	987	–	1,257
Mr. Stuart Schonberger	215	–	–	733	–	948
Mr. Koo Fook Sun, Louis	270	–	–	733	–	1,003
Mr. Chan Chung Bun, Bunny	215	–	–	733	–	948
Mr. Chu Wah Hui	215	–	–	656	–	871
Mr. James Chun-Hsien Wei	215	–	–	656	–	871

(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. Tan Wee Seng resigned as director of the Company with effect from 1 December 2008.

(iii) Mr. Chong Yik Kay was appointed as director of the Company with effect from 9 February 2009.

25. Employee benefit expenses (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three directors for the year ended 31 December 2009 (2008: three directors), and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining two individuals (2008: two) whose emoluments were the highest in the Group for the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries and allowances	4,446	3,703
Other benefits	4,554	2,660
Contributions to retirement benefit scheme	–	28
	9,000	6,391

The emoluments fell within the following bands:

	Number of individuals 2009	2008
Emoluments bands		
RMB3,000,001 to RMB5,000,000	2	1
RMB1,000,000 to RMB3,000,000	–	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.

26. Finance income and costs

	2009 RMB'000	2008 RMB'000
Interest income on bank balances and deposits	7,422	11,691
Finance income	7,422	11,691
Amortisation of discount – license fees payable (Note 19)	(40,417)	(5,339)
Interest expense on bank borrowings	(24,954)	(33,921)
Net foreign currency exchange loss	(817)	(3,406)
Finance costs	(66,188)	(42,666)
Finance costs – net	(58,766)	(30,975)

27. Income taxes

	2009 RMB'000	2008 RMB'000
Current income tax		
– Hong Kong profits tax (Note b)	4,501	773
– The PRC corporate income tax (Note c)	441,741	240,272
	446,242	241,045
Deferred income tax	(132,443)	(39,107)
	313,799	201,938

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 2009 (2008: 16.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2008: 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 20% (2008: 18%) under the relevant PRC tax rules and regulations.

27. 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:

	2009 RMB'000	2008 RMB'000
Profit before income tax	1,283,130	929,238
Tax calculated at a tax rate of 25% (2008: 25%)	320,782	232,310
Effects of different tax rate in Hong Kong	(809)	(335)
Preferential tax rate on the income of certain subsidiaries	(1,835)	(31,710)
Tax losses for which no deferred taxation is recognised	12,039	8,491
Expenses not deductible for tax purposes	17,205	19,192
Tax credit granted to subsidiaries	(7,060)	(16,127)
Income not subject to tax	(6,893)	(9,883)
Recognition of deferred tax assets for temporary differences of prior years	(19,630)	–
Taxation charge	313,799	201,938

The effective tax rate is 24.5% for the year ended 31 December 2009 (2008: 21.7%).

28. Earnings per share

Basic

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

	2009 RMB'000	2008 RMB'000
Profit attributable to equity holders of the Company	944,524	721,267
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	1,040,757	1,035,916
Basic earnings per share (RMB cents)	90.75	69.63

28. 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 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:

	2009 RMB'000	2008 RMB'000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	944,524	721,267
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	1,040,757	1,035,916
Adjustment for share options and awarded shares (in thousands)	13,276	14,876
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	1,054,033	1,050,792
Diluted earnings per share (RMB cents)	89.61	68.64

29. Dividends

	2009 RMB'000	2008 RMB'000
Interim dividend paid of RMB13.58 cents (2008: RMB9.63 cents) per ordinary share	141,437	99,733
Special dividend paid of RMB nil cents (2008: RMB28.90 cents) per ordinary share	–	301,069
Proposed final dividend of RMB22.54 cents (2008: RMB11.14 cents) per ordinary share	236,049	115,941
	377,486	516,743

29. Dividends (continued)

Note:

On 18 March 2009, the Board proposed a final dividend of RMB11.14 cents per ordinary share for the year ended 31 December 2008.

On 17 March 2010, the Board proposed a final dividend of RMB22.54 cents per ordinary share totalling RMB236,049,000 for the year ended 31 December 2009. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 December 2010.

30. Cash flow statement

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

	2009 RMB'000	2008 RMB'000
Profit before income tax	1,283,130	929,238
Adjustments for:		
Depreciation	94,302	77,482
Amortisation	88,713	32,821
(Reversal of provision)/provision for impairment charge of receivables	(2,279)	1,477
Write-down of inventories to net realisable value	4,375	16,447
Share options granted to directors and employees	65,901	51,596
Loss on disposals of property, plant and equipment and intangible assets	–	546
Finance costs – net	58,766	30,975
Amortisation of deferred income	(1,079)	–
Operating profit before working capital changes	1,591,829	1,140,582
Decrease/(increase) in inventories	53,263	(107,357)
Decrease/(increase) in trade receivables	23,451	(339,863)
Increase in other receivables and prepayments	(12,708)	(151,579)
(Decrease)/increase in trade payables	(45,412)	306,863
Increase in other payables and accruals	39,353	96,152
Cash inflow generated from operations	1,649,776	944,798

