



**LI NING COMPANY LIMITED**

**李寧有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code : 2331)



***Make the change***

Interim Report

**2012**

# Mission

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

# Vision

A world's leading brand in the sporting goods industry

# Core Values

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



# Corporate Profile

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

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



*Make the change*  
**2012**

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## Corporate Information

### Board of Directors

#### Executive Directors

Mr. LI Ning (*Executive Chairman*)  
Mr. Jin-Goon KIM (*Executive Vice Chairman*)  
Mr. ZHANG Zhi Yong  
Mr. CHONG Yik Kay (*Chief Financial Officer*)

#### Non-executive Directors

Mr. CHU Wah Hui  
Mr. James Chun-Hsien WEI  
Mr. CHEN Yue, Scott

#### Independent non-executive Directors

Mr. KOO Fook Sun, Louis  
Ms. WANG Ya Fei  
Mr. CHAN Chung Bun, Bunny  
Mr. SU Jing Shyh, Samuel

### Executive Committee

Mr. LI Ning (*Committee Chairman*)  
Mr. Jin-Goon KIM  
Mr. CHEN Yue, Scott

#### Chief Advisor

Mr. ZHANG Zhi Yong

### Audit Committee

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

### Remuneration Committee

Ms. WANG Ya Fei (*Committee Chairman*)  
Mr. CHEN Yue, Scott  
Mr. CHAN Chung Bun, Bunny

### Nomination Committee

Mr. Jin-Goon KIM (*Committee Chairman*)  
Mr. LI Ning  
Mr. CHAN Chung Bun, Bunny

### Authorised Representatives

Mr. LI Ning  
Mr. CHONG Yik Kay

### Company Secretary

Ms. LEE Hung

### Registered Office

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

### Principal Place of Business in Hong Kong

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

### Operational Headquarters

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



### **Principal Share Registrar and Transfer Office**

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

### **Hong Kong Branch Share Registrar and Transfer Office**

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

### **Auditor**

PricewaterhouseCoopers  
*Certified Public Accountants*

### **Legal Advisors**

*Hong Kong law*  
Baker & McKenzie

*PRC law*  
Hi-Jion Law Group

### **Principal Bankers**

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

*PRC*  
Industrial & Commercial Bank of China  
China Construction Bank  
Bank of China  
China Merchants Bank  
China MinSheng Banking Corporation Limited  
Hang Seng Bank (China) Limited  
Standard Chartered Bank (China) Limited  
DBS Bank (China) Limited

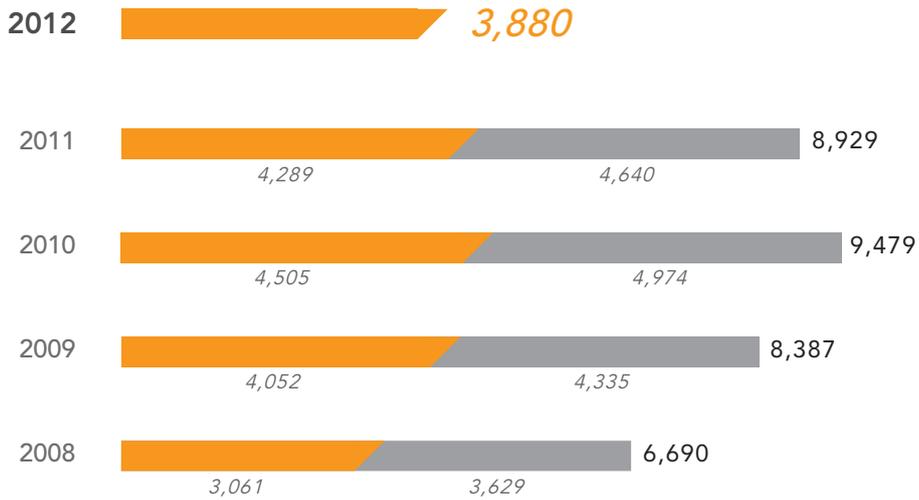


# Five-year Financial Highlights

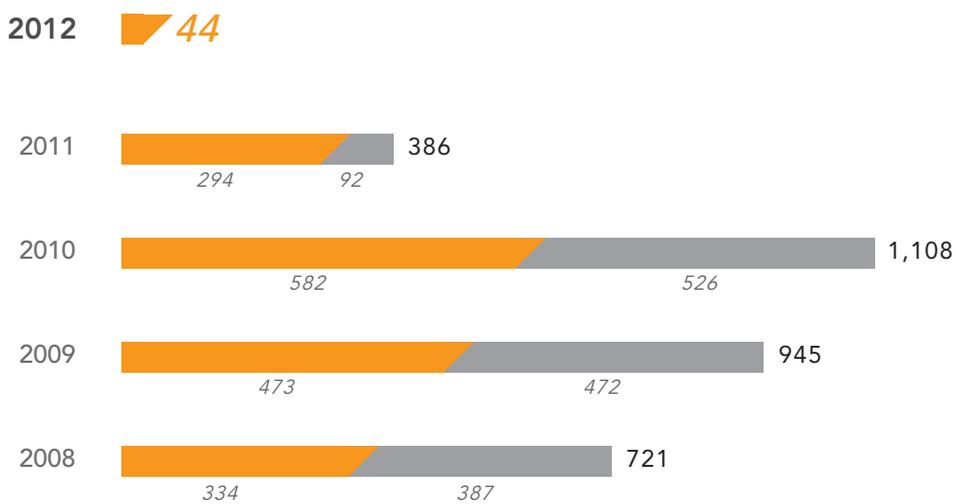
(All amounts in RMB millions)

■ First half year   
 ■ Second half year   
 ■ ■ Full year

## Revenue



## Profit Attributable to Equity Holders





## Management Discussion and Analysis

### Overview

China's economic growth showed a downward trend in the first half of 2012 as a result of weakening demand both internationally and domestically. The consumer price index (CPI) began to fall in the first half of 2012, and yet retail sales for consumer goods declined as compared to 2011.

The Group's analysis shows that the growth rate of China's sporting goods industry decelerated to a single-digit pace in the first half of 2012. Meanwhile, critical inventory pressure still exists at the retail end and industry competition continues to intensify. In addition, as China's per capita income rises and the concept of consumption gradually matures, consumer demand towards branding and product value has elevated markedly.

Although the Group has been implementing a series of strategic business reforms since 2011, the effects of these have yet to become apparent due to the unfavourable market environment as well as the challenges brought about by the current phase of the Group's development. The Group's business performance and key financial indicators have been affected significantly; nonetheless, throughout the reform process, the Board and the management have been analysing and reviewing the situation on an ongoing basis and implementing the reforms actively.

### Financial Review

The key operating results and financial indicators of the Group for the six months ended 30 June 2012 are set out below:

	Unaudited		Change (%)
	Six months ended 30 June 2012	2011	
<b>Income statement items</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue	3,880,097	4,289,303	(9.5)
Gross profit	1,715,483	2,029,135	(15.5)
Operating profit	183,639	442,286	(58.5)
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 1)	304,958	568,013	(46.3)
Profit attributable to equity holders	44,294	293,740	(84.9)
Basic earnings per share (RMB cents) (Note 2)	4.21	27.94	(84.9)
<b>Key financial ratios</b>			
<b>Profitability ratios</b>			
Gross profit margin (%)	44.2	47.3	
Operating profit margin (%)	4.7	10.3	
Effective tax rate (%)	33.8	24.8	
Margin of profit attributable to equity holders (%)	1.1	6.8	
Return on equity holders' equity (%)	1.2	8.6	
<b>Expenses to revenue ratios</b>			
Staff costs (%)	9.6	8.7	
Advertising and marketing expenses (%)	13.0	15.9	
Research and product development expenses (%)	2.4	2.6	
<b>Asset efficiency</b>			
Average inventory turnover (days) (Note 3)	95	72	
Average trade receivables turnover (days) (Note 4)	108	63	
Average trade payables turnover (days) (Note 5)	112	91	

## Management Discussion and Analysis (Continued)

	Unaudited 30 June 2012	Audited 31 December 2011
<i>Asset ratios</i>		
Debt-to-equity ratio (%) (Note 6)	103.3	105.5
Interest-bearing debt-to-equity ratio (%) (Note 7)	46.2	24.1
Net asset value per share (RMB cents)	365.63	348.22

### Notes:

- The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of profit for the period, income tax expense, finance costs-net, depreciation of property, plant and equipment, and amortisation of land use rights and intangible assets.
  - The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the period divided by the weighted average number of ordinary shares in issue less ordinary shares held for the Restricted Share Award Scheme.
  - The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances of the period divided by cost of sales and multiplied by the number of days in the period.
  - The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables of the period divided by revenue and multiplied by the number of days in the period.
  - The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables of the period divided by total purchases and multiplied by the number of days in the period.
  - The calculation of debt-to-equity ratio is based on the total liabilities divided by equity attributable to equity holders of the Company at the end of the period.
  - The calculation of interest-bearing debt-to-equity ratio is based on the total interest-bearing borrowings (including bank borrowings and convertible bonds) divided by the share capital and reserves attributable to equity holders of the Company at the end of the period.
- \* The aforesaid indicators provided by the Group may not necessarily be the same in terms of calculation methods as those provided by other issuers.



## Management Discussion and Analysis (Continued)

### Revenue

The Group's revenue for the six months ended 30 June 2012 amounted to RMB3,880,097,000, representing a decrease of 9.5% as compared to the corresponding period last year.

#### Revenue breakdown by brand and product category

	Six months ended 30 June				Revenue change (%)
	2012		2011		
	RMB'000	% of total revenue	RMB'000	% of total revenue	
<b>LI-NING brand</b>					
Footwear	1,601,602	41.3	1,648,975	38.4	(2.9)
Apparel	1,612,335	41.6	1,991,130	46.4	(19.0)
Equipment/accessories	218,721	5.6	255,348	6.0	(14.3)
<b>Total</b>	<b>3,432,658</b>	<b>88.5</b>	<b>3,895,453</b>	<b>90.8</b>	<b>(11.9)</b>
<b>Double Happiness brand</b>					
<b>Total</b>	<b>305,520</b>	<b>7.9</b>	<b>259,779</b>	<b>6.0</b>	<b>17.6</b>
<b>Lotto brand</b>					
<b>Total</b>	<b>51,081</b>	<b>1.3</b>	<b>53,995</b>	<b>1.3</b>	<b>(5.4)</b>
<b>Other brands*</b>					
<b>Total</b>	<b>90,838</b>	<b>2.3</b>	<b>80,076</b>	<b>1.9</b>	<b>13.4</b>
<b>Overall</b>					
<b>Total</b>	<b>3,880,097</b>	<b>100.0</b>	<b>4,289,303</b>	<b>100.0</b>	<b>(9.5)</b>

\* Including AIGLE, Kason and Z-DO.

The Group's core brand, LI-NING brand, recorded revenue of RMB3,432,658,000, which accounted for 88.5% of the Group's total revenue, representing a decrease of 11.9% as compared to the corresponding period last year with declines in revenue from its various product categories. During the period, due to the overall economic condition and industry landscape, the sporting goods industry in China experienced a further slowdown as well as the increasing pressure from inventories in retail channels. Meanwhile, the increasingly intensified competitions in retail market and higher retail discounts, coupled with rising labour costs and rentals, led to further shrinking profit margins in the retail end. In view of the industrial and market conditions, the Group scaled down the sales to distributors to mitigate the pressure from inventories in retail channels and focused its operations on: 1) expediting the clearance of stock and optimising the inventory structure in retail end. According to its stock repurchase policy, the Group continued to buy back a portion of outdated stock from distributors during the period, which were sold through factory outlets and discount stores, seeking to accelerate the turnover of retail stocks and to resume the inventory in retail channels to a healthy level as soon as possible; 2) improving sales channel building and enhancing channel efficiency. The Group continued to set up factory outlets and discount stores as scheduled, while placing emphasis on improving the profitability of its retail end and closing up certain inefficient stores.

Among the various brands under the Group, revenue of Double Happiness brand maintained a steady growth rate of 17.6%. Lotto brand, in progress of business transformation, recorded a slight drop in revenue year-on-year. As for other brands, AIGLE brand recorded a significant year-on-year increase of 47.6% in revenue which further demonstrated its brand strength; Kason brand recorded a notable revenue growth of 53.2% year-on-year; and Z-DO brand, in the last stage of stock clearance, posted a material year-on-year decrease in revenue.

## Management Discussion and Analysis (Continued)

### Percentage of revenue of LI-NING brand by sales channel

	Six months ended 30 June		Change
	2012	2011	
	% of revenue of LI-NING brand	% of revenue of LI-NING brand	
<b>LI-NING brand</b>			
PRC market			
Sales to franchised distributors	77.0	79.2	(2.2)
Sales from direct operation	20.8	19.1	1.7
International markets	2.2	1.7	0.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

With the decrease in revenue generated from sales to franchised distributors and the increase in revenue generated from international markets, revenue generated from sales to franchised distributors of LI-NING brand as a percentage to total revenue decreased.

### Revenue breakdown of LI-NING brand by geographical location

	Note	Six months ended 30 June		Revenue change (%)
		2012	2011	
		% of revenue of LI-NING brand	% of revenue of LI-NING brand	
		RMB'000	RMB'000	
<b>LI-NING brand</b>				
PRC market				
Eastern region	1	805,548	985,896	(18.3)
Northern region	2	1,442,601	1,600,589	(9.9)
Southern region	3	626,423	614,620	1.9
Western region	4	480,942	628,834	(23.5)
International markets		77,144	65,514	17.8
<b>Total</b>		<b>3,432,658</b>	<b>3,895,453</b>	<b>(11.9)</b>

#### Notes:

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui and Shandong.
2. Northern region includes Beijing, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Jiangxi, Yunnan, Guizhou and Hong Kong.
4. Western region includes Hunan, Hubei, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Sichuan, Chongqing and Tibet.
5. During the period, the Group adjusted the organisation structure and geographical delineation of the sales regions for LI-NING brand (see notes 1, 2, 3 and 4 above for details). As a result, the sales revenue for the six months ended 30 June 2011 is restated according to the adjusted geographical delineation.



## Management Discussion and Analysis (Continued)

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

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

### Cost of Sales and Gross Profit

For the six months ended 30 June 2012, overall cost of sales of the Group amounted to RMB2,164,614,000 (2011: RMB2,260,168,000), and overall gross profit margin was 44.2% (2011: 47.3%). The decrease in overall gross profit margin as compared to the corresponding period in 2011 was mainly due to the higher overall discount rates in the retail end, the clearance of obsolete inventory as well as the higher weight of other brands, which have lower gross profit margins than LI-NING brand, in the Group's total revenue.

Cost of sales of LI-NING brand amounted to RMB1,882,666,000 (2011: RMB2,029,826,000), and gross profit margin was 45.2% (2011: 47.9%). The decrease in gross profit margin of LI-NING brand for the period was attributable to the higher overall discount rates in the retail end amid the intensified market competitions, higher percentages of sales through factory outlets and discount stores, a slight mark-down of prices for apparel products and the clearance of obsolete inventory.

Cost of sales of Double Happiness brand amounted to RMB185,194,000 (2011: RMB150,915,000), and gross profit margin was 39.4% (2011: 41.9%). The slight year-on-year decrease in gross profit margin of Double Happiness brand was attributable to the rising raw material and labour costs of upstream suppliers during the period.

Cost of sales of Lotto brand amounted to RMB31,235,000 (2011: RMB36,823,000), and gross profit margin was 38.9% (2011: 31.8%). The increase in gross profit margin of Lotto brand was attributable to the higher percentage of product sales through the directly-operated stores during the period.

### Distribution Costs

For the six months ended 30 June 2012, the Group's overall distribution costs amounted to RMB1,152,921,000 (2011: RMB1,323,873,000), accounting for 29.7% (2011: 30.9%) of the Group's total revenue.

Distribution costs of LI-NING brand amounted to RMB1,042,602,000 (2011: RMB1,177,830,000), accounting for 30.4% (2011: 30.2%) of LI-NING brand's revenue. As the Group streamlined its costs and expenses to enhance operating efficiency, advertising and marketing expenses decreased substantially and the salaries and benefits of sales staff, depreciation and amortisation charges, sundry expenses, etc. remained stable or reduced, resulting in the overall decrease in distribution costs. Meanwhile, the Group strived for enhancing retail sales capabilities and consolidating and closing up the inefficient stores. However, an overall increase in rental costs of retailing was recorded due to the higher unit rental cost. As a result of the foregoing, the percentage of overall distribution costs of LI-NING brand to revenue of LI-NING brand increased slightly as compared to the same period in 2011. In the second half year, the Group will continue to optimise its cost structure and given the marketing activities for events including London Olympics and the sponsorship for the Chinese Basketball Association (CBA), an increase in the Group's advertising and marketing expenses is expected for the whole year of 2012.



## Management Discussion and Analysis (Continued)

Distribution costs of Double Happiness brand amounted to RMB40,604,000 (2011: RMB31,855,000), accounting for 13.3% of Double Happiness brand's revenue which was 1.0 percentage point above the 12.3% recorded in the same period in 2011. This was mainly attributable to higher transportation and warehousing cost on the back of the increased revenue.

Distribution costs of Lotto brand amounted to RMB44,654,000 (2011: RMB72,480,000). The decrease in distribution costs was attributable to the ceasing of the considerable amortisation of license fee as the Group made a full amount impairment provision for Lotto brand's license as adjusted under a supplemental agreement entered into with the licensor, together with a significant decrease in marketing expenses due to the effective control. The impairment provision for license right amounting to RMB127,838,000 was included into Lotto brand's administrative expenses, and the one-off income of RMB68,302,000 arising from the revision to the original agreement was included into Lotto brand's other gains.

