LI NING COMPANY LIMITED
李寧有限公司

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

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

RESULTS HIGHLIGHTS

- Revenue was RMB6,739 million, decreased by 24.5% year-on-year
- EBITDA was loss of RMB1,377 million; loss attributable to equity holders was RMB1,979 million
- No final dividend was declared
- Effective implementation of the Transformation Plan and the Channel Revival Plan on multiple fronts
- Number of LI-NING brand retail stores was 6,434, a net decrease of 1,821 stores as the Group proactively closed down inefficient stores and optimised channel-related policies

OUTLOOK FOR THE FULL YEAR OF 2013

- Market and industry conditions continue to be difficult, and the Group's financial performance is expected to remain challenging at least in the first half of 2013
- Full year operational performance is expected to gradually stabilise in 2013, with healthier cash flow and better operating results
- Continues to effectively carry out the Transformation Plan and the Channel Revival Plan to transform to a retail-oriented business model

ANNUAL RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company" or "Li Ning Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2012, together with comparative figures of 2011, as follows:

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2012** *RMB'000*	2011 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**857,616**	831,693
Land use rights		**362,763**	371,696
Intangible assets		**423,382**	751,836
Deferred income tax assets		**364,951**	445,857
Available-for-sale financial assets		**46,930**	46,930
Investment in associates	*4*	**4,275**	11,303
Other receivables and prepayments		**45,190**	87,903
Total non-current assets		**2,105,107**	2,547,218
Current assets			
Inventories	*5*	**919,580**	1,132,965
Trade receivables	*6*	**1,487,401**	2,094,440
Other receivables and prepayments – current portion		**221,248**	344,527
Current income tax recoverable		**36,393**	–
Restricted bank deposits		**13,688**	13,194
Cash and cash equivalents		**1,248,593**	1,196,474
Total current assets		**3,926,903**	4,781,600
Total assets		**6,032,010**	7,328,818
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**111,622**	111,604
Share premium		**315,972**	312,379
Shares held for Restricted Share Award Scheme		**(41,185)**	(52,415)
Other reserves		**489,485**	370,106
Retained earnings		**737,703**	2,730,169
		1,613,597	3,471,843
Non-controlling interests in equity		**198,644**	192,816
Total equity		**1,812,241**	3,664,659

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
LIABILITIES			
Non-current liabilities			
License fees payable		**152,518**	458,793
Convertible bonds		**651,632**	–
Deferred income tax liabilities		**79,318**	81,269
Deferred income		**59,736**	61,030
Total non-current liabilities		**943,204**	601,092
Current liabilities			
Trade payables	*7*	**960,982**	1,462,398
Other payables and accruals		**744,781**	662,480
License fees payable – current portion		**111,145**	71,649
Current income tax liabilities		**–**	28,481
Borrowings		**1,447,157**	838,059
Convertible bonds – interest payable		**12,500**	–
Total current liabilities		**3,276,565**	3,063,067
Total liabilities		**4,219,769**	3,664,159
Total equity and liabilities		**6,032,010**	7,328,818
Net current assets		**650,338**	1,718,533
Total assets less current liabilities		**2,755,445**	4,265,751

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	**2012**	2011
		RMB'000	*RMB'000*
Revenue	*3*	**6,738,911**	8,928,526
Cost of sales	*8*	**(4,188,977)**	(4,886,440)
Gross profit		**2,549,934**	4,042,086
Distribution costs	*8*	**(2,635,404)**	(2,909,922)
Administrative expenses	*8*	**(1,675,656)**	(644,641)
Other income and other gains – net	*9*	**168,792**	143,433
Operating (loss)/profit		**(1,592,334)**	630,956
Finance income	*10*	**7,593**	17,179
Finance costs	*10*	**(208,775)**	(99,231)
Finance costs – net	*10*	**(201,182)**	(82,052)
Share of loss of associates	*4*	**(11,508)**	(1,527)
(Loss)/profit before income tax		**(1,805,024)**	547,377
Income tax expense	*11*	**(150,375)**	(136,408)
(Loss)/profit for the year		**(1,955,399)**	410,969
Attributable to:			
Equity holders of the Company		**(1,979,114)**	385,813
Non-controlling interests		**23,715**	25,156
		(1,955,399)	410,969
(Losses)/earnings per share for profit attributable to equity holders of the Company (RMB cents)			
– basic	*12*	**(187.96)**	36.70
– diluted	*12*	**(187.96)**	36.56
Dividends	*13*	**–**	116,533

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
(Loss)/profit for the year	**(1,955,399)**	410,969
Other comprehensive income:		
Currency translation differences	**(1,060)**	3,762
Total comprehensive (loss) income for the year	**(1,956,459)**	414,731
Attributable to:		
Equity holders of the Company	**(1,980,174)**	389,575
Non-controlling interests	**23,715**	25,156
	(1,956,459)	414,731

Notes:

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.

In December 2012, Viva China Holdings Limited ("Viva China") completed the acquisition of an aggregate of 266,374,000 shares of the Company, representing approximately 25.23% of the entire issued share capital of the Company at the time of acquisition.

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 25 March 2013.

2. Basis of preparation

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

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

2.1 Going concern

For the year ended 31 December 2012, the Group incurred a net loss of RMB1,955 million and had net operating cash outflow of RMB931 million. Notwithstanding this, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's equity fund raising plan, and its ability to renew bank loans and improve its operating results.

As stated in the announcement dated 25 January 2013 (the "Announcement"), the Company has executed a plan to issue convertible securities to all shareholders of the Company in order to raise a gross proceeds of about RMB1.5 billion (the "Equity Fund Raising Plan"). Pursuant to the irrevocable undertakings executed in favour of the Company, Viva China, TPG Stallion, L.P. ("TPG") and Tetrad Ventures Pte. Ltd. ("GIC Investor") have undertaken to subscribe the convertible securities with the aggregate principal amount of approximately RMB508 million. Further, the Company has entered into two underwriting agreements with Viva China and TPG, under which they in aggregate underwrite all of the remaining convertible securities respectively, to the extent unsubscribed by other shareholders. The prospectus is expected to be issued on 27 March 2013, and the Equity Fund Raising Plan is scheduled to be completed in April 2013.

As indicated in the Company's announcement dated 17 December 2012, the Group has also implemented a Transformation Plan and a channel revival plan, the purpose of which is (1) to enhance the Group's financial performance by improving marketing, product merchandising and cost structure, and (2) to enhance sales channel profitability by rationalising the distribution network and improving retail operations and inventory mix. The management believes a successful execution of both plans will enable the Group to generate sustainable positive cash flow in the future.

Moreover, the Group is also discussing with certain banks to negotiate the renewal of the Group's existing bank loans. The management believes that the Group has the ability to renew the existing bank loans given the good credit history and good business relationship with the banks.

The Directors of the Company are confident that the Group's Equity Fund Raising Plan, the renewal of bank loans and future operating results will be able to generate sufficient cash flows in order to meet its obligations as and when they fall due over the next twelve months. Accordingly, the Directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

2.2 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 January 2012 that would be expected to have a material impact on the Group.

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- IFRS 10, 'Consolidated financial statements' replaces all of the guidance on control and consolidation in IAS 27 'Consolidated and separate financial statements', and SIC-12 'Consolidation – special purpose entities'. IAS 27 is renamed 'Separate financial statements', and it continues to be a standard dealing solely with separate financial statements. The existing guidance for separate financial statements is unchanged. IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control. The Group will adopt IFRS 10 from 1 January 2013. The Group has performed an assessment and concluded the adoption of IFRS 10 does not have a significant impact on the Group.

- IFRS 11 'Joint arrangements' 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 will adopt IFRS 11 from 1 January 2013. The Group has performed an assessment and concluded the adoption of IFRS 11 does not have a significant impact on the Group.

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

3. Revenue and segment information

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

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

Revenue consists of sales from LI-NING brand, Double Happiness brand, Lotto brand and all other brands, are RMB5,926,165,000, RMB541,555,000, RMB83,956,000 and RMB187,235,000 for the year ended 31 December 2012, and RMB8,164,794,000, RMB485,026,000, RMB119,641,000 and RMB159,065,000 for the year ended 31 December 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 consolidated income statement.