31. Share-based compensation

(a) Share Purchase Scheme

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

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

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

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

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

	2009		2008	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	0.68	6,936	0.68	9,744
Exercised	0.62	(5,212)	0.67	(2,808)
As at 31 December	0.86	1,724	0.68	6,936
Exercisable as at 31 December	0.83	1,541	0.59	5,402

31. Share-based compensation (continued)

(a) Share Purchase Scheme (continued)

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

	2009		2008	
Expiry date	Weighted average exercise price (per share) HK$	Share options (Thousands)	Weighted average exercise price (per share) HK$	Share options (Thousands)
8 June 2010	0.86	439	0.55	4,114
11 November 2011	0.86	75	0.86	175
5 July 2012	0.86	945	0.86	2,015
30 August 2012	0.86	–	0.86	67
1 January 2013	0.86	100	0.86	280
2 July 2013	0.86	19	0.86	19
16 November 2013	0.86	33	0.86	116
27 November 2013	0.86	113	0.86	150
		1,724		6,936

(b) Pre-IPO Share Option Scheme

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

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

31. Share-based compensation (continued)

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

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

	2009		2008	
	Exercise price (per share) HK$	Outstanding options (Thousands)	Exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	1.8275	3,816	1.8275	4,656
Exercised	1.8275	(2,953)	1.8275	(791)
Lapsed	–	–	1.8275	(49)
As at 31 December	1.8275	863	1.8275	3,816
Exercisable as at 31 December	1.8275	863	1.8275	3,816

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

	2009		2008	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
5 June 2010	1.8275	863	1.8275	3,816

(c) Share Option Scheme

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

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

31. Share-based compensation (continued)

(c) Share Option Scheme (continued)

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

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

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

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

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

	2009		2008	
	Weighted average exercise price (per share) HK$	Outstanding Options (thousands)	Weighted average exercise price (per share) HK$	Outstanding options (thousands)
As at 1 January	8.649	13,134	5.634	12,285
Granted	14.228	20,172	16.494	3,718
Exercised	5.831	(3,572)	4.506	(2,564)
Lapsed	15.300	(100)	11.273	(305)
As at 31 December	12.764	29,634	8.649	13,134
Exercisable as at 31 December	6.236	6,503	4.764	8,288

31. Share-based compensation (continued)

(c) Share Option Scheme (continued)

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

	2009		2008	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
4 July 2011	3.685	4,264	3.685	6,823
3 January 2012	5.500	14	5.500	140
4 September 2012	8.830	1,387	8.830	1,936
20 November 2012	9.840	300	9.840	300
19 July 2013	19.680	350	19.680	350
4 July 2014	17.220	3,014	17.220	3,428
5 December 2014	10.940	133	10.940	157
19 January 2015	11.370	14,112	–	–
1 April 2015	13.180	689	–	–
22 October 2015	21.870	5,371	–	–
		29,634		13,134

(d) Fair value of share options

The fair value of the options granted under the above schemes during the years ended 31 December 2009 and 2008 determined by using Black-Scholes valuation model were as follows:

	2009 RMB'000	2008 RMB'000
Post-IPO Options	91,210	16,826

31. Share-based compensation (continued)

(d) Fair value of share options (continued)

Significant inputs into the model were as follows:

	2009	2008
Post-IPO Option		
Weighted average share price (HK$)	14.00	17.07
Weighted average exercise price (HK$)	14.11	16.96
Expected volatility	53.6%	49.8%
Expected option life (years)	4.34	4.00
Weighted average annual risk free interest rate	1.2%	3.0%
Expected dividend yield	2.0%	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 2009 were RMB2,504,000 and RMB37,853,000 respectively (2008: RMB7,605,000 and RMB8,617,000).

(e) Restricted Share Award Scheme

The Company adopted the Li Ning Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") on 14 July 2006 with a duration of 10 years commencing from the adoption date. The objective of the Restricted Share Award Scheme is to encourage and retain selected participants which include directors, employees, 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.

31. Share-based compensation (continued)

(e) Restricted Share Award Scheme (continued)

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

	2009 Weighted average fair value (per share) HK$	2009 Number of Restricted Shares granted (Thousands)	2008 Weighted average fair value (per share) HK$	2008 Number of Restricted Shares granted (Thousands)
As at 1 January	17.91	4,186	20.14	2,734
Granted	21.55	6	16.17	2,617
Vested	10.20	(1,749)	19.55	(944)
Lapsed	16.87	(84)	16.12	(221)
As at 31 December	18.31	2,359	17.91	4,186

The fair value of Restricted Shares charged to the consolidated income statement was RMB25,544,000 during the year ended 31 December 2009 (2008: RMB35,374,000).