### Administrative Expenses

For the six months ended 30 June 2012, the Group's overall administrative expenses amounted to RMB503,934,000 (2011: RMB336,605,000), accounting for 13.0% (2011: 7.8%) of the Group's total revenue.

Administrative expenses of LI-NING brand amounted to RMB326,260,000 (2011: RMB291,142,000), accounting for 9.5% of LI-NING brand's revenue, which was 2.0 percentage points above the 7.5% recorded in the same period in 2011. Such expenses mainly comprised staff costs, management consulting expenses, office rental, depreciation and amortisation charges, taxes, provision for impairment of assets and other sundry expenses. Given the decline in LI-NING brand's revenue, the Group has exercised effective control on and reduced the sundry expenses and labour costs. However, due to the increase in inventory balance as a result of the buy-back of a portion of inventories from distributors during the period and flat growth in orders, together with the higher balance of long ageing trade receivables, the provision for impairment of assets increased noticeably, resulting in an increase in administrative expenses as a percentage to the revenue of LI-NING brand.

Administrative expenses of Double Happiness brand amounted to RMB23,972,000 (2011: RMB29,380,000), accounting for 7.8% (2011: 11.3%) of Double Happiness brand's revenue. Such expenses mainly comprised staff costs, depreciation and amortisation charges, provision for impairment of assets and other sundry expenses. While the sales revenue registered stable growth, the daily administrative expenses remained steady or reduced which, together with a partial reversal of impairment provision upon sale of inventories, overall administrative expenses of Double Happiness brand recorded a year-on-year decrease.

Administrative expenses of Lotto brand amounted to RMB144,463,000 (2011: RMB4,855,000), accounting for 282.8% (2011: 9.0%) of Lotto brand's revenue. Such expenses mainly comprised staff costs, basic research and development costs, depreciation and amortisation charges, provision for impairment of assets and other sundry expenses. During the period, the Group made a full amount provision of RMB127,838,000 for impairment of intangible assets based on Lotto brand's license as adjusted under a supplemental agreement entered into with the licensor. Meanwhile, due to the increase in inventories and changes in the ageing structure of inventories as well as the higher balance of long ageing trade receivables, the provision for impairment of other assets also increased substantially during the period. Other administrative expenses such as sundry expenses and staff costs remained steady or reduced.

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

For the six months ended 30 June 2012, the Group's EBITDA amounted to RMB304,958,000 (2011: RMB568,013,000), representing a decrease of 46.3% as compared to the corresponding period last year. The decrease in EBITDA was mainly attributable to the decrease in sales revenue and gross profit as well as the increase in rental costs, a larger provision for impairment of assets due to slower asset turnover rate and the considerable impairment provision for Lotto brand license, though partially offset by the decreases in advertising and marketing expenses, sundry expenses and labour costs during the period.



## Management Discussion and Analysis (Continued)

EBITDA of LI-NING brand amounted to RMB346,167,000 (2011: RMB572,914,000), representing a year-on-year decrease of 39.6%. This was mainly attributable to the decrease in gross profit and the increase in expense ratio.

EBITDA of Double Happiness brand amounted to RMB64,516,000 (2011: RMB56,514,000), representing a year-on-year increase of 14.2%. This was mainly attributable to the increase in gross profit on the rising sales revenue, while the overall expense ratio remained stable during the period.

EBITDA of Lotto brand recorded a loss of RMB100,582,000 (2011: loss of RMB49,928,000). The significant increase in loss was attributable to the substantially increased provision for impairment of assets, though partially offset by the decrease in marketing expenses.

### Finance Costs

For the six months ended 30 June 2012, the Group's net finance costs amounted to RMB86,760,000 (2011: RMB30,423,000), representing 2.2% (2011: 0.7%) of the Group's total revenue, amongst which the interest expense on convertible bonds for the period was RMB21,289,000 (2011: nil). The increase in finance costs was also attributable to the increase in short-term borrowings and the rising interest rates during the period.

### Income Tax Expense

For the six months ended 30 June 2012, income tax expenses of the Group amounted to RMB31,548,000 (2011: RMB102,183,000) and the effective tax rate was 33.8% (2011: 24.8%).

### Overall Profitability Indicators

Due to the decreases in sales revenue and gross profit and the increase in expense ratio, the overall profitability indicators of the Group for the six months ended 30 June 2012 declined significantly. For the six months ended 30 June 2012, the Group's profit attributable to equity holders amounted to RMB44,294,000 (2011: RMB293,740,000), representing a year-on-year decrease of 84.9% as compared to the same period in 2011. Margin of profit attributable to equity holders was 1.1% (2011: 6.8%), representing a decrease of 5.7 percentage points as compared to the same period in 2011. Return on equity of the Group was 1.2% (2011: 8.6%), representing a decrease of 7.4 percentage points as compared to the same period in 2011.

### Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2012 was the same as that in 2011. Inventories are stated at the lower of cost and net realisable value. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers that the aforesaid policy ensures sufficient provision for inventories of the Group.

As at 30 June 2012, the accumulated provision for inventories was RMB222,841,000 (31 December 2011: RMB187,509,000). The increased inventory balance for LI-NING brand at the end of the period resulted in the increase in the overall provision for inventories for the period.

### Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for the first half of 2012 was the same as that in 2011.



## Management Discussion and Analysis (Continued)

As at 30 June 2012, the accumulated provision for doubtful debts was RMB61,223,000 (31 December 2011: RMB11,400,000). Due to the increased long ageing trade receivables, the balance of provision for doubtful debts at the end of the period experienced a substantial increase.

### Liquidity and Financial Resources

The Group's net cash used in operating activities for the six months ended 30 June 2012 amounted to RMB601,847,000 (2011: net cash inflow of RMB373,574,000). As at 30 June 2012, 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 RMB1,326,874,000, representing a net increase of RMB130,400,000 as compared with the position as at 31 December 2011. The increase was brought about by the following items:

Items	Unaudited
	Six months ended 30 June 2012 RMB'000
Net cash used in operating activities	(601,847)
Net capital expenditure	(125,010)
Prepayment for other investments	(12,100)
Net proceeds from bank borrowings	185,127
Proceeds from issuance of convertible bonds	745,691
Other net cash outflow	(61,461)
Net increase in cash and cash equivalents	130,400

Given the facts that the cash turnover rate of distributors decreased as affected by the retail market and the government's tightened monetary policy, the Group decided to extend further support to its distributors, which led to the increase in accounts receivable turnover days and the overall cash turnover days for the period, causing a substantial impact on the Group's operating cash flow. The Group is actively taking initiatives in order to improve the receivables.

The Group has sufficient standby bank credit facilities to cope with the funding needs arising from daily operations and future developments. As at 30 June 2012, the Group's available banking facilities amounted to RMB1,998,600,000, amongst which outstanding bank borrowings amounted to RMB1,024,040,000. During the period, the Group also issued convertible bonds in the amount of RMB750,000,000, and received net proceeds of RMB745,691,000 after deducting the issuance expenses. As at the end of the period, the outstanding bank borrowings and bonds payable to equity holders' equity ratio (i.e. the gearing ratio) was 46.2% (31 December 2011: 24.1%).

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

### Foreign Exchange Risk

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



## Management Discussion and Analysis (Continued)

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

### Pledge of Assets

As at 30 June 2012, buildings with net book value of RMB19,315,000 (31 December 2011: RMB20,190,000) and land use rights with net book value of RMB14,764,000 (31 December 2011: RMB14,934,000) of the Group were pledged to secure certain bank borrowings of a company of the Group.

### Contingent Liabilities

As at 30 June 2012, the Group had no significant contingent liabilities.

## Business Review

During the first half of 2012, in the face of the industry slowdown and intensifying competition, the Group's business performance showed a relatively large degree of decline. To effectively respond to the industry environment, and to propel the Group's long-term, sustainable development, the Group decided to focus its resources on the core LI-NING brand and the Chinese market, centre on the essence of sports, to give full play to the brand value. Meanwhile, the Group strove to clear inventory at the retail level, streamline the store network, close down inefficient stores and improve retail efficiency. Moreover, the Group endeavoured to strengthen sports marketing, as well as optimise products and the supply chain in order to steer the Group back onto a healthy path of development as quickly as possible.

## LI-NING Brand

### Brand Marketing and Promotion

Adhering to the strategy of focusing on its core business, during the first half of 2012, the Group formulated and executed its Olympics integrated marketing plan and sustained its consistent communication with consumers on the brand positioning via marketing platforms founded on core sports competitions, combined with new product functionality and unique brand personality to strengthen brand equity.

### Core Sports Categories

#### *Basketball*

*Sponsorship of the "Chinese Basketball Association" ("CBA")* – In June 2012, the Group signed a memorandum of cooperation regarding the Group's role as an equipment sponsor for the CBA for five seasons from 2012/2013 through 2016/2017. After years of development, the CBA has built substantial commercial as well as brand value. It has grown to become one of the most popular sports leagues with the highest fan loyalty in China. Sponsorship of the CBA is an important strategic choice made by the Group to exemplify the true essence of sports in the LI-NING brand. Armed with the sponsorship rights for the CBA, the Group will fully utilise the CBA's sports marketing platform, extensive exposure and excellent resources to expand the LI-NING brand's basketball business, enhance brand value and further develop the Group's business overall.



## Management Discussion and Analysis (Continued)

**Sponsorship of the “National Basketball League” (“NBL”)** – Li Ning Group also cooperates with the CBA through sponsorship of the NBL which provides another professional competition platform for LI-NING brand’s basketball category. The NBL’s 2012 season-opening press conference was hosted in April in Beijing. As the top official strategic partner of the NBL, LI-NING brand held a parallel exhibition on-site to showcase the professional basketball equipment to be used during the forthcoming NBL season. Gansu Television will maintain its close working relationship with the league to report the entire NBL tournament, while local television stations of the home city of each club will also actively broadcast the games. During this season a portion of the Hong Kong Club’s games will be played in Hong Kong, marking the first time that NBL enters Hong Kong, expanding the NBL’s nationwide influence.

**“Turning Point 001 (旋機 001) and Year of the Dragon Special Edition” Promotion Campaign** – During the period, the exclusive signature shoes designed for the Group’s sponsored NBA star – Evan Turner, called the first-generation “Turning Point 001”, were launched in two special edition colour palettes named “Blue and white porcelain” and “Imperial robe” to mark the Year of the Dragon. In January 2012, after five rounds of web-based warm-up rallies, representatives from 19 print and online media, opinion leaders in the basketball field from Beijing and other regions, as well as representatives of LI-NING basketball fans, gathered at Sanlitun, Beijing to jointly witness the product launch. This event effectively boosted the LI-NING brand’s exposure and product sales.

### Track and Field

**“IAAF Diamond League”** – This track and field meet is the professional competition platform for LI-NING brand’s running category. China’s most important international track and field meet of the year, the Diamond League Shanghai was held in May 2012. Three of LI-NING brand’s sponsored international athletes – 100m Jamaican sprinter Asafa Powell, men’s javelin champion Andreas Thorkildsen and men’s triple-jump athlete Christian Taylor, participated in the competition. Asafa Powell, who is a former world record holder, won the race as he outpaced all competitors to cross the finish line in 10.02 seconds. Both Andreas Thorkildsen and Christian Taylor came in third in their respective events. Through their performances at the stadium, the three athletes fully embodied the theme advocated by the LI-NING brand: “Self-Sharpening, Make the Change” (歷煉·讓改變發生).

### Running

**“LI-NING China 10K Road Racing League”** – This is the competition platform for LI-NING brand’s running category which unites professional and grassroots running events as one. This running league is approved by the Chinese Athletics Association as the first official running competition held in the form of a league. As the founding sponsor, Li Ning Company maintains exclusive title rights to the league. With the support of the Chinese Athletic Association and sports bureaus of various provinces and cities, the 2012 “LI-NING China 10K Road Racing League” was held over three separate stations in Xi’an, Shenzhen and Shanghai, with nearly 12,000 participants. During the tournaments, Li Ning Company set up a “LI-NING Running Experience Centre” to provide physical fitness tests, running technique analysis, running products experience as well as a platform of interaction between runners.

**“Beijing International Running Festival”** – With a history spanning 56 years, this is Beijing’s traditional large-scale mass sports event. Li Ning Company leveraged this event as an opener for the “LI-NING China 10K Road Racing League” to fully launch the first domestic official running races in the form of a league. This marathon has been listed in the World Championships in Athletics Series since 2011. With about 20,000 runners, the event has gained nation-wide media coverage and received strong attention from the community.



## Management Discussion and Analysis (Continued)

**“Run Off Pressure and Take a Breath” (跑掉壓力 輕呼吸) 9th Generation Ultralight Running Shoes Launch** – During the second quarter of 2012, the long-established core asset of LI-NING running shoes – “Ultralight”, was extended and the Group launched the 9th generation ultralight running shoes – “Light Vessel” (輕舟). To accompany the launch of “Light Vessel” products, LI-NING brand hosted an integrated brand marketing campaign with the theme “Run Off Pressure and Take a Breath”. The technology which gives the product its lightness and comfort, as well as the product’s distinct characteristics, were blended with an athlete’s story to add depth to the interpretation and application for communicating the “Run Off Pressure and Take a Breath” concept, helping to further shape LI-NING’s professional brand image in running. Many prominent media were invited to experience the “Light Vessel” running shoes at the 9th generation ultralight running shoes launch event, which resulted in wide recognition and positive coverage. The Group also used Sina Weibo as a platform to promote interactive online activities and content marketing communications, which drew over 100,000 active followers, further strengthening the awareness and loyalty among consumers to LI-NING brand.

**“Mini FunRun” Brand Experience Event** – “FunRun” and “Mini FunRun” are important interactive platforms for LI-NING brand’s running category to communicate seasonal brand concepts and product information to beginner runners. During the second quarter of 2012, in order to complement the marketing theme “Run Off Pressure and Take a Breath”, which revolved around the promotions of the 9th generation ultralight running shoes “Light Vessel” products, and to extend LI-NING brand’s “FunRun” interactive platform, the Group launched “Mini FunRun”, also known as “LI-NING 5K Night Run” event. Over 4,000 running enthusiasts participated in the event, allowing LI-NING brand to thoroughly present its products’ technology and brand attributes.

**“LI-NING iRUN” Club** – This integrated platform allows LI-NING brand’s running category to interact with experienced runners. “LI-NING iRUN” Club has established running organisations in 12 cities across the nation, and boasts memberships of over 5,000 running enthusiasts. During the first half of 2012, “LI-NING iRUN” Club arranged for runners to participate in various major activities including the Xiamen International Marathon, Tianjin International Marathon, Dalian International Marathon and the Diamond League Shanghai, providing them with a professional running experience. Such activities effectively convey the brand and product message while offering broad exposure of the LI-NING brand. The online community of the “LI-NING iRUN” Club provides an interactive platform on which participants can share knowledge of professional running, product descriptions and take part in interactive activities. This platform has become an important channel for the LI-NING brand’s running category to communicate and interact with consumers, as well as to obtain important market information.

### *Badminton*

Li Ning Company’s marketing for the badminton category adopts multi-brands, multi-channels and multi-platforms through integrated promotions, and has helped maintain its number one association with the Chinese National Badminton Team and China’s badminton sector.



## Management Discussion and Analysis (Continued)

**"2012 Thomas Cup and Uber Cup"** – In May 2012, the 27th Annual Thomas Cup or BWF Men's World Team Championships, and 24th Annual Uber Cup or BWF Women's World Team Championships were held in Wuhan, China. The Thomas Cup and the Uber Cup are two of the most respected international badminton competitions. Despite not being a sponsor of the competition, the LI-NING brand leveraged the event to carry out integrated marketing promotions for the badminton category, which were closely linked to the theme of "Agility, Make the Change" (靈敏·讓改變發生). Through top-notch sponsorship resource, Lin Dan (林丹)'s monologue – "Let the Game Follow Me" (比賽只能聽我的), the Group effectively strengthened the close association between the LI-NING brand and this major badminton competition. To complement the media's reports of competition results, public relations messages related to the Thomas Cup and Uber Cup professional gear were massively conveyed. These messages, which revolved around the competition apparel, Lin Dan's "HERO" competition shoes, "3D Breaking-free" (立體風刃) and "Air Stream System" (風動導流) technology platforms, and the brand's theme of "Agility, Make the Change", were frequently cited by the media. Great promotional effect was achieved during the seven days of the competition, as these brand messages were included in live reports of the tournament and its results by CCTV and other media. At the same time, online marketing has become more deeply engaged in the badminton category. During the competitions, the Group developed a feature page for the theme "Agility, Make the Change" on the Group's official website which attracted 114,234 visitors. The most renowned badminton forum, "badmintoncn.com", was targeted as a marketing focus and resulted in a total of 210,000 click throughs for the post which introduced LI-NING brand's professional gear designed for the Chinese National Badminton Team competing in the Thomas Cup and Uber Cup. As a prelude to the Olympic Games, the Thomas Cup and Uber Cup allowed the Group to accumulate a wealth of experience for its Olympic Games marketing.

**"2012 Singapore Open"** – As one of the major tours of the BWF Super Series, the Singapore open is also one of LI-NING brand's important international competition resources. During the 2012 Singapore Open, LI-NING brand's sponsored badminton player, Boonsak Ponsana, won the men's singles title while wearing the "Skill Silo" (靈) series professional competition shoes. This was his second Singapore Open championship.