The segment information provided to the management for the reportable segments for the years ended 31 December 2012 and 2011 is as follows:

	LI-NING brand *RMB'000*	**Double Happiness brand** *RMB'000*	**Lotto brand** *RMB'000*	**All other brands** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2012					
Total revenue	**5,926,165**	**542,713**	**109,519**	**216,787**	**6,795,184**
Inter-segment revenue	**–**	**(1,158)**	**(25,563)**	**(29,552)**	**(56,273)**
Revenue from external customers	**5,926,165**	**541,555**	**83,956**	**187,235**	**6,738,911**
Operating (loss)/profit	**(1,480,147)**	**78,946**	**(162,110)**	**(29,023)**	**(1,592,334)**
Distribution costs and administrative expenses	**3,872,989**	**128,887**	**221,784**	**87,400**	**4,311,060**
Depreciation and amortisation	**201,169**	**17,588**	**725**	**7,357**	**226,839**
Year ended 31 December 2011					
Total revenue	8,164,794	488,654	148,703	189,090	8,991,241
Inter-segment revenue	–	(3,628)	(29,062)	(30,025)	(62,715)
Revenue from external customers	8,164,794	485,026	119,641	159,065	8,928,526
Operating profit/(loss)	731,106	80,451	(130,556)	(50,045)	630,956
Distribution costs and administrative expenses	3,176,759	109,895	161,382	106,527	3,554,563
Depreciation and amortisation	215,332	17,504	20,509	7,958	261,303

A reconciliation of operating (loss)/profit to (loss)/profit before income tax is provided as follows:

	Year ended 31 December	
	2012 *RMB'000*	2011 *RMB'000*
Operating (loss)/profit	**(1,592,334)**	630,956
Finance income	**7,593**	17,179
Finance costs	**(208,775)**	(99,231)
Share of loss of associates	**(11,508)**	(1,527)
(Loss)/profit before income tax	**(1,805,024)**	547,377

Geographical information of revenue

	Year ended 31 December	
	2012 *RMB'000*	2011 *RMB'000*
The PRC (including the Hong Kong Special Administrative Region)	**6,545,356**	8,726,209
Other regions	**193,555**	202,317
Total	**6,738,911**	8,928,526

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

The Group has a large number of customers. For the years ended 31 December 2012 and 2011, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Share of loss of/investment in associates

	2012	2011
	RMB'000	*RMB'000*
Share of net assets, as at 1 January	**11,303**	–
New investments	**10,090**	12,830
Share of loss	**(11,508)**	(1,527)
Impairment charge	**(5,610)**	–
Share of net assets, as at 31 December	**4,275**	11,303

The following is a list of the principal associates as at 31 December 2012:

Name	**Place of operation/ incorporation, date of incorporation and kind of legal entity**	**Issued share/paid up capital**	**Effective equity interest held by the Group**	**Principal activities**
Digital Li-Ning Company Limited	Cayman Islands, 11 July 2011 Limited liability company	US$10,000,000	19.9%	The marketing and distribution of sports goods in the United States
Tianjin Kuan Mao Mi Children's Products Company Limited	The PRC, 24 May 2011 Limited liability company	RMB30,000,000	19.97%	Sale of sports goods
Tianjin Yue Hao Tuo Outdoor Sports Company Limited	The PRC, 3 August 2011 Limited liability company	RMB20,790,000	19.72%	Sale of sports goods

Although the Group holds less than 20% of the equity shares of the associated companies, the Group exercises significant influence over the associated companies by virtue of its contractual right to appoint director to the board of directors of the associated companies and has the power to participate in the financial and operating policy decisions of the associated companies.

5. Inventories

	2012	2011
	RMB'000	*RMB'000*
Raw materials	**34,699**	34,041
Work in progress	**34,135**	40,576
Finished goods	**1,437,928**	1,245,857
	1,506,762	1,320,474
Less: Provision for write-down to net realisable value	**(587,182)**	(187,509)
	919,580	1,132,965

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB3,565,285,000 for the year ended 31 December 2012 (2011: RMB4,547,477,000).

The Group made an additional loss of approximately RMB399,673,000 for the year ended 31 December 2012 (2011: RMB72,427,000) in respect of the write-down of inventories to their net realisable value. The amount has been included in cost of sales in the consolidated income statement for the year ended 31 December 2012 and the comparative figure for the year ended 31 December 2011 has been reclassified as cost of sales to conform to the current year presentation.

6. Trade receivables

	2012	2011
	RMB'000	*RMB'000*
Accounts receivable	**2,407,099**	2,105,590
Notes receivable	**17,837**	250
	2,424,936	2,105,840
Less: provision for impairment of trade receivables	**(937,535)**	(11,400)
	1,487,401	2,094,440

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

	2012	2011
	RMB'000	*RMB'000*
0 – 30 days	**329,836**	728,962
31 – 60 days	**299,591**	386,433
61 – 90 days	**335,254**	460,006
91 – 180 days	**764,342**	519,039
181 – 365 days	**636,467**	10,496
Over 365 days	**59,446**	904
	2,424,936	2,105,840

Customers are normally granted credit terms within 90 days. As at 31 December 2012, trade receivables of RMB1,460,255,000 (2011: RMB530,439,000) were past due. The Company's estimation of provision for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significantly judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, aging of receivable balances, and latest communication with individual customers. The Group has launched a series of plans to communicate with individual customers and manage the credit risk of the customers. Management will closely monitor and continue to pursue collection of those receivables and a portion of the receivables is expected to be recovered. A provision of RMB937,535,000 has been made as at 31 December 2012 (2011: RMB11,400,000).

The impairment was firstly assessed against individually significant 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.

7. Trade payables – Group

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

	2012	2011
	RMB'000	*RMB'000*
0 – 30 days	**395,353**	750,535
31 – 60 days	**326,878**	456,955
61 – 90 days	**155,858**	128,992
91 – 180 days	**72,877**	116,675
181 – 365 days	**1,368**	1,742
Over 365 days	**8,648**	7,499
	960,982	1,462,398

8. Expenses by nature

	2012 *RMB'000*	2011 *RMB'000*
Cost of inventories recognised as expenses included in cost of sales	**3,565,285**	4,547,477
Depreciation on property, plant and equipment *(Note a)*	**141,643**	158,562
Amortisation of land use rights and intangible assets	**85,196**	102,741
Impairment of intangible assets	**127,838**	–
Advertising and marketing expenses	**1,325,231**	1,567,927
Staff costs, including directors' emoluments	**733,495**	772,518
Operating lease rentals in respect of land and buildings	**573,325**	539,347
Research and product development expenses *(Note a)*	**190,992**	231,004
Transportation and logistics expenses	**184,152**	180,145
Provision for impairment charge of trade receivables	**933,235**	10,246
Write-down of inventories to net realisable value	**399,673**	72,427
Provision for impairment charge of investment in associates	**5,610**	–
Auditor's remuneration	**3,338**	3,510
Management consulting expenses	**86,100**	62,846
Travelling and entertainment expenses	**84,060**	132,351

Note:

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

9. Other income and other gains – net

	2012 *RMB'000*	2011 *RMB'000*
Government grants	**95,790**	140,717
License fee income	**4,700**	9,084
Gain on derecognition of intangible asset and license fees payable relating to revision of the license agreement of Lotto brand	**68,302**	–
Others	**–**	(6,368)
	168,792	143,433

10. Finance income and costs

	2012 *RMB'000*	2011 *RMB'000*
Interest income on bank balances and deposits	**7,593**	6,198
Net foreign currency exchange gain	**–**	10,981
Finance income	**7,593**	17,179
Amortisation of discount – license fees payable	**(19,035)**	(40,389)
Interest expense on bank borrowings	**(119,782)**	(49,104)
Interest expense on convertible bonds	**(46,836)**	–
Net foreign currency exchange loss	**(1,541)**	–
Others	**(21,581)**	(9,738)
Finance costs	**(208,775)**	(99,231)
Finance costs – net	**(201,182)**	(82,052)

11. Income taxes

	2012 *RMB'000*	2011 *RMB'000*
Current income tax		
– Hong Kong profits tax *(Note b)*	**1,134**	1,362
– The PRC corporate income tax *(Note c)*	**52,783**	271,182
– Withholding income tax on dividends distributed from subsidiaries in PRC *(Note d)*	**17,503**	16,100
	71,420	288,644
Deferred income tax	**78,955**	(152,236)
Income tax expenses	**150,375**	136,408

Notes:

(a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2012 (2011: 16.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2011: 25%) on the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 25% (2011: 24%) under the relevant PRC tax rules and regulations.