32. Commitments

(a) Capital commitments

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

	Group 2009 RMB'000	Group 2008 RMB'000	Company 2009 RMB'000	Company 2008 RMB'000
Contracted for but not paid				
– property, plant and equipment	–	12,055	–	–
– license rights	–	404,272	–	–
	–	416,327	–	–

There is no capital expenditure authorised but not contracted for by the Group and the Company as at 31 December 2009 and 2008.

32. Commitments (continued)

(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:

	2009 RMB'000	2008 RMB'000
Not later than 1 year	220,795	150,871
Later than 1 year and not later than 5 years	505,509	449,749
Later than 5 years	185,329	223,877
	911,633	824,497

33. Business combination

On 15 May 2009, the Group acquired control through acquisition of a 100% equity interest of Kason, a company incorporated in Hong Kong, for a total consideration of RMB165,000,000. Kason, together with its subsidiary in the PRC are principally engaged in the research and development, manufacture and sale of badminton sports equipment under the "Kason" brand in the PRC. The direct costs relating to the acquisition has been included in the total consideration as the amount is insignificant. There is no contingent consideration.

The acquired business contributed revenues of RMB43,186,000 and net loss of RMB17,712,000 to the Group for the period from acquisition of control to 31 December 2009. If the acquisition of control had occurred on 1 January 2009, consolidated revenue and consolidated net profit for the year ended 31 December 2009 would have been increased by RMB18,403,000 and RMB4,388,000 respectively. These amounts have taken into account the additional amortisation resulting from the fair value adjustment to inventories and intangible assets, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Total purchase consideration	
– cash paid and payable	165,000
Fair value of net identifiable assets acquired (see below)	(92,613)
Goodwill	72,387

The above goodwill is attributable to Kason's strong position and profitability in the market and the significant synergies expected to arise after its acquisition by the Group.

33. Business combination (continued)

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount RMB'000	Fair value RMB'000
Cash and cash equivalents	16,409	16,409
Property, plant and equipment	2,714	2,714
Software and other intangible assets	37	37
Trademarks	453	21,537
Customer relationships	–	28,607
Non-compete agreements	–	12,732
Inventories	20,324	38,451
Other receivables and prepayments	536	536
Deferred income tax assets	103	103
Trade and other payables	(8,375)	(8,375)
Deferred income tax liabilities	–	(20,138)
Net identifiable assets acquired		92,613
Outflow of cash to acquire business, net of cash acquired:		
– total purchase consideration		165,000
– cash and cash equivalents in subsidiary acquired		(16,409)
– prepayment settled in 2008		(20,000)
– consideration payable (Note 18)		(16,273)
Cash outflow on acquisition in this year		112,318

34. Related-party transactions

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

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

(a) Sales of goods to:

	2009 RMB'000	2008 RMB'000
Shanghai Double Happiness (Group) Co., Ltd. and related companies, all being controlled by a key management personnel of a non-wholly owned subsidiary	6,657	3,530

(b) Purchases of goods from:

	2009 RMB'000	2008 RMB'000
Shanghai Double Happiness (Group) Co., Ltd. and related companies	43,792	28,417

(c) Sponsorship fee paid to:

	2009 RMB'000	2008 RMB'000
Beijing Edo Sports Development Company Limited, a company controlled by the family members of Mr. Li Ning, chairman of the Company	–	1,116

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.

34. Related-party transactions (continued)

(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:

	2009 RMB'000	2008 RMB'000
Salaries and other benefits	15,838	17,708
Contribution to retirement benefit scheme	387	321
Employee share schemes for value of services provided	20,521	17,942
	36,746	35,971

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

	2009 RMB'000	2008 RMB'000
Receivables from related parties:		
Shanghai Double Happiness (Group) Co., Ltd. and related companies	249	822
Payables to related parties:		
Shanghai Double Happiness (Group) Co., Ltd. and related companies	4,137	9,827

(f) Guarantee provided to:

	2009 RMB'000	2008 RMB'000
Shanghai SIIC Marie Painting Materials Co., Ltd., a company controlled by a key management personnel of a non-wholly owned subsidiary	–	5,400

(g) Guarantee provided by:

	2009 RMB'000	2008 RMB'000
Shanghai SIIC Marie Painting Materials Co., Ltd.	–	9,840

Glossary

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

"AIGLE"	Aigle International S.A., a corporation organised under the laws of France
"Alpha Talent"	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"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
"Kason Sports"	Kason Sports (Hong Kong) Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Lotto Sport"	Lotto Sport H.K. Limited, a company incorporated in Hong Kong and ultimately beneficially owned by Lotto Sport Italia S.p.A., which is a corporation established under the laws of Italy
"Post-IPO Share Option Scheme"	the post-IPO share option scheme of the Company adopted on 5 June 2004
"PRC" or "China"	the People's Republic of China
"Pre-IPO Share Option Scheme"	the pre-IPO share option scheme of the Company adopted on 5 June 2004
"Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006
"RMB"	Renminbi, the lawful currency of the PRC
"Shanghai Double Happiness"	Shanghai Double Happiness Co., Ltd., a limited liability company established in the PRC and a 57.5%-owned subsidiary of the Group
"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