### **Marketing and Promotions for London 2012 Olympic Games**

**Torch Relay in Athens** – The Group's Chairman, Mr. Li Ning, was invited to participate in the Greek leg of the torch relay for the London 2012 Olympic Games as a representative of the Beijing Olympics, and successfully concluded the torch relay across Greece with the last flame handover. Following his previous appointment as the final torchbearer at the opening ceremony of the Beijing 2008 Olympic Games, Mr. Li Ning was reunited with the Olympic Flame to once again deliver the Olympic dream, this time at the birthplace of the Olympic Games. The "Olympic Flame Witnesses Change" (聖火見證改變) event received much attention and was vastly reported by domestic mainstream television, print and online media, and was visited numerous times on social media platforms such as Sina Weibo, Tencent Weibo and Renren. The "Olympic Flame Witnesses Change" event achieved great results as the first key activity in the Group's Olympics marketing promotion campaign.

**"Witness the Change, the Dragon Dazzles London" (見證改變·龍耀倫敦) Press Conference for Sponsorship of Five National Gold Medal Teams' Olympic Sports Gear** – In June 2012, the Group held a press conference in Beijing with the theme "Witness the Change, the Dragon Dazzles London" to unveil its Olympic sports gear. The Group once again used the dragon theme in 2012 – the Year of Dragon – to launch the "Scarlet Scales" (赤鱗) sportswear series and provide professional competition gear for the Chinese National Gymnastics Team, Chinese National Shooting Team, Chinese National Diving Team, Chinese National Table Tennis Team and Chinese National Badminton Team during their quests for glory at the London 2012 Olympic Games. The event attracted immense attention and was reported heavily by domestic mainstream television, print and online media.



## Management Discussion and Analysis (Continued)

*“The Chinese will Make the Change” (中國人讓改變發生) themed Olympics marketing and promotions* – Just before the London 2012 Olympic Games, LI-NING brand launched the marketing and promotion campaign for the Olympics, with the theme “The Chinese will Make the Change”, which integrates a variety of resources including TV commercial, outdoor advertisement, brand public relations, in-store POP key vision, in-store displays of gold-medal team spotlight products, field events, themed sales as well as digital sales and marketing. The campaign fully leveraged the Group’s sports resources, the five Chinese “Dream Teams” which LI-NING brand sponsors, to solidify LI-NING’s status as “China’s number one sports brand” and to greatly enhance the association between the LI-NING brand and the Olympic Games. Li Ning Company also filmed the five gold-medal documentary series called “Dream Teams – Preparing for 2012” (夢之隊 – 備戰2012), jointly with the five national gold-medal teams. This series of short films combines the distinctive features of each sport of the five Olympic gold-medal teams with individual stories of team members to illuminate the strong sportsmanship of Chinese athletes, convey LI-NING brand’s core message during the London 2012 Olympic Games and further enhance LI-NING brand’s association with the five national gold-medal teams.

During the London Olympics, LI-NING and Tencent joined forces to establish “Chinese Legion” and “Five Gold Medal Teams Feature” to further propagate the brand’s image. These websites were visited by over one billion netizens. LI-NING brand’s sponsored athletes all used the standardised LI-NING background for their Weibo sites, which were visited by over 400 million netizens.

During the competition, through a series of champion-spotlight gestures, the five gold-medal teams’ sports gear achieved a large amount of media exposure, which further strengthened LI-NING brand’s association with the Chinese Olympic champions. After the competitions, the Group leveraged Weibo as a platform to quickly disseminate its “Attitude” commercials pertaining to the five gold-medal teams, generating strong awareness and approval from the industry and the masses, and effectively increasing the brand’s goodwill among consumers.

*Olympics Exhibition Tour* – With the opportunity brought forth by the London 2012 Olympic Games, Li Ning Company organised an exhibition tour to showcase LI-NING brand’s professional Olympic gear for the five national gold medal teams in the shopping malls of 12 major cities, including Beijing, Guangzhou and Shenzhen, from July through August. Through this exhibition, the Group elaborated on the product concept behind LI-NING brand’s Olympic gear, the five national gold medal teams’ Olympics history and the evolution of LI-NING’s sports stars. In addition, live interaction with celebrities and on-site promotions were also held to promote LI-NING brand’s Olympics resources, enhance the brand’s essence of professionalism in sports, and drive retail sales in local stores.

Li Ning Company seized the opportunity offered by the London 2012 Olympic Games to draw the ties between the LI-NING brand and the concept of sportsmanship closer together in the minds of consumers in order to improve their appreciation of the LI-NING brand’s professionalism in sports. LI-NING sports gear helped sports teams and athletes to achieve their best level of competition in the stadium and to fully demonstrate the spirit of “Make the Change”:

*Chinese National Badminton Team* – The 2012 Thomas Cup and Uber Cup kicked off in Wuhan in May. Both the Chinese National Badminton Men’s and Women’s Teams overcame their opponents by large margins to win the champion cups. The Chinese National Badminton Team was equipped with a full set of top-notch LI-NING brand gear, and badminton products boasting the latest technology were also showcased at the Thomas Cup and Uber Cup, help the team to victory. During the London 2012 Olympic Games, LI-NING brand helped the Chinese National Badminton Team to obtain great results of five gold medals, two silver medals and one bronze medal, marking the first time in history a team has swept all the gold medals in this event. LI-NING brand’s sponsored athlete, Lin Dan (林丹), also became the first two-time Olympic champion in badminton history.



## Management Discussion and Analysis (Continued)

**Chinese National Gymnastics Team** – During the Artistic Gymnastics World Cup 2012 in Zibo held in April, host country China's national team captured six gold medals in 10 events, to become the most outstanding team. At the London 2012 Olympics, the Chinese National Gymnastics Team won four gold medals, three silver medals and one bronze medal, while the Trampoline Team won one gold medal, one silver medal and two bronze medals.

**Chinese National Diving Team** – As a rehearsal for the Olympics, the Chinese National Diving Team captured all eight gold medals at the "2012 FINA Diving World Cup", one of the world's three most notable diving competitions. At the London 2012 Olympic Games, the Chinese National Diving Team won six gold medals, three silver medals and one bronze medal.

**Chinese National Table Tennis Team** – The team participated in 12 events organised by the International Table Tennis Federation. In particular, the team competed in two events for the A-League, eight for the B-League and two for the C-League. The team also competed four times in domestic commercial competitions and warm-up matches. At the London 2012 Olympic Games, the team won four gold medals and two silver medals, once again sweeping all the gold medals in this event.

**Chinese National Shooting Team** – During the first half of 2012, the team competed in nine events organised by the International Shooting Sport Federation. In particular, the team competed in two events for the A-league, five events for the B-league and two events in the C-league. The team also competed six times in domestic commercial competitions and warm-up matches. At the London 2012 Olympic Games, the team won two gold medals, two silver medals and three bronze medals, including the first Olympic gold by Yi Siling (易思玲).

During the London Olympics, the five gold medal teams swept 22 gold medals in total, accounting for 57.9% of the nation's total gold medal count. National sports resources sponsored by LI-NING brand also achieved outstanding results at the London Olympics, giving the brand great exposure while demonstrating the charisma of sportsmanship:

**Spanish Basketball Team/Argentina Basketball Team** – The Spanish and Argentina Basketball Teams both fought hard throughout the competition to reach the final gold medal game and the bronze medal game respectively. Ultimately, the Spanish Basketball Team won the silver medal while displaying its superb skills and tenacious style, winning world acclaim and also propelling the LI-NING brand and the sponsored sports gear to become a hot topic.

**USA Triple-jumping** – American triple-jump rising star, Christian Taylor, wore the latest LI-NING professional spiked shoes to win his first Olympic gold medal, and became this year's grand-slam winner in both World Championships and the Olympics.

**USA Diving Team** – Since winning medals 12 years ago at the Sydney Olympics, the USA Diving Team broke through from nil for the first time to win one gold medal, one silver medal and two bronze medals at the London 2012 Olympic Games. The team also staged a brilliant duel with the Chinese team in the men's 10 meter platform event, further strengthening the brand's exposure.

**Russian Pole Vaulting** – Russian pole vaulting veteran, Yelena Isinbaeva, came in third at the London 2012 Olympic Games.

**Swedish Olympic Delegation** – The Swedish Olympic Delegation won one gold, four silvers and three bronze medals at the London 2012 Olympic Games.

### Other Sports Category

#### Tennis

In June 2012, the Group-sponsored Marin Cilic captured the champion trophy in the AEGON Championships at Queen's Club with a five-match winning streak. The Queen's Cup marked Marin Cilic's first grass-court ATP title, and is also the seventh ATP World Tour title of his career.

# Management Discussion and Analysis (Continued)



## LI-NING Brand Sponsorship Resources

	 <b>Basketball</b>	 <b>Track &amp; Field/ Running</b>	 <b>Badminton</b>	 <b>Olympic Champion Teams</b>	 <b>Tennis</b>	 <b>Women's Fitness</b>	 <b>Football</b>
<b>TOP-NOTCH ATHLETES/ SPORTS TEAMS/ SPORTS CLUBS</b>	Spanish National Basketball Team	Asafa Powell	Chinese National Badminton Team	Chinese National Table Tennis Team	Peng Shuai	Lesmills China	
	Argentina National Basketball Team	Yelena Isinbaeva	Lin Dan	Chinese National Diving Team	Marin Cilic		
	Evan Turner	Andreas Thorkildsen		Chinese National Gymnastics Team			
	Jose Calderon	Christian Taylor		Chinese National Rhythmic Gymnastics Team			
				Chinese National Trampoline Team			
				Chinese National Shooting Team			
				Chinese National Trapshooting Team			
<b>TOURNAMENTS</b>	CBA	LI-NING China 10K Road Racing League	China Badminton Open (BWF)		ATP		Chinese University Football League
	NBL	Beijing International Running Festival	China Badminton Masters (BWF)				
			Singapore Badminton Open (BWF)				
			China Badminton Tournaments				
			China Badminton Club League				
			China Badminton Club First Division				
<b>OTHER IMPORTANT SPONSORSHIP RESOURCES</b>	China Youth Basketball Team	Ngonidzashe Makusha	Shanghai Province Badminton Team	Swedish Olympic Committee	Ivan Ljubičić	Nirvana Yoga	
	The Spanish Juventud Basketball Club	Plateau Training Base	Bayi Badminton Team	USA Diving Team	Yang Tsung-Hua	Physical Club of Shenzhen	
		11 Provincial Track & Field Teams	Guangdong Province Badminton Team		Zheng Saisai	CSI Bally	
			Qingdao Badminton Club		Pliskova sisters		
			Singapore National Badminton Team		ATP players (7 players)		
			Australia National Badminton Team		Tianjin Tennis Team		
			New Zealand National Badminton Team				
			Jan Ø. Jørgensen				
			Boonsak Ponsana				
		Pornthip Buranaprasertsuk					

## Sales Channel Expansion and Management

### Retail Stores

As at 30 June 2012, the total number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to 7,303, representing a net decrease of 952 stores as compared to 31 December 2011. There were 52 distributors, five fewer than at 31 December 2011. This was mainly due to the integration of certain small-scale distributors into some large-scale distributors or the Group's subsidiaries during the period in order to improve management efficiency of distribution channels. Store breakdown as at 30 June 2012 was as follows:

#### Number of franchised and directly-operated retail stores

	30 June 2012	31 December 2011	Change
<b>LI-NING brand stores</b>			
Franchised retail stores	6,657	7,495	(11.2%)
Directly-operated retail stores	646	760	(15.0%)
<b>Total</b>	<b>7,303</b>	<b>8,255</b>	<b>(11.5%)</b>

#### Number of retail stores by geographical location

	30 June 2012	31 December 2011	Change
<b>LI-NING brand stores</b>			
Eastern Region (Note 1)	2,179	2,433	(10.4%)
Northern Region (Note 2)	2,421	2,679	(9.6%)
Southern Region (Note 3)	1,329	1,493	(11.0%)
Western Region (Note 4)	1,374	1,650	(16.7%)
<b>Total</b>	<b>7,303</b>	<b>8,255</b>	<b>(11.5%)</b>

#### Notes:

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui and Shandong.
2. Northern region includes Beijing, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.
3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Jiangxi, Yunnan, Guizhou and Hong Kong.
4. Western region includes Hunan, Hubei, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Sichuan, Chongqing and Tibet.
5. During the period, the Group adjusted the organisation structure and geographical delineation of the sales regions for LI-NING brand (see notes 1, 2, 3 and 4 above for details). As a result, the number of retail stores as at 31 December 2011 is restated according to the adjusted geographical delineation.



## Management Discussion and Analysis (Continued)

The measures regarding its channel expansion and management which the Group implemented during the first half of 2012, and the results it achieved are as follows:

- **Management of store profitability:** In view of the current market environment, the Group evaluated the performance of all stores based on the principle of profitability and cost-savings. The Group made structural adjustments to its stores according to the evaluation results, and closed 1,200 inefficient stores. The Group also kept close control of the cost and efficiency of newly opened stores to help ensure that each store achieves a certain level of profitability. During the first half of 2012, 248 stores were opened based on this principle. In the second half, the Group will continue its expansion plans with store profitability as a priority.
- **Management of clearance channels:** As at 30 June 2012, there were 271 LI-NING brand factory outlets and 394 LI-NING brand discount stores (31 December 2011: 269 factory outlets, 358 discount stores) and the proportion of retail revenue accounted by clearance channels increased. In the second half of 2012, the Group will step up its construction of high-efficiency factory outlets for its subsidiaries in order to improve their inventory clearance capabilities.
- **Construction of sixth-generation stores:** As at 30 June 2012, there were 499 sixth-generation stores (31 December 2011: 219 stores). During the second half, the Group will press ahead with construction of sixth-generation stores and polish the sixth-generation image of stores at the retail end. The Group will systematically enhance the retail operations of stores to increase efficiency, improve store performance and enrich consumers' shopping experiences.
- **Management of sub-distributors:** During the first half, the Group announced its new sub-distribution policy for 2013 with a view to allocating channel benefits in a reasonable manner and enhancing the level of control over sub-distribution channels. This policy is set to provide a full range of services to sub-distributors, as well as to follow up on new product roll-out plans and the implementation of retail operation standards. The policy is also set to establish structural rationalisation of channel layout for the regional benchmarking stores and sub-distributor stores.
- **Construction of brand image stores and benchmarking stores:** Developed brand image stores to enhance the image of the LI-NING brand in key shopping centres, upper-tier markets and core shopping arcades. Established benchmarking stores at the provincial and prefecture levels to help elevate its regional brand position and increase market share.

### **E-Commerce**

With the surging number of internet users and growth of e-commerce in China, the Group actively expanded its online market through the establishment of a comprehensive e-commerce distribution system. Currently, the Group has established the official LI-NING Online Shop ([www.e-lining.com](http://www.e-lining.com)). Official online shops for the LI-NING brand have also been opened on reputable third-party e-commerce platforms in China such as Taobao.com, 360buy.com and Paipai.com. Other well-known e-shops in China, including Amazon.cn, Suning.com, and S.CN, have dedicated web pages for purchasing LI-NING brand products online. In addition, the Group collaborated with various prominent mainland banks on bank-hosted virtual shopping malls. The Group is actively promoting its new cross-channel, cross-sales terminals and cross-media business model, which allows consumers to purchase LI-NING brand products directly through computer terminals, TV terminals and mobile phones.

The Group has won several industry awards and accolades for its e-commerce achievements. During the period, the Group was awarded "The Most Investment Value of E-Commerce Businesses in 2012" by Analysys International, demonstrating strong recognition from the industry.

### Product Design, Research and Development

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

#### *Research and Design Centres*

The Group operates its design, innovation and research and development centres. “Li Ning Sports Science Research Centre”, located at the Group’s Beijing headquarters, is equipped with an array of advanced testing instruments and equipment. The centre consists of Sports Biomechanics laboratory, Footwear Mechanical Testing laboratory, Foot Shape Shoe Last Research laboratory and Computer Simulation laboratory. Closely monitoring global technological and sports science advances, the research centre collaborates closely with a number of domestic and overseas universities and professional bodies to conduct innovative research in a number of areas, including but not limited to, badminton shoes, tennis shoes and jogging shoes. In early 2012, the Group began planning the industry’s first professional biomechanical testing facility for badminton shoes, aimed at detecting various key movements of professional badminton athletes as well as three-dimensional biomechanics data from the shoe sole. The Group also increased its research and development efforts in apparel products, by working with renowned domestic academic institutes and organisations, while also improving its own research and development capabilities. The first phase of laboratory functionality testing of apparel has been completed and has played an important role in the development of new materials for use in the Group’s products.

#### *Top-notch Gears for Sponsorships*

In addition to being a long-term sponsor of high-tech gear to the Chinese National Badminton Team, Chinese National Diving Team, Chinese National Shooting Team, Chinese National Table Tennis Team and the Chinese National Gymnastics Team, the Group also sponsors other domestic and international sports resources with its top-notch gear to support these athletes in achieving outstanding performances.