(d) Dividends derived from the Company's subsidiaries in the PRC earned after 1 January 2008 are subject to withholding tax at the rate of 5%. During the year ended 31 December 2012, the Group reassessed its needs to make distributions out of its subsidiaries in the PRC. As a result, withholding income tax has been provided for the dividends already distributed during the year and to the extent they are expected to be distributed in future.

12. (Losses)/earnings per share

Basic

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

	2012 *RMB'000*	2011 *RMB'000*
(Loss)/profit attributable to equity holders of the Company	**(1,979,114)**	385,813
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,052,941**	1,051,127
Basic (losses)/earnings per share *(RMB cents)*	**(187.96)**	36.70

Diluted

Diluted (losses)/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 the restricted share award scheme. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options and shares held for the restricted share award scheme, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding share options and the unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the convertible bonds, 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 (losses)/earnings per shares, of which details are as follows:

	2012	2011
	RMB'000	*RMB'000*
(Loss)/profit attributable to equity holders of the Company, used to determine diluted (losses)/earnings per share	**(1,979,114)**	385,813
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,052,941**	1,051,127
Adjustment for share options, awarded shares and convertible bonds *(in thousands) (Note a)*	**–**	4,069
Weighted average number of ordinary shares for diluted (losses)/earnings per share *(in thousands)*	**1,052,941**	1,055,196
Diluted (losses)/earnings per share *(RMB cents)*	**(187.96)**	36.56

Note:

(a) For the year ended 31 December 2012, the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive. As at 31 December 2012, there were 35 million share options, 2 million restricted shares, and 119 million ordinary shares assuming conversion of convertible bonds that could potentially have a dilutive impact in the future but were anti-dilutive in 2012 (2011: 20 million, 4 million and nil respectively).

13. Dividends

	2012	2011
	RMB'000	*RMB'000*
Interim dividend paid of nil (2011: RMB11.13 cents) per ordinary share	**–**	116,533

Note:

The Board did not propose final dividend for the years ended 31 December 2012 and 2011.

14. Subsequent events

(a) Equity Funding Raising Plan

As stated in the 25 January 2013 Announcement, the Company has executed the Equity Fund Raising Plan to raise a gross proceeds of about RMB1.5 billion. Pursuant to the irrevocable undertakings executed in favour of the Company, Viva China, TPG and GIC Investor have undertaken to subscribe the convertible securities with the aggregate principal amount of approximately RMB508 million. Further, the Company has entered into two underwriting agreements with Viva China and TPG, under which they underwrite all of the remaining convertible securities respectively. The convertible securities are non-interest bearing and non-redeemable. The convertible securities are convertible at any time after issuance with an initial conversion price of HK$3.50 per share (subject to standard anti-dilution adjustments).

Further, the Company also announced that the exercise price of the outstanding share purchase options and share options may be adjusted in accordance with the anti-dilution clauses included in the Share Purchase Scheme and Share Option Scheme respectively, as a result of the issuance of the convertible securities.

(b) Amendment to the convertible bonds (the "CB")

In relation to the CB issued on 8 February 2012, the Company and the bondholders signed an amendment deed on 23 January 2013, under which both parties agreed to (1) modify certain clauses for the remaining term of the CB, as such clauses may create future financial constraints on the Company, and (2) reset the conversion price from the initial conversion price of HK$7.74 to HK$4.5 per Share. The amendment became effective on 23 January 2013. The above two changes constitute a substantial modification of the original CB, which results in an extinguishment of the existing debt portion of the CB and a recognition of a new financial liability based on the fair value of the debt portion as of the modification date. The Company is in process of finalising the accounting treatment of this transaction.

(c) Renewed master agreement

On 4 January 2013, the Company entered into an agreement relating to the renewal of the existing master agreement (the "Renewed Master Agreement") with Viva China, pursuant to which Viva China may provide to the Group services in relation to (i) brand or product endorsement; (ii) sponsorship; and (iii) event management. The Renewed Master Agreement would take effect from 4 January 2013 to 31 December 2015 or the day on which Viva China ceases to be a connected person of the Company (which is earlier).

DIVIDENDS

The Company recorded a significant loss for the year of 2012. The Board resolved not to distribute any final dividend for the year ended 31 December 2012 (2011: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

China's overall economic growth slowed down in 2012 against a backdrop of lower corporate earnings, weakened domestic demand, increased production costs and excessive production capacity. Customer Price Index (CPI) for the year rose 2.6% as compared with last year, which was the smallest increase over the past three years.

In addition to the increasingly challenging retail environment in China, the Group's analysis shows that in 2012, competition intensified as a result of the market saturation in the sports goods industry in China, the industry's overall growth slowed down significantly despite the efforts made by the retailers to clear the inventories throughout the year. The over expansion in the sports goods industry has created significant inventory buildup within the sales channels, which adversely affected retail profitability for the channels, as well as earnings and the overall financial position of the Group.

In January 2012, the Group entered into an investment agreement with TPG, a world-leading private equity investment company, and the Government of Singapore Investment Corporation Pte. Ltd. ("GIC"). This agreement allowed Li Ning Company to pro-actively design and implement a new development strategy with the support of a strong and committed group of strategic shareholders. To cope with the ever-changing industry conditions and with the goal of improving the Group's long term profitability, the Group announced its comprehensive Transformation Plan (the "Transformation Plan") in July 2012, which includes focusing on the Chinese market, LI-NING brand and core sports, building its management and execution capabilities, enhancing channel profitability, improving products and merchandising, streamlining operations, and transforming from a wholesale to retail oriented business model. We believe our initiatives in these areas will strengthen LI-NING's position as a leading sports goods brand in China.

FINANCIAL REVIEW

Although a series of strategic business reforms were implemented in 2012, the Group's business and financial performance were, nevertheless, negatively impacted by the unfavourable market conditions and the challenges arising from the Group's current phase of transformation. The key operating and financial performance indicators of the Group for the year ended 31 December 2012 are set out below:

	Year ended 31 December		Change
	2012	2011	*(%)*
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**6,738,911**	8,928,526	**(24.5)**
Gross profit *(Note 1)*	**2,549,934**	4,042,086	**(36.9)**
Operating (loss)/profit	**(1,592,334)**	630,956	**(352.4)**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 2)*	**(1,377,003)**	890,732	**(254.6)**
(Loss)/profit attributable to equity holders	**(1,979,114)**	385,813	**(613.0)**
Basic (losses)/earnings per share *(RMB cents) (Note 3)*	**(187.96)**	36.70	**(612.2)**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**37.8**	45.3	
Operating (loss)/profit margin *(%)*	**(23.6)**	7.1	
Effective tax rate *(%)*	**(8.3)**	24.9	
Margin of (loss)/profit attributable to equity holders *(%)*	**(29.4)**	4.3	
Return on equity holders' equity *(%)*	**(77.8)**	11.3	
Expenses to revenue ratios			
Staff costs *(%)*	**10.9**	8.7	
Advertising and marketing expenses *(%)*	**19.7**	17.6	
Research and product development expenses *(%)*	**2.8**	2.6	
Asset efficiency			
Average inventory turnover *(days) (Note 4)*	**90**	72	
Average trade receivables turnover *(days) (Note 5)*	**97**	76	
Average trade payables turnover *(days) (Note 6)*	**112**	93	

	31 December 2012	31 December 2011
Asset ratios		
Debt-to-equity ratio *(%) (Note 7)*	**261.5**	105.5
Interest-bearing debt-to-equity ratio *(%) (Note 8)*	**130.8**	24.1
Net asset value per share *(RMB cents)*	**172.03**	348.22

Notes:

1. The loss in respect of the write-down of inventories to their net realisable value has been included in cost of sales in the consolidated income statement for the year ended 31 December 2012 and the comparative figure for the year ended 31 December 2011 has been reclassified as cost of sales to conform to the current year presentation.

2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of (loss)/profit for the year, income tax expense, finance costs - net, depreciation of property, plant and equipment, and amortisation of land use rights and intangible assets.