- Sponsorship of NBL in collaboration with Chinese Basketball Association with professional shoes products including “YuShuai VI”, “YuShuai VII”, “Villain TD” (馭帥VI、馭帥VII、梟雄TD), which have been well-received by NBL players;
- Basketball shoes developed for NBA stars, including “Yushuai VII” (馭帥VII) for Jose Calderon and “Turning Point” (旋機) for Evan Turner;
- Jamaican sprinter Asafa Powell performed impressively while wearing the latest LI-NING ultralight spiked shoes at the 2012 IAAF Diamond League, finishing in 10.02 seconds to win the championship at the Shanghai leg held in May. He then finished in 9.91 seconds, coming in as first runner-up at the Lausanne leg. Asafa Powell finished as first runner-up in the competition’s Norway leg in 9.85 seconds in June;
- Christian Taylor, an American triple-jump athlete, wore the latest LI-NING sponsored gear during the 2012 IAAF Diamond League, where he jumped 16.96 metres to place third at the Shanghai leg held in May. In June, he then won the Eugene leg with a world-record 17.62 metres leap. At the London 2012 Olympic Games, he won a gold medal;



## Management Discussion and Analysis (Continued)

- The world's No.1 pole vault athlete, Yelena Isinbaeva, broke the world record in indoor pole vault while wearing the latest LI-NING sponsored shoes with a performance of 5.01 metres at the XL Galan meeting in Stockholm, Sweden in February. She reclaimed the world champion title with a 4.80 metres jump at the World Indoor Championships in Istanbul, Turkey held in March. She then won a bronze medal at the London 2012 Olympic Games;
- Wearing "HERO" (貼地飛行) professional badminton products, renowned men's badminton singles player, Lin Dan (林丹), took the champion's title at a number of competitions, in particular, the 2012 Thomas Cup and successfully defended his title as men's singles champion at the London 2012 Olympics, becoming the first athlete in Olympic history to win the champion title two years in a row for this event;
- Jan Ø. Jørgensen, an emerging Danish badminton athlete in men's badminton singles, qualified for the London 2012 Olympic Games wearing the "Power Silo" (奪) badminton shoes;
- Boonsak Ponsana, the No. 1 men's badminton singles champion in Thailand, won the 2012 Singapore Open and qualified for the London 2012 Olympic Games wearing the "Skill Silo" (靈) badminton shoes;
- As the London 2012 Olympic Games fall in the Year of Dragon, the LI-NING brand launched the "Scarlet Scales" (赤鱗) sportswear for professional athletes. The innovative "Scarlet Scales" design was inspired by the characteristics of a dragon in traditional Chinese culture and roof tiles shaped like dragon scales, dating back some 8,000 years. The "Scarlet Scale Vents" (赤鱗窗), which are innovated, designed and made from the concept of roof tiles shaped like dragon scales, mark a core breakthrough in the design of sportswear for the 2012 National Olympic teams. The "Scarlet Scale Vents" are scale-shaped breathing vents at the back of the garment which open and close based on the athlete's movements: when an athlete is moving with high-intensity or performing a specific and highly technical motion, the vents will open to increase the airflow between the body and the material; when the athlete is carrying out basic activities, the "Scarlet Scale Vents" will close to prevent heat loss and help maintain energy;
- All of the Olympics sportswear designed for Chinese National Gymnastics Team, Chinese National Diving Team, Chinese National Table Tennis Team and Chinese National Badminton Team utilise elastic materials with outstanding flexibility. This material minimises the loss of resilience, hence providing the wearer with sustained support. The flexible material also helps athletes to perform as it allows freedom of movement. In addition, the capabilities of each team's prototype is designed according to individual body shape, forming one-of-a-kind products to boost overall functionality and adapt to the specific movement of different body parts;
- In June, tennis star Marin Cilic wore "Qiyu" (奇魚) shoes in the Queen's Club AEGON Championships while winning his first grass title in the ATP; and
- Zheng Saisai (鄭賽賽), the upcoming women's tennis sensation, currently ranked No. 4 in Chinese tennis women's single, wore "Glammer Wing" (蝶翼) women's tennis shoes while capturing the women's singles title in the International Women's Cup held in Fukuoka, Japan in May. She also chalked up her first win in women's single in the Wimbledon grass qualification match held in England in June.

### Footwear Products

In addition to developing products for professional athletes, LI-NING brand also offers a wide range of footwear products for general sports enthusiasts. The Group is actively devoted to footwear research and innovation, focusing on enhancing comfort, shock-absorption, bounce, lightness, personalisation and fitness. The Group has achieved satisfactory results in its research and development initiatives, and has developed a series of new technologies applicable to footwear. To continue evolving product innovation, the Company's "innovation committee" continuously deepened and promoted various measures in 2012. The Group's research and development team continued to develop its core technology, the "LI-NING BOW" (李宁弓) technology platform, and to conduct cross-sports category research in order to gradually apply these technologies to different sports categories, including, but not limited to, basketball, tennis and badminton. The Group aims to develop various footwear products targeted at consumers with different purchasing power and sporting habits and provide more comfortable footwear to general sports enthusiasts that will enable them to attain more fulfilling sports experiences. In addition, the Group applied "China hemp" (汉麻) technology to LI-NING brand footwear products. "China hemp" is moisture and odour absorbent, dries easily, has anti-bacterial and anti-mould qualities and provides lasting elasticity and comfort. "China hemp" can be traced back to ancient China 8,000 years ago and is among the first fibres used for textile manufacturing. With its excellent structure and chemical composition, "China hemp" is combined with advanced processing technology to blend thousands of years of oriental wisdom to produce modern gear aimed at greater sports enjoyment.

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

- LI-NING 9th generation ultralight running shoes: The shoe surface is constructed with Mono Mesh, a material with superb ventilation. The unique shoe surface structurally supports the "open window" design to enhance ventilation and effectively improve the breathability of the sole. The shoe sole is designed based on ancient Chinese boats using the "FormEVALite" injection midsole, making the shoes lighter and more comfortable;
- LI-NING ARC (寧弧) running shoes: Utilises a brand new shock-absorption technology via a unified sole with hollowed bow structure as well as a full length flexible sole structure with outstanding anti-shock capability and flexibility, which gives wearers a greater feeling of comfort and helps them exercise more effectively;
- Dragon Year Special edition LI-NING basketball shoes: Incorporating a Year of the Dragon theme, four "Dragon Year Special Edition" basketball shoes were designed in celebration of the dragon spirit and blended with design brilliance from East to West;
- LI-NING Unit-bow "Phoenix" (鳳凰) basketball shoes: Inspired by the wings of the phoenix, the basketball shoes are the first to utilise single-unit shock absorbent technology, and possess better press buffering and diversion for an enhanced shock-relief capability;
- "YuShuai VII" (馭帥VII) basketball shoes: The shoe surface adopted the latest "stitchless" seaming technique and replaced the entire sole previously made of BounSe shock-relieving rubber with Injection Phylon ("IP"). The IP sole is much lighter than BounSe, hence lowering the shoes' overall weight and allowing the wearer to move more flexibly and closer to the ground;
- "Glory 92" (征榮92) Engraved shoes: As part of the "Hail Heroes" (向英雄致敬) series these shoes were launched based on the shoes worn by the China Olympic Delegates in the award ceremony of the 1992 Barcelona Olympic Games. With the resurgence of the five classic colours of the Olympics symbol, these shoes convey a sense of retro through their material and details; and



## Management Discussion and Analysis (Continued)

- Urban Sports “Infinite Motion” (動無限) series: This series upholds the concept of “Let relaxation and vibrancy progress together, let simplicity and beauty coexist” (讓輕鬆與活力並進·讓簡約與美觀共存), the series employs real leather with cushion protective materials and “China hemp” technology to create a healthy and comfortable environment for foot movement. The shock-absorbing and durable soles also make the shoes suitable for various occasions.

### Apparel Products

The apparel research and development team continued to make breakthroughs in innovation in product technology and deepen the analysis and research of data regarding human sports movement, while gradually applying these to products for testing. Based on the results, adjustments to products are made and the prototypes are then incorporated for practical use into final products. During the period, the Group implemented the following initiatives in apparel innovation:

- Continued its preliminary research on developing ultralight sports coat for jogging. Men’s ultralight sports windbreaker, at a conceptual level, was certified as “The Lightest Men’s Sport Coat in the World” by the World Record Association;
- Made adjustments in the apparel block for women’s professional badminton apparel and refined the initial apparel block and waist structure, through research on the body shape of professional badminton athletes. This not only enables the products to fulfill professional needs, but also highlights the physical beauty of the wearer;
- Through collaboration with universities and professional sports underwear manufacturers, the Group conducted data research on the stress on women’s breasts and motion displacement during professional sports, such as yoga, running, badminton, tennis, etc., and developed LI-NING brand sports underwear with normal support (suitable for yoga), sports underwear with medium support (suitable for running) and sports underwear with strong support (suitable for badminton and tennis);
- The AT Technology Platform was reorganised to become better-structured, more scientifically-sound and comprehensive in functionality, and the Group is now able to categorise functional products multi-dimensionally. At the same time, the Group also sorted and registered the trademarks for various functionality that the AT series offers, as well as regulated the use of various functional trademarks;
- Further developed the distribution of body shapes and sizes in the sales regions of LI-NING brand products by continuously improving the apparel block system of sportswear (slim fit, regular fit and loose fit) to better fit the sports nature and the body sizes of Chinese consumers;
- To continue the connection between professional competition wear and the brand’s DNA, the Group applied for appearance patents for the “Lucky Line” design of the LI-NING brand competition wear and has been granted various appearance patents from the State Intellectual Property Office; and
- Continuously advocated the “Green Apparel” concept by applying Eco-circle, a recyclable environmentally-friendly fabric, on the LI-NING brand 2012 Spring men’s sports product line. The LI-NING brand 2012 Spring and Summer women’s fitness product lines use Eco Cut, an environmentally-conscious tailoring concept which increases utilisation of fabric and reduces wastage through special product designs.

### *Badminton Rackets*

As one of the Group's core sports categories, the LI-NING Racket Research and Development Manufacturing Centre is equipped with advanced facilities and highly qualified research staff in the industry. The Centre actively conducts research in innovative badminton racket technology. In 2011, LI-NING brand was the first in the industry to introduce the "3D Breaking-free" (立體風刃) and "Air Stream System" (風動導流) technology platform, highlighting the cutting-edge advantage the Group holds in racket research and production, craftsmanship and development techniques. The new sponsorship products designed on this foundation have received high commendation from top professional athletes, distribution channels and consumers. In addition to the new experience brought by the product technology, the product itself is equipped with ground-breaking manufacturing craftsmanship that has made the products instant hits, strengthening the professional status of LI-NING brand in the badminton racket market.

### Supply Chain Management

The Group endeavours to establish a demand-driven, flexible and market-responsive supply chain system to effectively cope with its business model and growth. During the first half of 2012, the Group undertook the following measures in respect to enhance its supply chain management:

- In order to combat the changes of the socio-economic environment in 2012, the Group focused on controlling costs, clearing inventory, assessing risks and increasing operational efficiency. The Group has been executing the inventory clearance plan step-by-step in order to normalise inventory levels.
- The Group has responded to the rapid escalation in labour costs and the unstable supply of labour in recent years by proactively initiating a shift in production base and established an all-in-one production and delivery base in Hubei to ensure stability in production supply and cost. The base is now a core component of the Group's supply chain to ensure stable production and logistics management, while also achieving cost advantages.
- The Group complemented the Hubei-based facilities with the construction of "LI-NING Logistics Centre" in Jingmen which commenced trial operations in April 2012. The Logistics Centre is a modern, fully-automated warehouse comprising the latest logistics concepts and technologies to support the entire supply chain in wholesale, retail, direct delivery and supplier's inventory management. With the commencement of "LI-NING Logistics Centre", the positioning of other logistic centres changed accordingly, forming a new logistics structure with optimised costs and service quality.
- The Group also proactively explored and attempted overseas procurement to develop new suppliers in Southeast Asia in an effort to achieve greater cost optimisation.
- The Group continues to deepen its organisation of the logistics system according to a service-based and demand-driven model, with an aim to constructing a flexible logistics system to better support the combined wholesale and retail business model. All parts of the system will gradually be equipped to respond to the logistic plans and operational capacity needed under a variety of models, and which can also effectively predict and mitigate operational risks.

In the first half of 2012, the Group continued to strengthen management of suppliers on fulfilling social responsibilities and adherence to environmental regulations:

- Conducted evaluation on the suppliers' fulfillment in social responsibilities as well as examination of the compliance of the suppliers' social responsibilities.



## Management Discussion and Analysis (Continued)

- Required all suppliers' factories to comply with applicable laws and regulations and industry standards, while including the suppliers' performance on social responsibilities as part of their overall evaluation and as an important indicator in the assessment of suppliers.
- Continued to conduct in-depth exchanges and collaborations with various brands through "The Joint Roadmap towards Zero Discharge of Hazardous Chemicals by 2020". The Group also followed up with the elimination of hazardous chemicals in day-to-day work and conduct of the subprojects, as well as maintained communication and dialogue with all key stakeholders.
- Simultaneously implemented performance management policies regarding environmental protection for both product and supply chain. The Group initiated research on chemical quality control that mainly targets material suppliers and formulated control requirements for chemicals released by suppliers based on the research results. Complementing the implementation of "The Restricted Substances List for Apparel, Footwear and Accessories Products", the Group provided suppliers with training and seminars to promote chemical safety and control.

### Double Happiness Brand

Double Happiness brand is owned by Shanghai Double Happiness Co., Ltd. and its subsidiaries (collectively, "Double Happiness"), in which the Group holds 57.5% equity interest. It is principally engaged in the manufacture, research and development, marketing and sale of table tennis and other sports equipment. Synergies in brand marketing, promotion, sports tournament sponsorship and distribution channel expansion of the two brands, LI-NING and Double Happiness, have further strengthened the Group's position in China's table tennis market.

During the period, Double Happiness continued to adopt "sponsorship of sports stars and sports events" as its core marketing and promotion strategy. In 2012, Double Happiness maintained its endorsement of outstanding table tennis players in China, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞) as spokespersons for its table tennis equipment. Double Happiness also actively sponsored various professional tournaments in China and around the world. In the first half of 2012, Double Happiness sponsored and provided professional equipment for events including the International Table Tennis Federation ("ITTF") Pro Tour – 10 Stops, the 51st Dortmund World Table Tennis Championship and the Chinese Table Tennis Club Super League. Double Happiness also provided unique on-site equipment in the London 2012 Olympic Games for both table tennis and badminton events. The table tennis athletes representing China mainly used equipment provided by the Double Happiness brand.

Double Happiness signed the 2013-2016 ITTF cooperation agreement in which Double Happiness was granted the official equipment supplier status for the 2016 Olympic Games. This comprehensive cooperation also gives Double Happiness the role of official equipment supplier for the World Table Tennis Championships from 2014 to 2016, the World Cup from 2013 to 2016 and the ITTF Pro Tour from 2013 to 2016.

Double Happiness possesses strong capabilities in product research, development and design. Over 80% of China National Table Tennis Team members opted for the Double Happiness brand covering. Besides equipment for professional players, Double Happiness successfully rolled out over 100 new products in the first half of 2012. Double Happiness continued to promote the new type of covering that utilises secret high-elasticity sponge technology, further improving the racquet system for athletes and their respective playing techniques. To expand beyond the existing professional apparel and footwear product lines, Double Happiness also launched table tennis flooring, and the "TM Series" table tennis tables that are specially manufactured with environmentally friendly methods. In addition, Double Happiness continued to expand the research and development of table tennis, badminton, football, basketball, volleyball, and small-sized fitness equipment exclusively sold in supermarkets.

Double Happiness products are mainly distributed via wholesale and integrated sporting goods stores. It has adopted a wholesale model with a relatively stable clientele across 30 provinces and municipalities. In 2012, Double Happiness continued to refine the distributor policies set out in 2011 and managed the reforms on the two distribution channels – professional table tennis equipment distributor system and supermarket distributor system to further integrate customer resources and strengthen customer management.

### Lotto Brand

The Group started its licensing business of the Lotto brand in 2009. After three years of operation, despite growing brand recognition for the Lotto brand, the pace of development of the licensing business of the Lotto brand has fallen short of expectations. As a result, after the Company's active discussion with the licensor, the parties both recognise that there have been changes in the market since entering into the license agreement in 2008, and, therefore, signed a supplemental agreement on 11 June 2012. Under the supplemental agreement, the termination date of the license of the Lotto brand was amended to 31 December 2018 from the original date of 31 December 2028. This act is in line with the Group's strategy to focus the Group's resources on the LI-NING brand.

In 2012, Lotto brand adjusted its strategies, which gradually transformed the business model from production-to-order to profit-oriented. During the period, Lotto brand focused on the retail end and made use of the Group's e-commerce channels to promote products and sales. Lotto brand also set up factory outlets and discount stores to clear inventory. Utilisation of TV shows remained as Lotto brand's main advertising means, and new products for the collaboration series "Avril x Lotto" were also launched in the first half of 2012.

### AIGLE Brand

AIGLE continues to gain higher brand recognition among consumers, largely due to the brand's unique competitive edge. During the period, the business of the AIGLE brand remained stable as a result of effective retail management and a well-paced shop opening strategy. In addition, existing store sales maintained double-digit growth and the performance trend of new stores remained positive. AIGLE brand has maintained its standing as one of the leading outdoor and casual brands in major shopping malls.

During the period, AIGLE brand continued to implement the following major operational measures in order to increase brand recognition and loyalty among consumers and enhance single store sales growth and output as well as market share:

- AIGLE brand's unique positioning was further strengthened by its casual style, combined with functional fabric and stylish French designs;
- Marketing and promotion efforts were aimed at enhancing brand exposure and awareness through continuous placement in outdoor and travel media;
- Gradually established AIGLE brand image stores in first-tier cities in addition to setting up points of sale in key shopping malls in major cities, and increased retail store coverage in cities above the provincial level; and
- Continued to strengthen retail management to enhance customer relations management and effective inventory management.