3. The calculation of basic (losses)/earnings per share is based on the (loss)/profit attributable to equity holders of the Company for the year, divided by the weighted average number of ordinary shares in issue less ordinary shares held for Restricted Share Award Scheme.

4. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year, divided by cost of sales and multiplied by 366 days.

5. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, divided by revenue and multiplied by 366 days.

6. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, divided by total purchases and multiplied by 366 days.

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

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

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

Revenue

The Group's revenue for the year ended 31 December 2012 amounted to RMB6,738,911,000, representing a decrease of 24.5% as compared to 2011.

Revenue breakdown by brand and product category

	Year ended 31 December				
	2012		2011		
	RMB'000	**% of total revenue**	*RMB'000*	% of total revenue	**Revenue change *(%)***
LI-NING brand					
Footwear	**2,634,743**	**39.1**	3,411,874	38.2	**(22.8)**
Apparel	**2,909,706**	**43.2**	4,225,100	47.3	**(31.1)**
Equipment/accessories	**381,716**	**5.7**	527,820	5.9	**(27.7)**
Total	**5,926,165**	**88.0**	8,164,794	91.4	**(27.4)**
Double Happiness brand					
Total	**541,555**	**8.0**	485,026	5.4	**11.7**
Lotto brand					
Total	**83,956**	**1.2**	119,641	1.3	**(29.8)**
Other brands*					
Total	**187,235**	**2.8**	159,065	1.9	**17.7**
Total	**6,738,911**	**100.0**	8,928,526	100.0	**(24.5)**

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

In 2012, the Group's core brand, LI-NING brand, generated revenue of RMB5,926,165,000, which accounted for 88.0% of the Group's total revenue. This represented a decrease of 27.4% as compared to 2011, contributed by revenue declines in its various product categories. During the year, due to the challenging overall economic conditions and industry landscape, the sports goods industry in China experienced a further slowdown, with pressure rising further on inventory buildups in retail channels. Meanwhile, the intensifying level of competition in the retail market, higher retail discount rates, and the rising cost of labour and rent, caused profit margins to shrink further at the retail end. In response to the challenging industry environment, and to avoid placing further pressure on inventory at the retail end, the Group proactively communicated with distributors and launched the Transformation Plan of the Group during the second half of 2012. The Channel Revival Plan covers a range of initiatives including the better management of sales to distributors, focus on supporting channel partners' inventory clearance, sales network rationalization, one-off buy-back of certain obsolete inventories, as well as customized programmes to restructure the accounts receivable. Given these considerations, trade fair orders for LI-NING brand in 2012 decreased as compared with that of 2011, and the order execution rates also declined, with the sales revenue of the Group decreased accordingly. However, through the implementation of the Channel Revival Plan, the Company is striving to revamp its channels policy to support channel partners with strong retail sales capabilities, and effectively speed up the clearance of the backlog of inventory of the Group and improve the profitability of sales channels.

Among the various brands under the Group, revenue of Double Happiness brand maintained a steady growth rate of 11.7%. Lotto brand, which is in the process of operational downsizing, recorded a significant drop in revenue year-on-year. As for other brands, AIGLE brand products recorded a significant year-on-year increase of 50.1% in revenue, which further demonstrated its brand value. Kason brand also recorded a notable revenue growth of 40.5% year-on-year, while Z-DO brand posted a material year-on-year drop in revenue as the business entered the last stage of stock clearance since the complete suspension of its operations.

Revenue breakdown of LI-NING brand (in %) by sales channel

	Year ended 31 December		
	2012	2011	
	% of revenue of LI-NING brand	% of revenue of LI-NING brand	**Change**
LI-NING brand			
PRC market			
Sales to franchised distributors	**75.6**	79.0	**(3.4)**
Sales from direct operation	**22.0**	19.1	**2.9**
International markets	**2.4**	1.9	**0.5**
Total	**100.0**	100.0	

As illustrated in the table above, the revenue generated from sales to franchised distributors contributed the majority of the overall revenue decline in 2012.

Revenue breakdown of LI-NING brand by geographical location

		Year ended 31 December				
		2012		2011		
	Note	***RMB'000***	**% of revenue of LI-NING brand**	*RMB'000*	% of revenue of LI-NING brand	**Revenue change *(%)***
LI-NING brand						
PRC market						
Eastern region	*1*	**1,362,332**	**23.0**	2,237,528	27.4	**(39.1)**
Northern region	*2*	**2,318,423**	**39.1**	3,221,453	39.5	**(28.0)**
Southern region	*3*	**1,120,699**	**18.9**	1,303,818	16.0	**(14.0)**
Western region	*4*	**981,389**	**16.6**	1,246,580	15.2	**(21.3)**
International markets		**143,322**	**2.4**	155,415	1.9	**(7.8)**
Total		**5,926,165**	**100**	8,164,794	100	**(27.4)**

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.

During the year, the Group streamlined the regional distribution network of its sales channels by restructuring its regional sales organisations and layout, so as to enhance regional management, regional retail performance and customer management capability. The Group will further integrate and optimise regional sales channels, enhance the management of the retail end and increase efficiency in decision-making and operations to help achieve the Company's goal of strategic transformation.

Cost of Sales and Gross Profit

For the year ended 31 December 2012, overall cost of sales of the Group amounted to RMB4,188,977,000 (2011: RMB4,886,440,000), and overall gross profit margin was 37.8% (2011: 45.3%). The decrease in overall gross profit margin as compared to 2011 was mainly due to: 1) higher overall discount rates offered to distributors and the retail end, the increase in production costs, and the increased weighting of other brands in revenue terms, which have lower gross profit margins than LI-NING brand; and 2) a considerable increase in the provision for impairment of inventories, due to the special provisions on certain slow-moving inventories, and the clearance of the Group's own inventories as a result of low order execution rates and one-time inventory buy-backs from certain distributors under the Channel Revival Plan.

Cost of sales of LI-NING brand amounted to RMB3,630,816,000 (2011: RMB4,397,065,000), and gross profit margin was 38.7% (2011: 46.1%). The decrease in the latter was attributable to the higher overall discount rates offered at the retail end as competition intensified on the industry level, and pressure increased on inventory in market channels. In light of harsh industry conditions, the Company launched the Transformation Plan during the second half of 2012 and took the initiative to reduce distributors' orders and orders execution rate, as well as buy back certain inventories from distributors, resulting in higher balance of inventories for the Group. Taking into account of the backlog of inventories in market channels and the clearance of the Group's own inventories, the Group made special provisions on certain slow-moving inventories, resulting in the substantial increase in provision for inventories for the Group.

Cost of sales of Double Happiness brand amounted to RMB336,719,000 (2011: RMB297,977,000), and gross profit margin was 37.8% (2011: 38.6%). The slight year-on-year decrease in gross profit margin of Double Happiness brand was attributable to the rising costs of raw materials and labour for upstream suppliers during the year.

Cost of sales of Lotto brand amounted to RMB92,584,000 (2011: RMB88,815,000), and gross profit margin was negative 10.3% (2011: 25.8%). During the year, the Company decided to focus on its core brands and reduced expenditure on other brands. The withdrawal of extra marketing support for Lotto brand materially affected the pace of clearance and prices. As a result, the Company made a special provision for impairment of inventories, leading to the negative gross profit margin of Lotto brand.

Distribution Costs

For the year ended 31 December 2012, the Group's overall distribution costs amounted to RMB2,635,404,000 (2011: RMB2,909,922,000), accounting for 39.1% (2011: 32.6%) of the Group's total revenue.

Distribution costs of LI-NING brand amounted to RMB2,423,071,000 (2011: RMB2,625,539,000), which accounted for 40.9% (2011: 32.2%) of the LI-NING brand's revenue. As the Group streamlined its costs and expenses to enhance operating efficiency, the salaries and benefits of sales staff and miscellaneous expenses were reduced, contributing to the overall decrease in distribution costs. Meanwhile, store subsidies declined substantially as the Group strived to enhance retail sales capabilities through consolidation. In particular, the Company closed down inefficient stores and reduced the number of new store openings. However, an overall increase in rental expense was recorded due to the higher per unit rental cost. A large expense was also incurred during the year, for the sponsorships of the Chinese Basketball Association (CBA) and the National Basketball Association (NBA) star Dwyane Wade. Given these factors, the percentage of overall distribution costs to revenue of LI-NING brand increased as compared to 2011. In 2013, while cost savings will continue, the Company plans to strategically allocate its resources to key projects such as basketball competitions that could help to further strengthen its brand.

Distribution costs of Double Happiness brand amounted to RMB67,404,000 (2011: RMB55,539,000), accounting for 12.4% of Double Happiness brand's revenue. This was 0.9 percentage point higher than the 11.5% recorded in 2011, mainly as a result of higher costs of transportation and warehousing, and an increase in miscellaneous expenses resulting from the increase in revenue. Marketing expense also increased as a result of Olympic Games-related projects. The percentage of overall distribution costs to revenues of the Double Happiness increased as compared to 2011.

Distribution costs of Lotto brand amounted to RMB78,724,000 (2011: RMB149,059,000). The substantial decrease in distribution costs was attributable to the cease in considerable amortisation of license fees, as the Group made an impairment provision for Lotto brand's license as adjusted under a supplemental agreement entered into with the licensor. In addition, the decline was also due to a significant decrease in marketing expenses as the Company withdrew the extra marketing support for the brand. The closing of a significant number of self-operated stores under Lotto brand that failed to break even, led to a decrease in retail leasing expense during 2012. The impairment provision for license rights of RMB127,838,000 was included in Lotto brand's administrative expenses, and the one-time income of RMB68,302,000 as a result of revision to the original agreement was included in Lotto brand's other income and other gains-net.

Administrative Expenses

For the year ended 31 December 2012, the Group's overall administrative expenses amounted to RMB1,675,656,000 (2011: RMB644,641,000), accounting for 24.9% (2011: 7.2%) of the Group's total revenue.

Administrative expenses of LI-NING brand amounted to RMB1,449,918,000 (2011: RMB551,220,000), accounting for 24.5% of LI-NING brand's revenue. This was 17.7 percentage points above the 6.8% for 2011. These expenses mainly comprised of staff costs, management consulting expenses, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses. Given the decline in LI-NING brand's revenue, the Group managed to effectively control and reduce miscellaneous expenses and labour costs.

However, the challenging industry backdrop and the downturn of the macro economy led to the decline in repayment capability of distributors, the increase of the turnover days and consequently higher balance of long aging trade receivables. Taking into account the assessment of distributors and the uncertainty of market conditions, the Company made significant provisions for impairment, resulting in a notable increase in administrative expenses as a percentage of LI-NING brand's revenue. The Company is also carrying out its Channel Revival Plan in a bid to optimize the inventory structure, reduce inventories of channels and improve the profitability of channels, thereby enhancing the repayment capability of distributors.

Administrative expenses of Double Happiness brand amounted to RMB61,483,000 (2011: RMB54,356,000), accounting for 11.4% of Double Happiness brand's revenue. This was 0.2 percentage point above the 11.2% for 2011. These expenses comprised mainly of staff costs, depreciation and amortisation charges and other miscellaneous expenses. While the sales revenue of Double Happiness brand registered stable growth, the daily administrative expenses of the brand remained steady or slightly higher.

Administrative expenses of Lotto brand amounted to RMB143,060,000 (2011: RMB12,324,000), accounting for 170.4% (2011: 10.3%) of Lotto brand's revenue. These expenses comprised mainly of staff costs, basic research and development costs, depreciation and amortisation charges, provision for impairment of trade receivables, provision for impairment of intangible assets and other miscellaneous expenses. During the year, the Group made a total 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. Other administrative expenses such as miscellaneous expenses and staff costs remained steady or slightly lower.

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

For the year ended 31 December 2012, the Group's EBITDA recorded a loss of RMB1,377,003,000 (2011: earning of RMB890,732,000), representing a year-on-year decrease of 254.6%. The decrease in EBITDA was mainly attributable to the decrease in sales revenue and gross profit, as well as the increase in rental costs and a larger provision for impairment of assets. The decline was, however, partially offset by the decrease in miscellaneous expenses, labour costs and store supporting expenses during the year.

EBITDA of LI-NING brand recorded a loss of RMB1,290,486,000 (2011: earning of RMB944,910,000), representing a year-on-year decrease of 236.6%. This was mainly attributable to the decreased revenue and gross profit as well as a large provision for impairment of assets.

EBITDA of Double Happiness brand amounted to RMB96,534,000 (2011: RMB97,955,000), representing a slight decrease of 1.5% year-on-year. This was mainly attributable to the increase in gross profit on the rising sales revenue, while the overall expenses also increased during the year.

EBITDA of Lotto brand recorded a loss of RMB161,385,000 (2011: loss of RMB110,047,000), representing a 46.7% increase in loss year-on-year. This significant increase was attributable to the substantially increased provision for impairment of assets, though partially offset by a decrease in marketing expenses.

Finance Costs

For the year ended 31 December 2012, the Group's net finance costs amounted to RMB201,182,000 (2011: RMB82,052,000), representing 3% of the Group's total revenue (2011: 0.9%). The interest expense arising from the issuance of convertible bonds amounted to RMB46,836,000 (2011: nil), while the increase in short-term borrowings and rising interest rates during the year also attributed to the increase in finance costs.

Income Tax Expenses

For the year ended 31 December 2012, income tax expenses of the Group amounted to RMB150,375,000 (2011: RMB136,408,000) and the effective tax rate was negative 8.3% (2011: 24.9%).

Overall Profitability Indicators

Due to the decrease in sales revenue and gross profit and the increase in expense ratios, the overall profitability indicators of the Group weakened for the year ended 31 December 2012. The Group's loss attributable to equity holders amounted to RMB1,979,114,000 (2011: profit attributable to equity holders of RMB385,813,000), representing a year-on-year decline of 613.0%. The corresponding profit margin for the year was negative 29.4% (2011: 4.3%), representing a year-on-year decline of 33.7 percentage points. Return on equity of the Group was negative 77.8% (2011: 11.3%), representing a year-on-year decline of 89.1 percentage points.

Provision for Inventories

The Group's policy in respect of provision for inventories for 2012 was the same as that in 2011. Inventories are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy sufficient in ensuring provision for inventories made by the Group.

As at 31 December 2012, accumulated provision for inventories was RMB587,182,000 (31 December 2011: RMB187,509,000). There are several reasons contributing to this substantial increase. Firstly, considering LI-NING brand's inventory stock logged in market channels and the Group's clearing initiative, the Group made a special provision on certain slow-moving inventories existed at end of the year. Secondly, given the business restructuring of Lotto brand and Z-DO brand, the Group increased the special provision for the inventories of these two brands.

Provision for Doubtful Debts

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

As at 31 December 2012, the accumulated provision for doubtful debts was RMB937,535,000 (31 December 2011: RMB11,400,000). Taking into account of the financial conditions of distributors and aging of the receivable balances, the Company made a higher provision for doubtful debts in 2012.

Liquidity and Financial Resource

The Group's net cash outflow from operating activities for the year ended 31 December 2012 amounted to RMB931,140,000 (2011: net inflow of RMB15,570,000). As at 31 December 2012, cash and cash equivalents (including cash at bank and in hand, and fixed deposits held at banks with original maturity of no more than three months) amounted to RMB1,248,593,000. This represented a net increase of RMB52,119,000 as compared with the Group's position as at 31 December 2011. The increase was due to the following items:

Items	**Year ended 31 December 2012** *RMB'000*
Net cash used in operating activities	**(931,140)**
Net capital expenditure	**(215,400)**
Net proceeds from bank borrowings	**606,444**
Net proceeds from issuance of convertible bonds	**745,691**
Other net cash outflow	**(153,476)**
Net increase in cash and cash equivalents	**52,119**

Given the fact that the cash turnover rate of distributors decreased as a result of the weak retail market and the government's tightened monetary policy, the accounts receivable turnover days and the overall cash turnover days increased for the year. The operating cash inflow of the Group was also materially impacted. The Group believes that the implementation of the Channel Revival Plan will help to address the problem of channel inventory buildup in the industry and improve its profitability and cash flow.

As at 31 December 2012, the Group's available banking facilities amounted to RMB1,505,157,000, with bank borrowings amounting to RMB1,447,157,000. During the year, the Group issued RMB750,000,000 worth of convertible bonds. The proceeds net of issuance expenses was RMB745,691,000. Outstanding bank borrowings to equity ratio (i.e. the gearing ratio) was 130.8% (31 December 2011: 24.1%). The Company has initiated the Equity Fund Raising Plan in 2013, as a result of which, the gearing ratio is expected to decrease upon the completion of the Equity Fund Raising Plan in 2013.