## Management Discussion and Analysis (Continued)

### Kason Brand

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

During the period, Kason brand's sales in apparel, footwear, rackets and equipment accessories grew rapidly as a result of the comprehensive upgrade of its brand positioning, product mix, research and development and sales channel. Through brand differentiation and positioning, the Group will continue to make full use of the advantages from the sports marketing resources of the LI-NING brand and Kason brand to increase its market share in the badminton category.

### Organisational Reform and Human Resources

As at 30 June 2012, the Group had 3,732 employees (31 December 2011: 4,180), of whom, 1,803 (31 December 2011: 2,176) were from the Group's headquarters and retail subsidiaries, and 1,929 (31 December 2011: 2,004) were from other subsidiaries.

The Group made timely adjustments to human resources allocation in accordance to the changes in its business strategy, with emphasis on efficiency and performance. In 2012, the Group strategically repositioned to sharpen focus on the LI-NING brand and the core business. Through consolidation of resources, streamlining workforce and motivation of key employees, the Group modified the organisational structure and optimised processes of the core business units of LI-NING brand to complement business growth. This effectively lowered human resources costs while continuing to improve the business execution abilities, performance evaluation and operational efficiency.

The Group regards its workforce development as the cornerstone for its corporate development and has placed emphasis on the recruitment, training, retention and motivation of core management and professional staff. The Group systematically builds up internal and external talent pools, emphasising on identification, assessment, promotion and appointment of internal talent. The Group also launched projects aimed at building leadership for key staff in support of employees' career development. The Group's remuneration policy adheres to the principle of putting the job positions, performance and individual capabilities in consideration for the employees compensation packages, and adopts a diversified benefits system and personalised incentive plans, including bonus, cash rewards and share schemes, etc. in order to ensure competitiveness of remuneration for its employees.

During the period, the Group adjusted its strategic and senior management staff according to the long-term goal of improving the Company's core competitiveness and profitability in order to strengthen the organisation and execution capabilities. The Group is diligent about communicating with employees in a timely manner, as well as listening to and respecting employees' feedback. The Group encourages all employees to stay aligned with the Company's strategic objectives and to work with management to overcome challenges with courage.

### Outlook for the Full Year of 2012 and Strategies

In 2012, the Chinese government will place emphasis on maintaining steady growth in its economic policies. With implementation of structural tax reduction, stimulation of domestic demand and other initiatives, the Chinese economy in the second half of 2012 is expected to fare better than the first half.

In the long-run, the consumer goods industry, which the Group operates in, will still benefit from the transformation of China's economy from being investment-driven to consumption-driven. At the same time, the escalating competition within the Chinese sporting goods industry is also fueling greater intensity amongst sportswear brands' competing for distribution channels, sports resources and media resources. Moreover, consumers now pose greater demands on brand and product value. Facing these shifts in demand and increasing costs, the Group expects changes in the competitive landscape of the Chinese sporting goods industry over the next three years.

### Financial Outlook for the Full Year of 2012

As previously stated in the Company's announcement ("June Announcement") issued on 11 June 2012, the Group has taken the initiative to work closer with distributors to regulate order arrangements in light of the current harsh industry conditions, so as to avoid creating increased inventory pressure at the retail end. As stated in the June Announcement, based on the full year trade fair results for 2012, the Group had already expected negative growth in revenue as compared to 2011 and had also anticipated that the Group's profit before taxation and profit attributable to equity holders for the full year of 2012 will have a rather substantial decline as compared to 2011. Under the current business environment, management anticipates that full year revenue for 2012 will further decline and that the Group may post loss attributable to equity holders for the year when taking into consideration the short-term adjustments in the operations and financial resources the Group is making for its long-term development.

The above estimated financial results of the Group for full year of 2012 are merely based on management's preliminary assessment of the Group's information currently available and are not based on any figures or information audited or reviewed by the Company's auditor. **Potential investors and shareholders are advised to exercise caution when dealing in the shares of the Company.**

### Go Forward Plan and Short-term Initiatives

To cope with the ever-changing industry conditions and the challenging business environment, the Company is committed to strengthening its management team and the Board in order to realise its long-term growth potential and value as a leading Chinese sports brand. Meanwhile, with the main goal of improving the Company's core strength and achieving long-term profitability in mind, the Company has developed the following three stage transformation blueprint:

- Phase 1 starts with certain short-term strategic and operational measures, including 1) focusing on sell through and clearance of channel inventory; 2) improving cost structure in product and operations; 3) strengthening organisation and execution capabilities; 4) improving channel productivity, profitability and performance; 5) focusing on core products and domestic market; and 6) investing in brand and improving marketing effectiveness.
- The plan for phase 2 (2013 – 2014), already in its pilot phase, includes 1) improving the supply chain management, go-to-market and merchandising model; and 2) providing more exciting products and consumer experience to solidify the brand's leading position in China's sportswear market.
- The phase 3 medium to long-term plan (coming 2 to 4 years) now under development will focus mainly on transforming the Group's business model through: 1) improvement of profit structure for the Company and its channels; 2) drawing consumers' product and brand experience closer to market demand; and 3) development of virtuous cycles based on higher retail productivity and return on cash and investments.

The Board and the management of the Company believe that, while transformation within the industry and the competitive environment is inevitable, the ongoing management reforms and adjustment in strategies which the Group is currently undertaking will equip the Group with a higher capability to adapt to the long-term development of China's sporting goods industry and build our competitive edge for the future.

## Condensed Consolidated Interim Financial Information



### Interim Condensed Consolidated Balance Sheet

		Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
	Note		
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	830,434	831,693
Land use rights	8	367,262	371,696
Intangible assets	9	377,555	751,836
Deferred income tax assets		494,919	445,857
Available-for-sale financial assets		46,930	46,930
Investment in an associate		6,711	11,303
Other receivables and prepayments	12	74,086	87,903
<b>Total non-current assets</b>		<b>2,197,897</b>	<b>2,547,218</b>
<b>Current assets</b>			
Inventories	10	1,138,451	1,132,965
Trade receivables	11	2,516,372	2,094,440
Other receivables and prepayments – current portion	12	386,887	344,527
Current income tax recoverable		17,406	–
Restricted bank deposits		18,323	13,194
Cash and cash equivalents		1,326,874	1,196,474
<b>Total current assets</b>		<b>5,404,313</b>	<b>4,781,600</b>
<b>Total assets</b>		<b>7,602,210</b>	<b>7,328,818</b>

# Condensed Consolidated Interim Financial Information (Continued)

## Interim Condensed Consolidated Balance Sheet (Continued)

	Note	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares	13	111,622	111,604
Share premium	13	314,996	312,379
Shares held for Restricted Share Award Scheme	13	(52,415)	(52,415)
Other reserves	14	484,779	370,106
Retained profits	14	2,774,463	2,730,169
		<b>3,633,445</b>	<b>3,471,843</b>
<b>Non-controlling interests in equity</b>		<b>215,313</b>	<b>192,816</b>
<b>Total equity</b>		<b>3,848,758</b>	<b>3,664,659</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
License fees payable	17	157,073	458,793
Convertible bonds	19	641,085	–
Deferred income tax liabilities		80,419	81,269
Deferred income	20	60,383	61,030
<b>Total non-current liabilities</b>		<b>938,960</b>	<b>601,092</b>
<b>Current liabilities</b>			
Trade payables	15	1,217,563	1,462,398
Other payables and accruals	16	498,357	662,480
License fees payable – current portion	17	62,032	71,649
Current income tax liabilities		–	28,481
Borrowings	18	1,024,040	838,059
Convertible bonds – interest payable	19	12,500	–
<b>Total current liabilities</b>		<b>2,814,492</b>	<b>3,063,067</b>
<b>Total liabilities</b>		<b>3,753,452</b>	<b>3,664,159</b>
<b>Total equity and liabilities</b>		<b>7,602,210</b>	<b>7,328,818</b>
<b>Net current assets</b>		<b>2,589,821</b>	<b>1,718,533</b>
<b>Total assets less current liabilities</b>		<b>4,787,718</b>	<b>4,265,751</b>

The notes on pages 37 to 62 are an integral part of this condensed consolidated interim financial information.



## Interim Condensed Consolidated Income Statement

	Note	Unaudited	
		Six months ended 30 June	
		2012	2011
		RMB'000	RMB'000
Revenue	6	3,880,097	4,289,303
Cost of sales		(2,164,614)	(2,260,168)
<b>Gross profit</b>		<b>1,715,483</b>	<b>2,029,135</b>
Distribution costs		(1,152,921)	(1,323,873)
Administrative expenses		(503,934)	(336,605)
Other income and other gains – net	22	125,011	73,629
<b>Operating profit</b>	6	<b>183,639</b>	<b>442,286</b>
Finance income	23	3,523	7,948
Finance costs	23	(90,283)	(38,371)
Finance costs – net		(86,760)	(30,423)
Share of loss of an associate		(3,540)	–
<b>Profit before income tax</b>		<b>93,339</b>	<b>411,863</b>
Income tax expense	24	(31,548)	(102,183)
<b>Profit for the period</b>		<b>61,791</b>	<b>309,680</b>
<b>Attributable to:</b>			
Equity holders of the Company		44,294	293,740
Non-controlling interests		17,497	15,940
		<b>61,791</b>	<b>309,680</b>
<b>Earnings per share for profit attributable to equity holders of the Company (RMB cents)</b>			
– basic	25	4.21	27.94
– diluted	25	4.20	27.79
<b>Dividends</b>	26	–	117,496

The notes on pages 37 to 62 are an integral part of this condensed consolidated interim financial information.

## Interim Condensed Consolidated Statement of Comprehensive Income

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit for the period	61,791	309,680
Other comprehensive income:		
Currency translation differences	(539)	1,707
<b>Total comprehensive income for the period</b>	<b>61,252</b>	<b>311,387</b>
Attributable to:		
Equity holders of the Company	43,755	295,447
Non-controlling interests	17,497	15,940
	<b>61,252</b>	<b>311,387</b>

The notes on pages 37 to 62 are an integral part of this condensed consolidated interim financial information.



## Interim Condensed Consolidated Statement of Changes in Equity

	Unaudited		
	Attributable to equity holders of the Company RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
<b>Balance at 1 January 2011</b>	3,369,302	190,080	3,559,382
Total comprehensive income for the period ended 30 June 2011	295,447	15,940	311,387
<i>Transactions with owners:</i>			
Share option schemes:			
– value of services provided	20,870	–	20,870
– proceeds from shares issued	11,274	–	11,274
Dividends to equity holders of the Company	(209,072)	–	(209,072)
<b>Balance at 30 June 2011</b>	<b>3,487,821</b>	<b>206,020</b>	<b>3,693,841</b>
<b>Balance at 1 January 2012</b>	<b>3,471,843</b>	<b>192,816</b>	<b>3,664,659</b>
Total comprehensive income for the period ended 30 June 2012	43,755	17,497	61,252
<i>Transactions with owners:</i>			
Share option schemes:			
– value of services provided	2,848	–	2,848
– proceeds from shares issued	1,604	–	1,604
Convertible bonds – equity component	113,395	–	113,395
Contribution from non-controlling interests of a subsidiary	–	5,000	5,000
<b>Balance at 30 June 2012</b>	<b>3,633,445</b>	<b>215,313</b>	<b>3,848,758</b>

The notes on pages 37 to 62 are an integral part of this condensed consolidated interim financial information.

## Condensed Consolidated Interim Financial Information (Continued)

### Interim Condensed Consolidated Cash Flow Statement

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
<b>Net cash (used in)/generated from operating activities</b>	<b>(601,847)</b>	<b>373,574</b>
<b>Cash flows from investing activities:</b>		
– purchases of property, plant and equipment	(78,758)	(135,400)
– purchases of intangible assets	(49,016)	(15,674)
– prepayment for other investments	(12,100)	–
– proceeds on disposal of property, plant and equipment	2,764	373
– interest received	3,523	2,678
<b>Net cash used in investing activities</b>	<b>(133,587)</b>	<b>(148,023)</b>
<b>Cash flows from financing activities:</b>		
– dividends paid to equity holders of the Company	–	(209,072)
– proceeds from issuance of ordinary shares	1,604	11,274
– contribution from non-controlling interests of a subsidiary	5,000	–
– proceeds from bank borrowings	917,186	863,616
– repayment of bank borrowings	(732,059)	(697,548)
– proceeds from issuance of convertible bonds	745,691	–
– interest paid	(68,163)	(13,365)
– (increase)/decrease in restricted bank deposits	(5,129)	647
<b>Net cash generated from/(used in) financing activities</b>	<b>864,130</b>	<b>(44,448)</b>
<b>Net increase in cash and cash equivalents</b>	<b>128,696</b>	<b>181,103</b>
Cash and cash equivalents at beginning of period	1,196,474	1,470,435
Exchange gains/(losses) on cash and cash equivalents	1,704	(3,563)
<b>Cash and cash equivalents at end of period</b>	<b>1,326,874</b>	<b>1,647,975</b>

The notes on pages 37 to 62 are an integral part of this condensed consolidated interim financial information.



## Notes to Condensed Consolidated Interim Financial Information

### 1. General information

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

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

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

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors (the "Board") on 22 August 2012.

This condensed consolidated interim financial information has not been audited.

### 2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2012 has been prepared in accordance with International Accounting Standard ("IAS") 34, 'Interim Financial Reporting'. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

### 3. Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements.

- During the period, the Group has issued convertible bonds and the accounting policy adopted by the Group on convertible bonds is as follows:

Convertible bonds issued are split into their liability and equity components at initial recognition. The liability component at its fair value is determined using a market interest rate for equivalent non-convertible bonds. The difference between the net proceeds from the issue and the fair value of the liability component is the equity component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible bonds reserve until the bond is either converted or redeemed.

- Interim period income tax expense is recognised based on the estimated average annual effective tax rate.

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have any impact on this Group.

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 3. Accounting policies (continued)

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted by the Group:

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

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

### 4. Estimates

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

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2011.

### 5. Financial risk management

#### (a) Financial risk factors

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

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2011.

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

#### (b) Liquidity risk

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



## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 6. Segment information

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

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

Revenue consists of sales from LI-NING brand, Double Happiness brand, Lotto brand and all other brands, which are RMB3,432,658,000, RMB305,520,000, RMB51,081,000 and RMB90,838,000 for the six months ended 30 June 2012 and RMB3,895,453,000, RMB259,779,000, RMB53,995,000 and RMB80,076,000 for the six months ended 30 June 2011 respectively.

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

	Unaudited				Total RMB'000
	LI-NING brand RMB'000	Double Happiness brand RMB'000	Lotto brand RMB'000	All other brands RMB'000	
<b>Six months ended 30 June 2012</b>					
Total revenue	3,432,658	308,405	67,388	106,849	3,915,300
Inter-segment revenue	–	(2,885)	(16,307)	(16,011)	(35,203)
<b>Revenue from external customers</b>	<b>3,432,658</b>	<b>305,520</b>	<b>51,081</b>	<b>90,838</b>	<b>3,880,097</b>
Operating profit/(loss)	237,809	55,780	(100,969)	(8,981)	183,639
Distribution costs and administrative expenses	1,368,862	64,576	189,117	34,300	1,656,855
Depreciation and amortisation	111,898	8,736	387	3,838	124,859
<b>Six months ended 30 June 2011</b>					
Total revenue	3,895,453	262,196	76,112	97,110	4,330,871
Inter-segment revenue	–	(2,417)	(22,117)	(17,034)	(41,568)
<b>Revenue from external customers</b>	<b>3,895,453</b>	<b>259,779</b>	<b>53,995</b>	<b>80,076</b>	<b>4,289,303</b>
Operating profit/(loss)	470,284	47,629	(60,163)	(15,464)	442,286
Distribution costs and administrative expenses	1,468,972	61,235	77,335	52,936	1,660,478
Depreciation and amortisation	102,630	8,885	10,235	3,977	125,727

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Segment information (continued)

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

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Operating profit	183,639	442,286
Finance income	3,523	7,948
Finance costs	(90,283)	(38,371)
Share of loss of an associate	(3,540)	–
<b>Profit before income tax</b>	<b>93,339</b>	<b>411,863</b>

Geographical information of revenue

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
The PRC (including the Hong Kong Special Administrative Region)	3,776,316	4,198,004
Other regions	103,781	91,299
<b>Total</b>	<b>3,880,097</b>	<b>4,289,303</b>

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

The Group has a large number of customers. For the six months ended 30 June 2012 and 2011, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.



## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 7. Property, plant and equipment

	Unaudited							
	Leasehold		Mould	Machinery	Office equipment and motor vehicles		Construction-in-progress	Total
	Buildings	improvement			RMB'000	RMB'000		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Six months ended 30 June 2011</b>								
As at 1 January 2011	438,128	66,192	70,971	48,343	83,946	12,998	720,578	
Additions	201	4,517	21,722	5,985	5,905	58,045	96,375	
Transfer out from								
construction-in-progress	-	-	-	636	273	(909)	-	
Disposals	-	(9)	(5)	(78)	(374)	-	(466)	
Depreciation charge	(10,970)	(24,616)	(23,730)	(3,212)	(13,536)	-	(76,064)	
<b>As at 30 June 2011</b>	<b>427,359</b>	<b>46,084</b>	<b>68,958</b>	<b>51,674</b>	<b>76,214</b>	<b>70,134</b>	<b>740,423</b>	
<b>Six months ended 30 June 2012</b>								
As at 1 January 2012	429,465	56,079	66,512	52,483	80,261	146,893	831,693	
Additions	129	4,120	10,093	1,383	4,568	58,612	78,905	
Transfer out from								
construction-in-progress	-	-	-	86	-	(86)	-	
Disposals	-	(1,309)	(340)	(333)	(1,378)	-	(3,360)	
Depreciation charge	(11,352)	(23,729)	(26,096)	(3,574)	(12,053)	-	(76,804)	
<b>As at 30 June 2012</b>	<b>418,242</b>	<b>35,161</b>	<b>50,169</b>	<b>50,045</b>	<b>71,398</b>	<b>205,419</b>	<b>830,434</b>	

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB6,240,000 (31 December 2011: RMB7,026,000) are built on land which the Group is in the process of updating the legal title (Note 8).