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

Foreign Exchange Risk

The Group's operations are 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 operational 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.

The Group did not hedge its foreign exchange exposure during the year. Any significant exchange rate fluctuations of foreign currencies against Renminbi could have had financial impact on the Group.

Pledge of assets

As at 31 December 2012, buildings with a net book value of RMB18,441,000 (31 December 2011: RMB20,190,000) and land use rights with a net book value of RMB14,594,000 (31 December 2011: RMB14,934,000) were pledged as collateral for certain bank borrowings of the Group.

Contingent Liabilities

As at 31 December 2012, the Group had no significant contingent liabilities.

BUSINESS REVIEW

Since the announcement of the Transformation Plan in July 2012, the Group has achieved the following progress:

- **Enhanced management and execution capabilities.** The Group has brought in a number of senior executives with deep experience in related industries and skills to build a stronger management team and enhance the Group's execution capabilities.

- **Launched the Channel Revival Plan and achieved initial progress.** Through a one-time, large scale plan that supports our distributors to clear their excess inventories and bring their cash flow and profitability back to healthy levels, we laid grounds for revenue rejuvenation by introducing new and better products into the channels.

- **Implemented adjustments to channel policies and resource allocation.** By adjusting the Group's channel policies and resource allocation, we led the distribution partners to transform their wholesale-oriented practice to a retail-oriented model. We believe that the transformation of business model will help increase the overall competitiveness of our distributors in China's retail market in the future.

- **Modified the trade fair model.** The Group began to make adjustments to the trade fair process to better influence both order amount as well as merchandising decisions of distributors and sub-distributors. We managed down sell in and have improved our merchandising planning such as introducing the "A+" Stock Keeping Units (SKUs) (or best-selling SKUs) and making targeted, region-specific merchandising plans, thus helping the distributors to optimize their orders and minimize inventory risks.

- **Launched fast response product lines.** Since October 2012, the Group has launched a series of fast response products through improved analysis and judgment of market data via enhanced enterprise resource planning system. Benefited from timely and more accurate reading of consumer demand and superior design, these products have been well received by the market and significantly outperformed other product lines within their respective product categories. Broader introduction of fast response product lines and less reliance on advanced orders from traditional trade fairs will also help with more efficient management of channel inventory going forward.

- **Launched pilot tests for retail-oriented business model.** The Group started to test the end-to-end fast replenishment retail business model and has rolled these out to some of our distributors, with positive effects to date. We believe that as the model becomes more mature and widely applied, it will help to further strengthen our competitiveness in the retail market. An increase in replenishment orders and less reliance on advanced orders from traditional trade fairs will also help with management of channel inventory going forward.

- The Group also took positive actions to improve its R&D capabilities, investments into the brand, and internal management systems, all of which have begun to show significant results.

Given the above, and the context that the overall industry growth is slowing down, the Group has taken strong measures in helping the distribution channels to regain operational health, and at the same time has increased investment of resources in transforming its business model. The challenging conditions which impacted channel profitability, sales and collections, together with costs associated with various Transformation Plan initiatives, have resulted in costs which significantly impacted the annual performance and financial results of the Group in 2012. However, the management has strong conviction that continued execution of the key initiatives of the Transformation Plan will lead to the strengthening of our core advantages and sustainable growth and profitability in the long run.

LI-NING Brand

Brand Marketing and Promotion

During 2012, as part of the Transformation Plan, the Group optimised its sponsorship resources by focusing on the Chinese national teams (accounting over half of gold medals for the Chinese delegation at the London Olympics), consolidating its leadership position in major sports categories (basketball, badminton and running), as well as increasing its commitment to the China Basketball Association (CBA) (the most popular sports league in China) and its partnership with Dwyane Wade (a leading NBA player). The Group's marketing objectives continued to emphasise the promotion of value-for-money sports products with cutting-edge functionalities via marketing platforms brought about by major sports events to fulfill the increasingly sophisticated demand by consumers. The Group will strive to further enhance the integration of its brand positioning and sports category resources.

Successful Marketing and Promotions for London 2012 Olympic Games

There has been a long-lasting relationship between the LI-NING brand and the Olympic Games. One of the main reasons for the establishment of the brand was that Mr. Li Ning wished to help distinguished athletes achieve outstanding results by providing them with professional sports equipment and services of a Chinese brand and with indigenous innovation and technologies. Mr. Li Ning, in his capacity as a representative of leading Chinese athletes, lit the cauldron for the Beijing Olympics in 2008. He was invited again to play a prominent role at the London Olympics, and participated in the Greek leg of the torch relay on 17 May 2012, and successfully concluded the torch relay across Greece with the last flame handover in front of a global audience.

Since the 1992 Barcelona Olympics, LI-NING brand has provided ongoing sponsorship for China's five gold medal teams in Gymnastics, Shooting, Diving, Table Tennis and Badminton. During the London 2012 Olympic Games, all these teams were equipped with LI-NING gears tailor-made for the athletes. At the London Olympic Games in 2012, Chinese Shooting Team won the first gold medal. All five teams were awarded 40 medals in total, including 22 gold metals, accounting for 45% and 58% respectively of the total number of medals and gold metals obtained by the whole Chinese delegation in this Olympic Games. This not only helped China reach its 1,000 Olympic gold medal milestone, but more importantly inspired greater national support for sports.

In addition to the Chinese gold medal teams, other top foreign athletes and delegations sponsored by the brand also achieved outstanding results at the London Olympic Games. This includes a triple jump athlete and gold medalist Christian Taylor, who wore LI-NING's tailor-made spiked shoes, and a Russian pole vaulter Yelena Isinbayeva, who won a gold medal in Track & Field. The U.S.A. Diving Team, who were also sponsored by the brand and wore LI-NING designed uniforms during competition, broke their Olympic curse after failing to score any gold medal over the past 12 years and achieved outstanding results by winning one gold, two silver and two bronze medals.

Expanding Consumer Base through Promoting Basketball Matches and Products

The Group will allocate more resources with regard to basketball and enhance the performance of its basketball gear to meet the needs of young and general consumers for basketball products. As more distinguished Chinese players demonstrate their extraordinary talents, and along with the popularization of basketball broadcasting, basketball has become one of the most popular sports with the broadest appeal seen in China.

Sponsoring CBA, the Top Basketball League in China

The Group believes that China Basketball Association (CBA) has become the most popular sports league in China based on viewership. In June 2012, the Group signed a contract with CBA and became its official business partner for the coming five seasons from 2012/2013 to 2016/2017. During a press conference, the Group presented the all-new uniforms and sports gears for the 17 participating teams in the CBA. The Group will fully utilize the sports marketing platform, the extensive exposure and the quality resources provided by CBA to further enhance the scale of the basketball product business of the LI-NING brand, as well as to increase the overall brand value and facilitate the overall business development of the Group.

On 24 November 2012, with the sponsorship of the LI-NING brand, CBA commenced the 2012-13 season. Marketing events revolving around the concept of "experiencing LI-NING brand and products" were subsequently carried out in the cities where the 17 competing clubs were located. With the theme of "Dominate This Second", the Group provided basketball fans and consumers with a variety of exciting activities, further leveraging off the CBA platform to promote its basketball products and other CBA-related cultural products targeted at CBA fans. In particular, the retail version of various basketball teams' jerseys targeted at basketball fans featured a clean and beautiful cut; along with its Chinese style characteristics and its outstanding functional performance, the jerseys were well received by CBA fans. Such events provided the opportunity for consumers to experience the LI-NING brand while also facilitating with driving regional sales.

Regarding the CBA project, the Group completed a series of CBA-themed broadcast advertisements and promotions via digital media platforms. The Group also established an official website/Weibo account/SNS zone, and carried out interactive online activities and sales promotions. The Group also opened an online store for CBA products.

In relation to store and customer experience, the Group displayed CBA-themed products at our main stores in major cities, so as to enable customers to fully experience the CBA basketball atmosphere.