Depreciation expenses of RMB29,885,000 (30 June 2011: RMB27,117,000) has been charged to cost of sales, RMB30,739,000 (30 June 2011: RMB32,211,000) to distribution costs and RMB16,180,000 (30 June 2011: RMB16,736,000) to administrative expenses.

As at 30 June 2012, buildings with net book value of RMB19,315,000 (31 December 2011: RMB20,190,000) are pledged as securities for the Group's borrowings (Note 18).

# Condensed Consolidated Interim Financial Information (Continued)

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 8. Land use rights

	Unaudited RMB'000
<b>Six months ended 30 June 2011</b>	
As at 1 January 2011	380,550
Amortisation charge	(4,505)
<b>As at 30 June 2011</b>	<b>376,045</b>
<b>Six months ended 30 June 2012</b>	
As at 1 January 2012	371,696
Amortisation charge	(4,434)
<b>As at 30 June 2012</b>	<b>367,262</b>

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 updating the legal title for land use rights with net book value of RMB105,845,000 as at 30 June 2012 (31 December 2011: RMB122,685,000).

As at 30 June 2012, land use rights with net book value of RMB14,764,000 (31 December 2011: RMB14,934,000) are pledged as securities for the Group's borrowings (Note 18).

### 9. Intangible assets

	Unaudited					Total RMB'000
	Goodwill RMB'000	Trademarks RMB'000	Computer software RMB'000	License rights RMB'000	Customer relationships & Non-compete agreements RMB'000	
<b>Six months ended 30 June 2011</b>						
As at 1 January 2011	179,226	94,872	48,355	459,300	32,327	814,080
Additions	-	390	1,341	6,529	-	8,260
Amortisation charge	-	(2,781)	(7,497)	(32,176)	(2,704)	(45,158)
<b>As at 30 June 2011</b>	<b>179,226</b>	<b>92,481</b>	<b>42,199</b>	<b>433,653</b>	<b>29,623</b>	<b>777,182</b>
<b>Six months ended 30 June 2012</b>						
As at 1 January 2012	179,226	90,068	56,957	398,665	26,920	751,836
Adjustment upon entering into Lotto supplemental license agreement (Note a)	-	-	-	(206,890)	-	(206,890)
Additions	-	-	4,068	-	-	4,068
Amortisation charge	-	(2,769)	(9,227)	(28,921)	(2,704)	(43,621)
Impairment charge (Note a)	-	-	-	(127,838)	-	(127,838)
<b>As at 30 June 2012</b>	<b>179,226</b>	<b>87,299</b>	<b>51,798</b>	<b>35,016</b>	<b>24,216</b>	<b>377,555</b>



## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 9. Intangible assets (continued)

Note:

- (a) In June 2012, the Group and Lotto Sport H.K. Limited ("Lotto Sport") entered into a supplemental agreement pursuant to which the termination date of the Lotto brand license was amended to 31 December 2018 (from the original termination date of 31 December 2028 under the original license agreement). In addition, the fixed minimum undiscounted periodic payments to be made in the remaining term of the license was revised to approximately RMB182,400,000 (RMB906,200,000 under the original license agreement).

Carrying amounts of intangible asset and license fees payable relating to the original Lotto license right, which amounted to RMB334,728,000 and RMB448,030,000 respectively, were derecognised with a gain of RMB68,302,000 after netting off the RMB45,000,000 consideration payable for entering into the supplemental license agreement. Such gain was recognised in the income statement as "Other income and other gains – net" (Note 22).

Intangible asset and license fees payable amounted to RMB127,838,000 and RMB127,838,000 respectively were recognised relating to supplemental license agreement.

Based on latest market condition and the projected business performance of the Lotto brand, an impairment provision of RMB127,838,000 has been made and included in 'Administrative expenses' in the income statement (Note 21).

As a result of above, the net impact related to revision of the licence agreement of Lotto brand was as follows:

	Unaudited Six months ended 30 June 2012 RMB'000
Other income and other gains – net (Note 22)	68,302
Administrative expenses (Note 21)	(127,838)
	<u>(59,536)</u>

### 10. Inventories

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Raw materials	32,446	34,041
Work in progress	37,229	40,576
Finished goods	1,291,617	1,245,857
	<u>1,361,292</u>	<u>1,320,474</u>
Less: Provision for write-down to net realisable value	(222,841)	(187,509)
	<u>1,138,451</u>	<u>1,132,965</u>

The Group realised a loss of approximately RMB35,332,000 (30 June 2011: RMB41,311,000) for the six months ended 30 June 2012 in respect of the write-down of inventories to their net realisable value. These amounts have been included in administrative expenses in the condensed consolidated income statement.

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 11. Trade receivables

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Accounts receivable		
– Related parties (Note 29 (e))	5,297	1,734
– Third parties	2,559,257	2,103,856
	2,564,554	2,105,590
Notes receivable	13,041	250
	2,577,595	2,105,840
Less: provision for impairment of trade receivables	(61,223)	(11,400)
	2,516,372	2,094,440

Customers are normally granted credit terms within 90 days. As at 30 June 2012, trade receivables that were neither past due nor impaired amounted to RMB1,630,076,000 (31 December 2011: RMB1,575,401,000). Trade receivables that were past due but not impaired amounted to RMB886,296,000 (31 December 2011: RMB519,039,000) which relate to a number of independent customers for whom there is no recent history of default and with outstanding receivables aged from 91 to 180 days as at 30 June 2012.

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

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
0 – 30 days	647,370	728,962
31 – 60 days	269,228	386,433
61 – 90 days	713,478	460,006
91 – 180 days	886,296	519,039
181 – 365 days	52,127	10,496
Over 365 days	9,096	904
	2,577,595	2,105,840

As at 30 June 2012, trade receivables of RMB61,223,000 (31 December 2011: RMB11,400,000) 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.



## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 11. Trade receivables (continued)

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

	Unaudited	
	2012 RMB'000	2011 RMB'000
As at 1 January	11,400	1,382
Provision for impairment of trade receivables	49,823	3,227
<b>As at 30 June</b>	<b>61,223</b>	<b>4,609</b>

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

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

### 12. Other receivables and prepayments

	Unaudited	Audited
	30 June 2012 RMB'000	31 December 2011 RMB'000
Advances to suppliers	14,565	22,495
Prepayment for advertising expenses	105,612	28,464
Rental and other deposits	106,992	126,238
Prepaid rentals	168,092	200,879
Staff advances and other payments for employees	4,198	3,034
Prepayment for other investments	12,100	10,000
Other tax receivables	11,182	–
Others	38,232	41,320
	<b>460,973</b>	<b>432,430</b>
Less: non-current portion	(74,086)	(87,903)
<b>Current portion</b>	<b>386,887</b>	<b>344,527</b>

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

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

# Condensed Consolidated Interim Financial Information (Continued)

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 13. 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 30 June 2012 and 31 December 2011	10,000,000	1,000,000

#### Issued and fully paid

	Unaudited				
	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 2011	1,049,845	111,364	293,988	(64,508)	340,844
Net proceeds from shares issued pursuant to share option schemes (Note a)	2,755	230	11,044	–	11,274
Transfer of fair value of share options exercised to share premium	–	–	5,995	–	5,995
Shares vested under Restricted Share Award Scheme	3	–	–	52	52
<b>As at 30 June 2011</b>	<b>1,052,603</b>	<b>111,594</b>	<b>311,027</b>	<b>(64,456)</b>	<b>358,165</b>
As at 1 January 2012	1,052,411	111,604	312,379	(52,415)	371,568
Net proceeds from shares issued pursuant to share option schemes (Note a)	224	18	1,586	–	1,604
Transfer of fair value of share options exercised to share premium	–	–	1,031	–	1,031
<b>As at 30 June 2012</b>	<b>1,052,635</b>	<b>111,622</b>	<b>314,996</b>	<b>(52,415)</b>	<b>374,203</b>

Note:

- (a) During the six months ended 30 June 2012, the Company issued 224,000 shares (30 June 2011: 2,755,000 shares) of HK\$0.10 each to certain directors and employees of the Group at weighted average issue price of HK\$8.83 (30 June 2011: HK\$4.9415) per share pursuant to the Company's share option schemes (Note 27).



## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 14. Reserves

	Unaudited							
	Capital reserves	Statutory reserve funds	Share-based compensation reserve	Convertible bonds reserve	Currency translation difference	Subtotal	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2011	45,634	208,743	91,076	-	1,194	346,647	2,681,811	3,028,458
Profit for the period	-	-	-	-	-	-	293,740	293,740
Value of services provided under share schemes	-	-	20,870	-	-	20,870	-	20,870
Transfer of fair value of share options exercised to share premium	-	-	(5,995)	-	-	(5,995)	-	(5,995)
Vesting of shares under Restricted Share Award Scheme	-	-	(52)	-	-	(52)	-	(52)
Dividends paid	-	-	-	-	-	-	(209,072)	(209,072)
Translation difference of foreign currency financial statements	-	-	-	-	1,707	1,707	-	1,707
<b>As at 30 June 2011</b>	<b>45,634</b>	<b>208,743</b>	<b>105,899</b>	<b>-</b>	<b>2,901</b>	<b>363,177</b>	<b>2,766,479</b>	<b>3,129,656</b>
As at 1 January 2012	49,508	220,593	95,049	-	4,956	370,106	2,730,169	3,100,275
Profit for the period	-	-	-	-	-	-	44,294	44,294
Value of services provided under share schemes	-	-	2,848	-	-	2,848	-	2,848
Transfer of fair value of share options exercised to share premium	-	-	(1,031)	-	-	(1,031)	-	(1,031)
Share options lapsed	3,125	-	(3,125)	-	-	-	-	-
Issuance of convertible bonds – equity component (Note 19)	-	-	-	113,395	-	113,395	-	113,395
Translation difference of foreign currency financial statements	-	-	-	-	(539)	(539)	-	(539)
<b>As at 30 June 2012</b>	<b>52,633</b>	<b>220,593</b>	<b>93,741</b>	<b>113,395</b>	<b>4,417</b>	<b>484,779</b>	<b>2,774,463</b>	<b>3,259,242</b>

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 15. Trade payables

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

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
0 – 30 days	615,080	750,535
31 – 60 days	491,802	456,955
61 – 90 days	85,346	128,992
91 – 180 days	10,771	116,675
181 – 365 days	7,113	1,742
Over 365 days	7,451	7,499
	<b>1,217,563</b>	<b>1,462,398</b>

### 16. Other payables and accruals

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Accrued sales and marketing expenses	187,580	318,695
Advances from customers	48,723	70,416
Wages and welfare payables	89,211	102,031
Other tax payables	–	8,277
Payable for property, plant and equipment	13,360	22,914
Other payables	159,483	140,147
	<b>498,357</b>	<b>662,480</b>



Notes to Condensed Consolidated Interim Financial Information (Continued)

17. License fees payable

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

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

	Unaudited RMB'000
<b>Six months ended 30 June 2011</b>	
As at 1 January 2011	553,602
Acquisition of license rights	6,529
Payment of license fees	(13,943)
Amortisation of discount (Note 23)	20,105
Adjustment for exchange difference	(2,066)
<b>As at 30 June 2011</b>	<b>564,227</b>
<b>Six months ended 30 June 2012</b>	
As at 1 January 2012	530,442
Adjustment upon entering into Lotto supplemental license agreement (Note 9 (a))	(320,192)
Consideration payable for entering into Lotto supplemental license agreement (Note 9 (a))	45,000
Payment of license fees	(44,948)
Amortisation of discount (Note 23)	9,072
Adjustment for exchange difference	(269)
<b>As at 30 June 2012</b>	<b>219,105</b>

# Condensed Consolidated Interim Financial Information (Continued)

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 17. License fees payable (continued)

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Analysis of license fees payable:		
Non-current		
– over five years	3,756	310,355
– the second to fifth year	153,317	148,438
Current	62,032	71,649
	<b>219,105</b>	<b>530,442</b>

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:

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Less than 1 year	65,042	73,822
Between 1 and 5 years	195,710	185,687
Over 5 years	7,500	733,800
	<b>268,252</b>	<b>993,309</b>

### 18. Borrowings

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
<b>Current</b>		
Bank borrowings denominated in		
– RMB	861,000	351,639
– HK\$	163,040	486,420
	<b>1,024,040</b>	<b>838,059</b>
<b>Borrowings</b>		
– secured	6,000	14,500
– unsecured	1,018,040	823,559
	<b>1,024,040</b>	<b>838,059</b>



## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 18. Borrowings (continued)

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

The weighted average effective interest rates per annum of the borrowings were 6.91% (30 June 2011: 5.93%) for bank borrowings denominated in RMB and 2.84% (30 June 2011: 1.65%) for bank borrowings denominated in HK\$ for the six months ended 30 June 2012.

Bank borrowings amounting to RMB6,000,000 (31 December 2011: RMB14,500,000) were secured by the Group's buildings and land use rights as at 30 June 2012 (Notes 7 and 8).

As at 30 June 2012, the Group had undrawn borrowing facilities within one year amounting to RMB974,560,000 (31 December 2011: RMB931,070,000). These facilities have been arranged to help financing the Group's working capital.

Movement in borrowings is analysed as follows:

	Unaudited RMB'000
<b>Six months ended 30 June 2011</b>	
As at 1 January 2011	312,248
Additions	863,616
Effect of change in exchange rate	(6,176)
Repayments	(697,548)
<b>As at 30 June 2011</b>	<b>472,140</b>
<b>Six months ended 30 June 2012</b>	
As at 1 January 2012	838,059
Additions	917,186
Effect of change in exchange rate	854
Repayments	(732,059)
<b>As at 30 June 2012</b>	<b>1,024,040</b>

Notes to Condensed Consolidated Interim Financial Information (Continued)

**19. Convertible bonds**

On 8 February 2012, the Company issued convertible bonds bearing minimum interest at the rate of 4% per annum and due on 7 February 2017 (the "Maturity Date"), in the aggregate principal amount of RMB750,000,000 with an initial conversion price of HK\$7.74 per ordinary share of the Company (subject to anti-dilutive adjustment). Unless previously redeemed, converted or purchased and cancelled, these bonds will be redeemed at the outstanding RMB principal amount with unpaid interests on the Maturity Date.

The initial fair values of the liability component and the equity conversion component, based on net proceeds, were determined at issuance of the bonds. The fair value of the liability component was calculated by using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity as other reserves (Note 14).

The convertible bonds recognised in the condensed consolidated balance sheet were calculated as follows:

	Unaudited RMB'000
Face value of convertible bonds issued on 8 February 2012	750,000
Issuing expenses related to liability component	(4,309)
Equity component credited to the equity (Note 14)	(113,395)
Liability component on initial recognition at 8 February 2012	632,296
Accumulated interest expenses up to 30 June 2012 (Note 23)	21,289
Liability component at 30 June 2012	653,585
Less: interest payable	(12,500)
Non-current portion	641,085

The face value of outstanding bonds at 30 June 2012 amounted to RMB750,000,000. No convertible bonds were converted to ordinary shares of the Company during the period or subsequent to 30 June 2012 and up to the approval date of this condensed consolidated interim financial information. The carrying value of the liability component is calculated using cash flows discounted at an initial risk adjusted market interest rate of 8.18% per annum.



## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 20. Deferred income

	Unaudited RMB'000
<b>Six months ended 30 June 2011</b>	
As at 1 January 2011	62,324
Credited to income statement	(647)
<b>As at 30 June 2011</b>	<b>61,677</b>
<b>Six months ended 30 June 2012</b>	
As at 1 January 2012	61,030
Credited to income statement	(647)
<b>As at 30 June 2012</b>	<b>60,383</b>

The Group received government grant amounting to RMB64,697,000 for purchase of a land use right in the PRC in 2009. Such government grant was recorded as deferred income and would be credited to income statement over the lease period of the corresponding land use right of 50 years using straight-line method. An amount of RMB647,000 (30 June 2011: RMB647,000) has been credited to income statement during the six months ended 30 June 2012.