Cooperation with Strong Partners: Strategic Alliance between NBA Superstar Wade and LI-NING

On 10 October 2012, Li Ning Company announced it signed an official contract and started the strategic partnership with NBA superstar and Miami Heat player, Dwyane Tyrone Wade. Wade is one of the most well-known and popular players in the NBA, and had received the 2006 NBA Finals Most Valuable Player award and was recognized as a high scorer in the 2009 NBA season. Wade is also a two-time NBA champion in 2006 and 2012, as well as a 9-time NBA All-Star from 2005-2013. The Company also launched the Wade collection, a series of products designed by a multinational professional designing team. Wade was additionally appointed as the Chief Brand Officer for the collection. In addition to meeting Wade's professional requirement, the collection also demonstrates the high technology standards on the production of LI-NING's basketball products, which facilitated Wade to continue achieving extraordinary results in the NBA.

The Chinese special edition of Dwyane Wade's tailor-made "Way of Wade" basketball shoes made its debut at the press conference of Li Ning's official contract signing with Wade. The Company also launched a novel pre-order event for the shoes to be worn by Wade in a Miami Heat exhibition match in China. The pre-order event, which was available to basketball fans from around the world, was very well received and created a very successful marketing buzz. Through social media platforms, basketball fans were able to actively participate in the event. In association with the press conference, a meet-and-greet event for fans of Wade was held at the LI-NING's flagship store in the Wangfujing Walking Street in China's capital city, Beijing.

After the success of the "Wade is here" China campaign, Wade's television advertisement with the theme of "Dominate This Second" was launched in November 2012. Both Wade's television advertisement and outdoor advertisement were well received by consumers and Li Ning's vision for basketball apparel and products.

Strengthening the Leading Position in Badminton

During 2012, the LI-NING brand continued to act as the equipment sponsor of the Chinese National Badminton Team. The brand supported the Chinese National Badminton Team at the London Olympic Games for the first time, in which the team won all five gold medals in the badminton matches. In addition to experienced players such as Lin Dan and the Men's Doubles team with Fu Haifeng and Cai Yun who won the gold medals, younger players also had outstanding performance during the Games, with Li Xuerui winning the Women's Single match. In respect of products, the LI-NING brand Olympic apparel and the Lin Dan badminton shoes for competition sponsored by the Group drove the overall sales of badminton products.

In addition to the outstanding achievements at the London Olympic Games, the LI-NING brand has always demonstrated its commitment to innovation, research and development. With ample experience gained over the years, the brand's technology for equipment for professional competitions has gradually been recognised by professional athletes. In 2012, LI-NING brand, for the first time, became a professional equipment sponsor in leading competitions such as the Badminton China Open and the BWF World Superseries Final.

Besides professional athletes, LI-NING also catered for the needs of junior players by launching a new badminton series named "Hybridminton" in 2012, which has attracted extensive attention from consumers. The series adopted innovative jelly-colored crepe rubber soles with inspirational palette designs on the upper. The "Hybridminton" series not only fulfilled the needs of junior players, but also went well with casual clothing and had successfully received popularity after its launch. The product sold-out rate at the retail end was significantly higher than other LI-NING badminton shoes.

Promoting the Running Culture and Enjoying Sports

In respect of competitions, LI-NING cooperated with the Chinese Athletics Association in organizing the "LI-NING China 10K Road Racing League" including the Beijing Long-distance Running Festival, which consisted of four stations. 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 joining either the 10km or the 5km run.

In terms of marketing events, "FunRun" and "Mini FunRun" competitions are important interactive platforms for LI-NING brand's running category to communicate seasonal brand concepts and product information to beginner runners, and are key assets to the brand experience events. During the second quarter of 2012, in order to complement the marketing theme, and to extend LI-NING brand's "FunRun" interactive platform, the Group launched "Mini FunRun", also known as "LI-NING 5K Night Run" event, in Guangzhou, Qingdao and Hangzhou. Over 4,000 enthusiastic amateur runners participated in the event, allowing LI-NING brand to thoroughly demonstrate its product technology and brand attributes.

Based on the established LI-NING running shoes "Ultralight", the Group launched the 9th generation professional Ultralight running shoes "Light Vessel" for general runners in China. The design was inspired by Chinese wisdom and Chinese culture, and innovative technologies such as "Foam EVAlite" and "China hemp" were applied to the footwear. In line with this product, during the second quarter of 2012, LI-NING unveiled the marketing theme "Run Off Pressure and Take a Breath" and invited popular Chinese Olympic champions Zhang Jike and He Wenna as image spokespeople. Through various competitions and experience activities to increase brand and product recognition and likability among consumers, the Group achieved encouraging results in the sales of its running products.

Nanyang Li Ning Sports Park

In order to promote the sports culture, recreational sports and the nationwide fitness program, Nanyang Li Ning Sports Park held a park opening ceremony on 10 September 2012 and officially commenced its operation.

As a leading professional sports brand in China, Li Ning Company has strived to develop public's awareness and habits in sports. It promotes the development of competitive sports and the nationwide fitness program by establishing sports premises, as well as providing sports facilities and guidance. Nanyang Sports Park represented Li Ning's another remarkable achievement in promoting the nationwide fitness program following the establishment of Nanning Sports Park and Foshan Gymnastics School.

Sales Channel Expansion and Management

The traditional wholesale-based operations emphasized the rapid expansion of store network in order to seize market share. However, with market saturation, the model led to the increase of channel inventories in the past few years, leading to aging inventory, high retail discounts and lower profit margins for distributors and sub-distributors. The difficulties currently confronting the sales channels caused by wholesale-based operations have significantly affected the Company's overall performance since 2011. Meanwhile, the turnover ratio of the account receivables this year hit an all-time high.

Improving retail profitability for the sales channels is an important near-term focus for the Group, with emphasis on store level productivity and profitability, as well as improved merchandising and inventory management within the channels. Significant improvements have been made during 2012 in terms of strategy and initiatives, including the announcement of the Channel Revival Plan in December 2012 to improve inventory mix and restore channel profitability, rationalization of network size and structure, increased focus on retail operations, optimization of order fair model, and new channel policies to support the business model transition.

Channel Revival Plan

Improving inventory mix in the channels and restoring the channels to healthy levels of profitability is a key priority of the Company's Transformation Plan. Through in-depth diagnosis and field tests, the management believes that improving product freshness, optimizing product procurement and rationalizing the sales channels are the best ways to revitalize channels' potential. At the end of 2012, the Board approved a large-scale and comprehensive Channel Revival Plan to accelerate the Group's channel inventory clearance, one-time inventory buy backs, sales network rationalization, and the restructuring of account receivables. In the meantime, the Company also reformed its channel policies to support distributors. The Channel Revival Plan provides distributors with support to encourage them to improve inventory mix and introduce new product portfolios in their stores, so as to better meet the needs of local customers and to enhance profitability of retail stores. Ultimately, these measures will help the distributors improve balance sheet and cash flows, laying the foundation for future development.

In the year ended 2012, the Company made provisions for accounts receivables of RMB933,235,000 and write down of inventories to net realizable value of RMB399,673,000. This is part of the Channel Revival Plan's first step which is de-risking the balance sheet and making the appropriate provisions and write downs that reflect the Company's assessment of collectability of accounts receivables and ability to monetize inventory, especially in light of current market conditions and the financial position of the Company's channel partners. The next step is to improve retail performance, and with its successful implementation, the Company will seek to improve channel profitability and maximize collections, which should mitigate part of the costs associated with the Channel Revival Plan. The Channel Revival Plan entails costs associated with inventory buy-back, inventory clearance, accounts receivables restructuring and other channel support. Through the Channel Revival Plan, we hope to establish a solid foundation for the overall transformation plan and provide a platform for the Company's long-term sustainable growth.

Sales Channel Streamlining and Rationalisation

During the reporting period, as part of its initiatives to rationalize retail channels, the Group worked with its distributors to proactively close inefficient stores and optimize its channel-related policies. As at 31 December 2012, the total number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to 6,434, representing a net decrease of 1,821 as compared to 31 December 2011. There were 53 distributors, three fewer than at 31 December 2011. Store breakdown as at 31 December 2012 was as follows:

Number of franchised and directly-operated retail stores

LI-NING brand stores	**31 December 2012**	31 December 2011	**Change**
Franchised retail stores	**5,803**	7,495	**(22.58%)**
Directly-operated retail stores	**631**	760	**(16.97%)**
Total	**6,434**	8,255	**(22.06%)**

Number of retail stores by geographical location

LI-NING brand stores	**31 December 2012**	31 December 2011	**Change**
Eastern Region *(Note 1)*	**1,977**	2,433	**(18.74%)**
Northern Region *(Note 2)*	**2,096**	2,679	**(21.76%)**
Southern Region *(Note 3)*	**1,186**	1,493	**(20.56%)**
Western Region *(Note 4)*	**1,175**	1,650	**(28.79%)**
Total	**6,434**	8,255	**(22.06%)**

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.