### 21. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Cost of inventories recognised as expenses included in cost of sales	2,052,263	2,128,115
Depreciation on property, plant and equipment <i>(Note a)</i>	76,804	76,064
Amortisation of land use rights and intangible assets	48,055	49,663
Advertising and marketing expenses	503,788	683,802
Staff costs, including directors' emoluments	370,659	373,691
Operating lease rentals in respect of land and buildings	290,644	259,071
Research and product development expenses <i>(Note a)</i>	92,197	112,609
Transportation and logistics expenses	92,208	79,495
Provision for impairment charge of trade receivables	49,823	3,227
Write-down of inventories to net realisable value	35,332	41,311
Provision for impairment charge of intangible assets <i>(Note 9 (a))</i>	127,838	-
Auditor's remuneration	2,205	2,205
Management consulting expenses	25,622	26,925
Travelling and entertainment expenses	38,709	62,102

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

## Condensed Consolidated Interim Financial Information (Continued)

### Notes to Condensed Consolidated Interim Financial Information (Continued)

#### 22. Other income and other gains – net

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Government grants	54,971	77,984
License fees income	1,738	2,013
Gain on derecognition of intangible asset and license fees payable relating to revision of the license agreement of Lotto brand (Note 9 (a))	68,302	–
Others	–	(6,368)
	<b>125,011</b>	<b>73,629</b>

#### 23. Finance income and costs

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Finance income		
– Interest income on bank balances and deposits	3,523	2,678
– Net foreign currency exchange gain	–	5,270
	<b>3,523</b>	<b>7,948</b>
Finance costs		
– Amortisation of discount – license fees payable (Note 17)	(9,072)	(20,105)
– Interest expense on bank borrowings	(46,874)	(13,365)
– Interest expense on convertible bonds (Note 19)	(21,289)	–
– Net foreign currency exchange loss	(2,243)	–
– Others	(10,805)	(4,901)
	<b>(90,283)</b>	<b>(38,371)</b>
Finance costs – net	<b>(86,760)</b>	<b>(30,423)</b>



Notes to Condensed Consolidated Interim Financial Information (Continued)

24. Income taxes

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current income tax		
– Hong Kong profits tax	3,728	2,309
– PRC corporate income tax	77,732	137,310
– Withholding income tax on dividends distributed from subsidiaries in PRC	–	9,100
	<b>81,460</b>	<b>148,719</b>
Deferred income tax	(49,912)	(46,536)
	<b>31,548</b>	<b>102,183</b>

25. 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 period.

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	44,294	293,740
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	1,052,523	1,051,224
Basic earnings per share (RMB cents)	4.21	27.94

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 25. 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 convertible bonds, 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 period) based on the monetary value of the subscription rights attached to outstanding share options and the unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and the payout of the awarded shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted earnings per shares, of which details are as follows:

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	44,294	293,740
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	1,052,523	1,051,224
Adjustment for share options and awarded shares (in thousands)	3,273	5,791
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	1,055,796	1,057,015
Diluted earnings per share (RMB cents)	4.20	27.79

During the period, the impact of interest expense on convertible bonds is anti-dilutive and has therefore been excluded from the calculation of diluted earnings per share.

### 26. Dividends

On 24 August 2011, the Board declared an interim dividend of RMB11.13 cents per ordinary share for the six months ended 30 June 2011. On 22 August 2012, the Board resolved not to declare interim dividend for the six months ended 30 June 2012.



Notes to Condensed Consolidated Interim Financial Information (Continued)

27. Share-based compensation

(a) Share Purchase Scheme

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

	Unaudited Six months ended 30 June			
	2012		2011	
	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)
As at 1 January	0.86	100	0.86	638
Exercised	0.86	(100)	0.86	(430)
As at 30 June	0.86	–	0.86	208
Exercisable as at 30 June	0.86	–	0.86	208

Share options outstanding under this scheme as at 30 June 2012 and 31 December 2011 have the following expiry date and weighted average exercise price:

Expiry date	Unaudited 30 June 2012		Audited 31 December 2011	
	Weighted average exercise price (per share) HK\$	Share options (Thousands)	Weighted average exercise price (per share) HK\$	Share options (Thousands)
5 July 2012	0.86	–	0.86	100

# Condensed Consolidated Interim Financial Information (Continued)

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 27. Share-based compensation (continued)

#### (b) Share Option Scheme

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

	Unaudited			
	Six months ended 30 June			
	2012		2011	
	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)
As at 1 January	13.287	23,984	13.360	23,324
Exercised	8.830	(224)	4.941	(2,755)
Lapsed	12.181	(4,641)	14.384	(1,684)
<b>As at 30 June</b>	<b>13.608</b>	<b>19,119</b>	<b>14.497</b>	<b>18,885</b>
<b>Exercisable as at 30 June</b>	<b>14.853</b>	<b>11,003</b>	<b>14.247</b>	<b>8,263</b>

Share options outstanding under this scheme as at 30 June 2012 and 31 December 2011 have the following expiry date and exercise price:

Expiry date	Unaudited		Audited	
	30 June 2012		31 December 2011	
	Exercise price (per share) HK\$	Share options (Thousands)	Exercise price (per share) HK\$	Share options (Thousands)
4 September 2012	8.830	379	8.830	627
20 November 2012	9.840	300	9.840	300
19 July 2013	19.680	350	19.680	350
4 July 2014	17.220	1,823	17.220	2,011
5 December 2014	10.940	93	10.940	93
19 January 2015	11.370	8,210	11.370	9,557
1 April 2015	13.180	689	13.180	689
22 October 2015	21.870	3,353	21.870	3,960
15 July 2017	9.896	3,922	9.896	6,397
		<b>19,119</b>		<b>23,984</b>



Notes to Condensed Consolidated Interim Financial Information (Continued)

27. Share-based compensation (continued)

(c) Restricted Share Award Scheme

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

	Unaudited			
	Six months ended 30 June			
	2012		2011	
	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)
As at 1 January	17.18	3,539	21.97	3,840
Vested	–	–	23.90	(3)
Lapsed	14.39	(801)	20.65	(315)
As at 30 June	17.99	2,738	22.08	3,522

28. Commitments

(a) Capital commitments

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

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Contracted for but not paid – property, plant and equipment	47,385	94,729

# Condensed Consolidated Interim Financial Information (Continued)

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 28. Commitments (continued)

#### (b) Operating lease commitments – where any group companies are the lessees.

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

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Not later than 1 year	375,274	340,652
Later than 1 year and not later than 5 years	563,403	581,055
Later than 5 years	27,601	196,801
	966,278	1,118,508

### 29. Related-party transactions

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

#### (a) Sales of goods to:

	Unaudited Six months ended 30 June 2012 RMB'000	2011 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd., all being controlled by a key management personnel of a non-wholly owned subsidiary	1,770	1,350
Digital Li-Ning, being an associate of the Group	6,108	–
	7,878	1,350

#### (b) Purchases of goods from:

	Unaudited Six months ended 30 June 2012 RMB'000	2011 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	8,146	7,110



## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 29. Related-party transactions (continued)

#### (c) Purchases of services from:

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Subsidiary of Viva China Holdings Limited, being controlled by a key management personnel of the Company	150	–

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

#### (d) Key management compensation

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

	Unaudited	
	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Salaries and other benefits	5,372	6,142
Contribution to retirement benefit scheme	211	157
Employee share schemes for value of services provided	2,687	2,413
	8,270	8,712

#### (e) Period-end/year-end balances arising from sales/purchases of goods/services

	Unaudited	Audited
	30 June	31 December
	2012	2011
	RMB'000	RMB'000
Receivables from related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	251	179
Digital Li-Ning	5,046	1,555
	5,297	1,734
Payables to related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	–	1,728
Subsidiary of Viva China Holdings Limited	800	650
	800	2,378

## Notes to Condensed Consolidated Interim Financial Information (Continued)

### 30. Subsequent event

On 4 July 2012, the Board granted options to a director of the Company to subscribe for a total of 1,000,000 ordinary shares of HK\$0.10 in the capital of the Company pursuant to the Company's share option scheme at an exercise price of HK\$4.690 per share. The options are subject to a vesting scale in tranches of one-third each on 4 July 2013, 4 July 2014 and 4 July 2015, respectively with their respective fair values charged to the income statement over the above vesting periods.



## Other Information

### Interim Dividend

In view of the current operating environment, the Board considers it appropriate to retain cash for the future development of the Group and therefore resolved not to declare interim dividend for the six months ended 30 June 2012 (2011: RMB11.13 cents per Share).

### Long-term Incentive Schemes

#### Share Purchase Scheme

Details of movements of the options granted under the Share Purchase Scheme for the six months ended 30 June 2012 are set out in note 27(a) to the condensed consolidated interim financial information.

#### Post-IPO Share Option Scheme

Details of movements of the options granted under the Post-IPO Share Option Scheme for the six months ended 30 June 2012 are as follows:

Grantees	Date of grant	Exercise price per Share HK\$	as at 01/01/2012	Number of Shares issuable under the options				as at 30/06/2012	Exercise period (Note 3)
				granted during the period	exercised during the period	lapsed during the period	cancelled during the period		
<b>Executive Directors</b>									
Zhang Zhi Yong	04/09/2006	8.83	208,000	-	(208,000) (Note 1)	-	-	-	04/09/2007 – 04/09/2012
	04/07/2008	17.22	121,600	-	-	-	-	121,600	04/07/2009 – 04/07/2014
	19/01/2009	11.37	4,519,400	-	-	-	-	4,519,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	836,690	-	-	-	-	836,690	(Note 4)
Chong Yik Kay	01/04/2009	13.18	688,500	-	-	-	-	688,500	01/04/2010 – 01/04/2015
	15/07/2011	9.896	706,800	-	-	-	-	706,800	(Note 4)
<b>Non-executive Directors</b>									
Lim Meng Ann (Note 7)	04/07/2008	17.22	17,134	-	-	-	-	17,134	(Note 7)
	19/01/2009	11.37	210,720	-	-	(105,360)	-	105,360	(Note 7)
	15/07/2011	9.896	209,180	-	-	(209,180)	-	-	(Note 7)
Chu Wah Hui	04/07/2008	17.22	34,267	-	-	-	-	34,267	04/07/2009 – 04/07/2014
	19/01/2009	11.37	210,720	-	-	-	-	210,720	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	-	-	-	-	209,180	(Note 4)
James Chun-Hsien Wei	04/07/2008	17.22	51,400	-	-	-	-	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	-	-	-	-	263,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	-	-	-	-	209,180	(Note 4)

## Other Information (Continued)

Grantees	Date of grant	Exercise price per Share HK\$	as at 01/01/2012	Number of Shares issuable under the options				as at 30/06/2012	Exercise period (Note 3)
				granted during the period	exercised during the period	lapsed during the period	cancelled during the period		
<b>Independent non-executive Directors</b>									
Koo Fook Sun, Louis	04/09/2006	8.83	60,000	-	-	-	-	60,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	-	-	-	-	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	-	-	-	-	263,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	-	-	-	-	209,180	(Note 4)
Wang Ya Fei	04/09/2006	8.83	90,000	-	-	-	-	90,000	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	-	-	-	-	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	-	-	-	-	263,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	-	-	-	-	209,180	(Note 4)
Chan Chung Bun, Bunny	04/07/2008	17.22	51,400	-	-	-	-	51,400	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	-	-	-	-	263,400	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	-	-	-	-	209,180	(Note 4)
<b>Employees of the Group</b>									
In aggregate	04/09/2006	8.83	269,333	-	(16,000) (Note 2)	(24,333)	-	229,000	04/09/2007 – 04/09/2012
In aggregate	04/07/2008	17.22	1,332,532	-	-	(187,567)	-	1,144,965	04/07/2009 – 04/07/2014
In aggregate	05/12/2008	10.94	92,700	-	-	-	-	92,700	05/12/2009 – 05/12/2014
In aggregate	19/01/2009	11.37	3,562,080	-	-	(1,240,720)	-	2,321,360	19/01/2010 – 19/01/2015
In aggregate	22/10/2009	21.87	3,660,407	-	-	(607,600)	-	3,052,807	(Note 5)
In aggregate	15/07/2011	9.896	3,598,780	-	-	(2,266,490)	-	1,332,290	(Note 4)
<b>Other participants</b>									
In aggregate	20/11/2006	9.84	300,000	-	-	-	-	300,000	(Note 6)
In aggregate	19/07/2007	19.68	350,000	-	-	-	-	350,000	19/07/2008 – 19/07/2013
In aggregate	04/07/2008	17.22	300,000	-	-	-	-	300,000	04/07/2009 – 04/07/2014
In aggregate	22/10/2009	21.87	300,000	-	-	-	-	300,000	(Note 5)
			23,983,943	-	(224,000)	(4,641,250)	-	19,118,693	



## Other Information (Continued)

Notes:

1. The closing price per Share immediately before the date of exercise of the options is HK\$9.41.
2. The weighted average closing price per Share immediately before the dates of exercise of the options is HK\$9.51.
3. Unless otherwise stated in notes 4, 5 and 6: (i) options granted in years 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 in 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.
4. The options are subject to vesting schedules and exercise periods as follows:

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

5. 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

6. 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

7. Mr. Lim Meng Ann ceased to be a non-executive Director with effect from 1 April 2012. As approved by the Board, all options granted to Mr. Lim which had been vested before 1 April 2012 are exercisable before 1 April 2014. All options granted to Mr. Lim which had not been vested before 1 April 2012 became lapsed on 1 April 2012.

## Restricted Share Award Scheme

During the six months ended 30 June 2012, no restricted shares were granted to eligible participants pursuant to the Restricted Share Award Scheme. No restricted shares were vested and 801,081 restricted shares lapsed during the period. As at 30 June 2012, the number of restricted shares granted under the scheme, except for those lapsed, amounted to 8,486,448 Shares, representing approximately 0.83% of the issued share capital of the Company as at the adoption date of the scheme. Details of movements of the restricted shares granted under the Restricted Share Award Scheme for the six months ended 30 June 2012 are as follows:

Date of grant	Fair value per restricted share (Note) HK\$	as at 01/01/2012	Number of restricted shares			as at 30/06/2012	Vesting period
			granted during the period	vested during the period	lapsed during the period		
03/09/2010	23.30	1,115,634	-	-	(299,707)	815,927	01/07/2011 – 31/08/2013
03/09/2010	23.30	900,000	-	-	-	900,000	01/07/2011 – 01/07/2016
30/12/2010	16.62	24,536	-	-	(7,134)	17,402	30/12/2011 – 28/02/2014
15/07/2011	8.96	1,499,200	-	-	(494,240)	1,004,960	15/07/2012 – 15/07/2014
		<u>3,539,370</u>	<u>-</u>	<u>-</u>	<u>(801,081)</u>	<u>2,738,289</u>	

Note:

The fair values of the Restricted Shares were based on the closing price per Share at the date of grant.

The Restricted Share Award Scheme has been amended on 4 July 2012 pursuant to a Board resolution, including, inter alia, to revise the scheme limit from not exceeding 2% of the issued Shares as at the adoption date of the scheme to not exceeding 5% of the Company's share capital in issue from time to time.

Save as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.



## Other Information (Continued)

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

As at 30 June 2012, 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	268,181,850 (Long position)	1	Interests of controlled corporations	25.398
	410,333,012 (Long position)	2	Interest under the Agreement	38.861
Zhang Zhi Yong	15,025,090 (Long position)	3	Personal, interest of controlled corporation	1.423
Chong Yik Kay	2,065,300 (Long position)	4	Personal	0.196
Chu Wah Hui	707,280 (Long position)	5	Personal, family	0.067
James Chun-Hsien Wei	558,280 (Long position)	6	Personal	0.053
Koo Fook Sun, Louis	814,280 (Long position)	7	Personal	0.077
Wang Ya Fei	844,280 (Long position)	8	Personal	0.080
Chan Chung Bun, Bunny	650,280 (Long position)	9	Personal	0.062

\* The percentage has been calculated based on 1,055,907,629 Shares in issue as at 30 June 2012.

#### Notes:

1. Mr. Li Ning is deemed to be interested in an aggregate of 268,181,850 Shares held by Victory Mind Assets Limited ("Victory Mind"), Dragon City Management (PTC) Limited ("Dragon City") and Alpha Talent, respectively, as follows:
  - (a) 116,374,000 Shares are held by Victory Mind in which 57% is owned by Ace Leader Holdings Limited ("Ace Leader") and 38% is owned by Jumbo Top Group Limited ("Jumbo Top"). All shares of Ace Leader are held by TMF (Cayman) Ltd. in its capacity as trustee of the Jun Tai Trust, the beneficiaries of which include the respective family members of Mr. Li Ning. Mr. Li Ning is the settlor of the Jun Tai Trust and is therefore deemed to be interested in the 116,374,000 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;



## Other Information (Continued)

- (b) 150,000,000 Shares are held by Dragon City in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm 2008 Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko 2008 Trust. Both of the Palm 2008 Trust and the Gingko 2008 Trust are revocable family trusts, the beneficiaries of which include the respective family members of Mr. Li Ning and his brother, Mr. Li Chun. Mr. Li Ning is the 60% shareholder of Dragon City and is therefore deemed to be interested in the 150,000,000 Shares held by Dragon City. Mr. Li Ning is a director of Dragon City; and
- (c) 1,807,850 Shares are held by Alpha Talent, which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme. Mr. Li Ning is therefore deemed to be interested in the 1,807,850 Shares held by Alpha Talent. Mr. Li Ning is a director of Alpha Talent.

When the Share Purchase Scheme was first set up in June 2004, 35,250,000 Shares were held by Alpha Talent. As at 30 June 2012, Alpha Talent had granted options to purchase 35,117,900 Shares pursuant to the Share Purchase Scheme, among which options to purchase for 1,675,750 Shares have been cancelled or lapsed and options to purchase 33,442,150 Shares have been exercised.

2. Mr. Li Ning, Victory Mind and TPG Stallion Holdings, L.P. are parties to an agreement ("Agreement") which constitutes an agreement under section 317 of the SFO. Under the SFO, Victory Mind is deemed to have a long position in the aggregate interest of 410,333,012 Shares held by Mr. Li Ning and TPG Stallion Holdings, L.P. Therefore, Mr. Li Ning is also deemed to be interested in Victory Mind's interest in the 410,333,012 Shares. Details of the interests of TPG Stallion Holdings, L.P. are set out in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" below.
3. Mr. Zhang Zhi Yong is interested in 9,547,400 Shares, among which 6,297,400 Shares are held as personal interest and 3,250,000 Shares are held by Smart Step Management Limited ("Smart Step") which is 100% owned by Mr. Zhang. Mr. Zhang therefore is deemed to be interested in the 3,250,000 Shares held by Smart Step. Mr. Zhang is a director of Smart Step.

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

4. Mr. Chong Yik Kay is interested in 670,000 Shares and is taken to be interested as a grantee of options to subscribe for 688,500 Shares at an exercise price of HK\$13.18 per Share and 706,800 Shares at an exercise price of HK\$9.896 per Share under the Post-IPO Share Option Scheme.
5. Mr. Chu Wah Hui is interested in 253,113 Shares, among which 208,113 Shares are held as personal interest and 45,000 Shares are held as family interest. Mr. Chu is also taken to be interested as a grantee of options to subscribe for 34,267 Shares at an exercise price of HK\$17.22 per Share, 210,720 Shares at an exercise price of HK\$11.37 per Share and 209,180 Shares at an exercise price of HK\$9.896 per Share under the Post-IPO Share Option Scheme.
6. Mr. James Chun-Hsien Wei is interested in 34,300 Shares and is taken to be interested as a grantee of options to subscribe for 51,400 Shares at an exercise price of HK\$17.22 per Share, 263,400 Shares at an exercise price of HK\$11.37 per Share and 209,180 Shares at an exercise price of HK\$9.896 per Share under the Post-IPO Share Option Scheme.
7. Mr. Koo Fook Sun, Louis is interested in 230,300 Shares and is taken to be interested as a grantee of options to subscribe for 60,000 Shares at an exercise price of HK\$8.83 per Share, 51,400 Shares at an exercise price of HK\$17.22 per Share, 263,400 Shares at an exercise price of HK\$11.37 per Share and 209,180 Shares at an exercise price of HK\$9.896 per Share under the Post-IPO Share Option Scheme.



## Other Information (Continued)

8. Ms. Wang Ya Fei is interested in 230,300 Shares and is taken to be interested as a grantee of options to subscribe for 90,000 Shares at an exercise price of HK\$8.83 per Share, 51,400 Shares at an exercise price of HK\$17.22 per Share, 263,400 Shares at an exercise price of HK\$11.37 per Share and 209,180 Shares at an exercise price of HK\$9.896 per Share under the Post-IPO Share Option Scheme.
9. Mr. Chan Chung Bun, Bunny is interested in 126,300 Shares and is taken to be interested as a grantee of options to subscribe for 51,400 Shares at an exercise price of HK\$17.22 per Share, 263,400 Shares at an exercise price of HK\$11.37 per Share and 209,180 Shares at an exercise price of HK\$9.896 per Share under the Post-IPO Share Option Scheme.

Save as disclosed above, so far as was known to any Director, as at 30 June 2012, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

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

As at 30 June 2012, 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	268,181,850 (Long position)	1	Interest of controlled corporations	25.398
	410,333,012 (Long position)	1	Interest under the Agreement	38.861
Li Chun	266,374,000 (Long position)	2	Interest of controlled corporations	25.227
	410,333,012 (Long position)	3	Interest under the Agreement	38.861
Victory Mind Assets Limited	116,374,000 (Long position)	4	Beneficial owner	11.021
	410,333,012 (Long position)	3	Interest under the Agreement	38.861
Ace Leader Holdings Limited	116,374,000 (Long position)	5	Interest of controlled corporation	11.021
	410,333,012 (Long position)	3	Interest under the Agreement	38.861
Jumbo Top Group Limited	116,374,000 (Long position)	6	Interest of controlled corporation	11.021
	410,333,012 (Long position)	3	Interest under the Agreement	38.861

## Other Information (Continued)

Name of shareholder	Number of Shares held	Note	Capacity	% of issued Shares*
TMF (Cayman) Ltd.	116,374,000 (Long position)	7	Trustee	11.021
	410,333,012 (Long position)	3	Interest under the Agreement	38.861
Dragon City Management (PTC) Limited	150,000,000 (Long position)	8	Trustee	14.206
Cititrust (Cayman) Limited	150,000,000 (Long position)	9	Trustee	14.206
David Bonderman	142,151,162 (Long position)	10	Interest of controlled corporations	13.462
	384,555,850 (Long position)	11	Interest under the Agreement	36.419
James G. Coulter	142,151,162 (Long position)	10	Interest of controlled corporations	13.462
	384,555,850 (Long position)	11	Interest under the Agreement	36.419
TPG Asia Advisors V DE, Inc.	142,151,162 (Long position)	10	Interest of controlled corporations	13.462
	384,555,850 (Long position)	11	Interest under the Agreement	36.419
TPG Stallion Holdings, L.P.	142,151,162 (Long position)	10	Beneficial owner	13.462
	384,555,850 (Long position)	11	Interest under the Agreement	36.419
Genesis Asset Managers, LLP	98,020,000 (Long position)		Investment manager	9.283
Matthews International Capital Management, LLC	95,595,500 (Long position)		Investment manager	9.053
Minister for Finance Inc.	93,049,135 (Long position)	12	Interest of controlled corporations	8.812
Government of Singapore Investment Corporation Pte. Ltd.	93,049,135 (Long position)	12	Investment manager, interest of controlled corporations	8.812
GIC Special Investments Pte. Ltd.	69,191,883 (Long position)	12	Interest of controlled corporations	6.553
Government of Singapore Investment Corporation (Ventures) Pte. Ltd.	69,191,883 (Long position)	12	Interest of controlled corporations	6.553
Tetrad Ventures Pte Ltd	69,191,883 (Long position)	12	Beneficial owner	6.553
Dodge & Cox	63,417,700 (Long position)		Investment manager	6.006
FIL Limited	62,183,000 (Long position)		Investment manager	5.889

\* The percentage has been calculated based on 1,055,907,629 Shares in issue as at 30 June 2012.



## Other Information (Continued)

Notes:

1. See notes 1 and 2 under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures”.
2. Mr. Li Chun is taken to be interested in an aggregate of 266,374,000 Shares held by Victory Mind and Dragon City, as follows:
  - (a) 116,374,000 Shares are held by Victory Mind in which 57% is owned by Ace Leader and 38% is owned by Jumbo Top. All shares of Jumbo Top are held by TMF (Cayman) Ltd. in its capacity as trustee of the Yuan Chang Trust, the beneficiaries of which include the respective family members of Mr. Li Chun. Mr. Li Chun is the settlor of the Yuan Chang Trust and therefore is taken to be interested in the 116,374,000 Shares held by Victory Mind. Mr. Li Chun is a beneficiary of the Yuan Chang Trust and is also a director of each of Victory Mind and Jumbo Top; and
  - (b) 150,000,000 Shares are held by Dragon City in its capacity as trustee of the Three-River Unit Trust, which is a unit trust, the units of which are owned as to 60% by Cititrust (Cayman) Limited as trustee of the Palm 2008 Trust and as to 40% by Cititrust (Cayman) Limited as trustee of the Gingko 2008 Trust. Both of the Palm 2008 Trust and the Gingko 2008 Trust are revocable family trusts, the beneficiaries of which include the respective family members of Mr. Li Chun and his brother, Mr. Li Ning. Mr. Li Chun, together with his family member, is the 40% shareholder of Dragon City and therefore is taken to be interested in the 150,000,000 Shares held by Dragon City. Mr. Li Chun is also a director of Dragon City.
3. Mr. Li Ning, Victory Mind and TPG Stallion Holdings, L.P. are parties to an agreement (“Agreement”) which constitutes an agreement under section 317 of the SFO. Under the SFO, Victory Mind is deemed to have a long position in the aggregate interest of 410,333,012 Shares held by Mr. Li Ning and TPG Stallion Holdings, L.P. Therefore, each of Mr. Li Chun, Ace Leader, Jumbo Top and TMP (Cayman) Ltd. is also deemed to be interested in Victory Mind’s interest in the 410,333,012 Shares.
4. See note 1(a) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 2(a) above.
5. See note 1(a) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 2(a) above. Ace Leader is deemed to be interested in the 116,374,000 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 2(a) above. Jumbo Top is deemed to be interested in the 116,374,000 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 2(a) above. TMF (Cayman) Ltd. is deemed to be interested in the 116,374,000 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 2(b) above.
9. See note 1(b) under “Directors’ and Chief Executives’ Interests and Short Positions in Shares, Underlying Shares and Debentures” and note 2(b) above. Cititrust (Cayman) Limited is deemed to be interested in the 150,000,000 Shares held by Dragon City.



## Other Information (Continued)

10. 142,151,162 Shares are held by TPG Stallion Holdings, L.P., a wholly owned by TPG Asia Advisors V DE. Inc., which comprises (i) 53,000,000 Shares; and (ii) 89,151,162 Shares to be issued upon exercise of the conversion rights attached to the convertible bonds in the principal amount of RMB561,000,000 issued by the Company on 8 February 2012. TPG Asia Advisors V DE. Inc. is held 50% by Mr. James G. Coulter and 50% by Mr. David Bonderman and Mr. James G. Coulter and Mr. David Bonderman therefore are taken to be interested in the 142,151,162 Shares held by TPG Stallion Holdings, L.P.
11. Mr. Li Ning, Victory Mind and TPG Stallion Holdings, L.P. are parties to an agreement ("Agreement") which constitutes an agreement under section 317 of the SFO. Under the SFO, TPG Stallion Holdings, L.P. is deemed to have a long position in the aggregate interest of 384,555,850 Shares held by Mr. Li Ning and Victory Mind. Therefore, each of Mr. David Bonderman, Mr. James G. Coulter and TPG Asia Advisors V DE, Inc. is also deemed to be interested in TPG Stallion Holdings, L.P.'s interest in the 384,555,850 Shares.
12. Tetrad Ventures Pte Ltd ("Tetrad") is a direct holder of 69,191,883 Shares, which comprises (i) 39,157,000 Shares and (ii) 30,034,883 Shares to be issued upon exercise of the conversion rights attached to the convertible bonds in the principal amount of RMB189,000,000 issued by the Company on 8 February 2012, and Government of Singapore Investment Corporation Pte. Ltd. ("GIC") is the direct holder of 23,857,252 Shares. Tetrad is wholly owned by Government of Singapore Investment Corporation (Ventures) Pte. Ltd.. GIC Special Investments Pte. Ltd. manages the investments of Tetrad and is wholly owned by GIC. GIC manages the foreign reserves of Singapore and is wholly owned by Minister for Finance Inc..

Pursuant to the SFO, the interests of each of the above entities in the Company is as follows:

- (a) Tetrad has direct interest in 69,191,883 Shares;
- (b) Government of Singapore Investment Corporation (Ventures) Pte. Ltd. and GIC Special Investments Pte. Ltd. each has deemed interests in the 69,191,883 Shares held by Tetrad;
- (c) GIC has a total interest in 93,049,135 Shares, comprising direct interest in 23,857,252 Shares and deemed interest in the 69,191,883 Shares held by Tetrad; and
- (d) Minister for Finance Inc. has deemed interests in the 93,049,135 Shares that GIC has an interest in.

Save as disclosed above, as at 30 June 2012, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

## Change in Director's Information

The changes in information on Directors since the date of the Annual Report 2011, which are required to be disclosed pursuant to Rule 13.51(B) of the Listing Rules are set out below:

1. Upon review and recommendation of the Remuneration Committee, the Board has approved the adjustment of remuneration of Directors as follows:
  - a. In recognition of the increased role and involvement of Mr. Li Ning, an executive Director and Executive Chairman of the Company, in leading the Group's future development strategy, the basic annual salary payable to Mr. Li Ning is increased from RMB2,877,000 to RMB3,700,000 with effect from 4 July 2012. He is also entitled to discretionary bonus and participation in the Company's share schemes and other benefits and allowances.



## Other Information (Continued)

- b. Mr. Jin-Goon Kim has entered into an amended and restated service agreement with the Company for his redesignation as an executive Director and his appointment as the Executive Vice Chairman of the Company with effect from 4 July 2012 for a term of three years. Mr. Kim's entitlement to director's fee is increased from RMB250,000 to RMB500,000 per annum. He is also entitled to additional fees or other remuneration for carrying out additional service for the Company as and when required.
  - c. Mr. Zhang Zhi Yong ceased to act as the Chief Executive Officer of the Company and a member of the Executive Committee of the Board, both of which took effect from 4 July 2012. Mr. Zhang has been appointed as the chief advisor to the Executive Committee of the Board and is entitled to receive an advisory fee of RMB3,700,000 for the one-year period from 4 July 2012, which will be subject to review and revision by the Remuneration Committee and the Board after completion of the one-year period.
  - d. The annual director's fee payable to each of the non-executive Directors and independent non-executive Directors who does not act as Chairman of a Committee of the Board, has been increased from RMB215,000 to RMB250,000 with effect from 1 January 2012. The annual director's fee payable to each of the independent non-executive Directors who also acts as Chairman of a Committee of the Board remains unchanged at RMB270,000.
2. Mr. Chu Wah Hui, a non-executive Director, has been appointed as chairman of PepsiCo Investment (China) Limited, chairman of China Beverage Limited and director of Tingyi Asahi Beverages Holding Co., Ltd. with effect from 1 April 2012.
  3. Mr. Koo Fook Sun, Louis, an independent non-executive Director, has retired as an independent non-executive director of Weichai Power Co., Ltd., a company listed on the Main Board of the Hong Kong Stock Exchange, with effect from 29 June 2012.
  4. Ms. Wang Ya Fei, an independent non-executive Director, has been redesignated from her appointment as a non-executive director to being a non-executive independent director of Xueda Education Group, a company listed on the New York Stock Exchange, with effect from 1 May 2012.
  5. Mr. James Chun-Hsien Wei, a non-executive Director, has been appointed as an independent director of Ta Ya Electric Wire & Cable Company Limited, a company listed on the Taiwan Stock Exchange, with effect from 6 June 2012.

## Convertible Bonds

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

The issue of the Convertible Bonds was completed on 8 February 2012. Convertible Bonds in the principal amount of RMB561,000,000 were issued to TPG Stallion Holdings, L.P. (which is an affiliate of TPG) and Convertible Bonds in the principal amount of RMB189,000,000 were issued to GIC Investor. The net proceeds of the Convertible Bonds issue, after deduction of expenses, amounted to approximately RMB745,691,000, and are used by the Company to continue its investment in the business development of LI-NING brand, including branding, securing sport sponsorships, roll-out of the sixth-generation stores as well as product design and research and development and as general working capital of the Group.

As of 30 June 2012, no Convertible Bonds have been converted into Shares under the subscription agreements.

## Purchase, Sale or Redemption of the Company's Shares

The Company did not redeem any of its Shares during the six months ended 30 June 2012. Neither the Company nor any of its subsidiaries had purchased or sold any Shares during the period.

## Corporate Governance

For the period from 1 January 2012 to 31 March 2012, the Company complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules ("Corporate Governance Code"), effective before 1 April 2012. For the period from 1 April 2012 to 30 June 2012, with the exception of the composition of the Nomination Committee of the Board, the Company complied with the all other code provisions set out in the Corporate Governance Code, effective from 1 April 2012. Code provision A.5.1 of the Corporate Governance Code states that the chairman of the nomination committee must either be held by the chairman of the board, or an independent non-executive director, and the majority of its members must be independent non-executive directors. The Company's Nomination Committee currently consists of the following directors: Mr. Jin-Goon Kim (Executive Vice Chairman), Mr. Li Ning (Executive Chairman) and Mr. Chan Chung Bun, Bunny (independent non-executive Director), with Mr. Jin-Goon Kim acting as the chairman of the committee. In view of the Group currently being amidst a period of reform, the Board hopes to garner greater support from TPG-nominated directors during this process of reform, and thus has decided to appoint Mr. Jin-Goon Kim as the Chairman of the Nomination Committee. The Board also needs the Executive Chairman, Mr. Li Ning, to become more involved with the work of the Nomination Committee. The Board believes this arrangement is necessary for the Company in this current stage.

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules regarding securities transactions by its Directors. Following specific enquiry by the Company, all the Directors confirmed that they complied with the required standard set out in the Model Code throughout the six months ended 30 June 2012.

The Audit Committee of the Company, consisting of three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed auditing, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2012.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2012 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

By order of the Board  
**Li Ning**  
*Executive Chairman*

Hong Kong, 22 August 2012



## Information for Investors

### Share Information

Listing: Main Board of the Hong Kong Stock Exchange on 28 June 2004  
Stock code: 2331  
Board lot: 500 Shares  
Number of Shares in issue as at 30 June 2012: 1,055,907,629  
Market capitalisation as at 30 June 2012: approximately HK\$4,582,639,000

### Interim Dividend for 2012

Nil

### Financial Calendar

Announcement of 2012 interim results: 22 August 2012  
Announcement of 2012 annual results: March 2013

### Corporate Websites

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

### IR Contact

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## Glossary

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

“Alpha Talent”	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme
“Annual Report 2011”	the Company’s annual report for the year ended 31 December 2011
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company” or “Li Ning Company”	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
“Director(s)”	the director(s) of the Company
“Group” or “Li Ning Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Listing Rules”	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Post-IPO Share Option Scheme”	the post-IPO share option scheme of the Company adopted on 5 June 2004 and amended on 15 May 2009
“PRC” or “China”	the People’s Republic of China
“Restricted Share Award Scheme”	the restricted share award scheme adopted by the Company on 14 July 2006 and amended on 27 August 2008 and 4 July 2012
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Share Purchase Scheme”	the share purchase scheme set up by Mr. Li Ning and adopted by Alpha Talent on 5 June 2004
“Shareholders”	shareholders of the Company