The Group has taken the following measures regarding channel management in 2012:

- **Store profitability management** – The Group evaluated the performance of all its stores in terms of their profitability in 2012. According to the evaluation results, the Group, along with its distributors, made structural adjustments to its stores and closed inefficient stores. The Group classified its stores from a strategic and profit efficiency perspective and formulated targeted channel and product strategies accordingly to improve single store profitability.

- **Management of clearance channels** – As at 31 December 2012, there were 277 LI-NING brand factory outlets and 446 LI-NING brand discount stores (31 December 2011: 269 factory outlets, 358 discount stores). The proportion of revenue through clearance channels to the Group's overall revenue increased. In 2013, the Group, along with its distributors, will continue to improve their inventory clearance capabilities through the establishment of dedicated clearance channels.

- **Distributor management** – The Group released its new distributor management policy in 2012 with the aim to more effectively allocate interests within the channels and increase its influence over distributors and sub-distributors. The policy offers comprehensive support for distributors and sub-distributors, and ensures that the go-to-market plans for new products and retail operation standards are effectively executed. In terms of store network deployment, the Group will continue to set up regional model flagship stores and rationalize the network size and structure.

- **Improvement of retail productivity** – The Group started to search for opportunities in aspects such as the introduction of new products, improved merchandising, prevention of stock outs, enhancement of retail capabilities and optimisation of the store network. Projects have been rolled out and were in different stages of trial and implementation. It is expected that the profitability of channels will be substantially improved when such projects take effect on a broader scale.

Optimization of Order Fair Model

In the past, the practice of quarterly trade fairs where goods were ordered for future delivery has long been the norm in the industry: the trade fair is opened six months before the products go to market to allow the distributors and sub-distributors to select and order products freely based on their own judgment, and the Group would arrange production, delivery and introduction of the products based on the orders. However, with the increasingly sophisticated consumer demand, fast changing market conditions and the intensifying industry competition, the Group believes that the traditional model can no longer adapt to the market change.

Since the order fair in the second quarter of 2013, the Group has made some meaningful changes to the trade fair model: based on the consumer research and market analysis, we created the A+ (best-selling SKUs) packages for the entire country as well as specific SKU plans to meet different consumer demands across regions in order to help the distributors and sub-distributors to make more appropriate orders based on store profiling. When the products ordered at the trade fair have been brought to market, the Group would monitor the retail sales of the A+ SKUs in a real-time manner and provide prompt replenishment support. At the same time, in addition to trade fairs, the Group has launched the fast response products based on the market needs, to keep up with the changes in market trends and meet the consumers' needs. The Group has begun to shift away from the traditional model of ordering future goods through trade fairs only, to a retail-oriented ordering model which is characterized by "prescriptive orders + replenishment of best-selling SKUs + fast response products."

The reform on the model has received wide support from our distributors and sub-distributors since the trade fair in the second quarter of 2013, and the Group will continue to optimize and improve the trade fair process to ensure a successful transformation to the retail-oriented product supply model.

E-Commerce

The Group's department of e-commerce business has been actively expanding its online market channels since 2008 through the establishment of a comprehensive e-commerce distribution system. The Group has achieved numerous industry awards including, most recently, the "2012 E-Commerce Businesses Eguan E-Commerce Businesses with Most Investment Value" (2012年易觀最具投資價值的電子商務企業).

Up to date, the Group has established the official LI-NING Online Shop (www.e-lining.com), and opened official online shops for the LI-NING brand on reputable third-party e-commerce platforms in China such as Taobao.com, 360buy.com and Paipai.com. A number of well-known e-shops in China including Amazon.cn, Suning.com and S.CN have dedicated web pages for online purchasing of LI-NING products. In addition, the Group collaborated with various virtual shopping malls hosted by prominent mainland banks including the Industrial Bank, the Ping An Bank and the Zhong Zhi Bank.

The department of e-commerce business of the Group is actively promoting and testing the cross-channel, cross-terminal and cross-media business model, which allows consumers to experience and purchase LI-NING products directly through computers, televisions and mobile phones.

Product Design, Research and Development

In 2012, the Group fully leveraged the heritage of LI-NING brand in sports, further exploited the LI-NING product and design platform and developed exciting and unique design palette, all of which will start to make Li Ning products begin to come back to life.

As part of the Transformation Plan, the Group has kicked off a number of product and merchandising initiatives, including rationalization of SKUs, improved pricing strategy with broader and more targeted coverage of its key demographics, introduction of A+ and fast response products to improve sales and capture new market trends, and continued roll-out of exciting product lines for core sports that combine best-in-class design and functionality.

Furthermore, the Group has key additions to its product development teams and, as a professional sports goods brand, will continue to advance its product design and innovation capabilities. Through continuous enhancement in product design, functionality and quality, the Group is committed to create product offerings which are able to meet the needs of both general consumers and professional athletes.

Footwear Products

The Group operates its own design, innovation and research and development centres. "Li Ning Sports Science Research Centre", located at the Group's head office in Beijing, is equipped with an array of advanced testing instruments and equipment, and collaborates closely with a number of domestic and overseas universities and research institutions to conduct research in sports shoes and to stimulate functional and structural innovations. This year, the Group further perfected the Li Ning Sports Science Research Centre and conducted a detailed assessment of the shock-absorption, bounce and reversing functions of its footwear products utilising multiple indicators and dimensions, and also filmed a well-received documentary named "Run with the Wind" in collaboration with Channel Five of the Chinese Central Television (CCTV-5). Researchers of the Company also authored a few chapters of the book "The Science of Footwear". In early 2012, the Group began planning and constructing the industry's first professional biomechanical testing facility for badminton shoes. The test aimed to detect various key movements of professional badminton players to collect three-dimensional biomechanics data from the shoe sole.

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

- Sponsorship of CBA and National Basketball League (NBL) (basketball minor league in China), with exclusive provision of top-notch gear;

- Tailor-made basketball shoes "the Wade Way" (韋德之道) for Dwyane Tyrone Wade;

- Basketball shoes developed for other 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 wearing the latest LI-NING ultralight spiked shoes at the 2012 IAAF Diamond League, winning the championship at the Shanghai leg held in May 2012;

- Christian Taylor, an American triple-jump athlete, wore the latest LI-NING sponsored gear during the 2012 IAAF Diamond League in May 2012, where he won the Eugene leg, setting a new world-record. He also won a gold medal at the 2012 London Olympics;

- 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 at the XL Galan meeting in Stockholm, Sweden in February 2012. She reclaimed the world champion title at the World Indoor Championships in Istanbul, Turkey held in March. She then won a bronze medal at the 2012 London 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 and successfully defended his title as men's singles champion at the 2012 London Olympic Games; and

- Other athletes including Zheng Saisai (鄭賽賽), the upcoming women's tennis sensation, currently ranked No. 4 in Chinese tennis women's single; Croatian tennis player Marin Cilic; Danish badminton player Jan Ø. Jørgensen; and Boonsak Ponsana, the No.1 men's badminton singles champion in Thailand.

In addition to developing products for professional athletes, the 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.

This year's product "Qingyun" (Light cloud) running shoes won the 2012 Red Star Design Award, and the "MIX" sports shoes won the 2012 Nomination Award at IDEA (International Design Excellence Awards).

The Group continued to work to enhance product innovation in 2012. For example, the Group's research and development team continued to develop its core technology of "LI-NING BOW" (李寧弓), and to conduct cross-sports category research in order to gradually apply these technologies to different sports categories. The Group aims to develop various footwear products targeted at consumers with different purchasing power and sporting habits and to provide more comfortable footwear to general sports enthusiasts that will enable them to attain more fulfilling sports experiences. In addition, the Group applied the "China hemp" (漢麻) technology to the LI-NING brand footwear products. "China hemp", which can be traced back to ancient China 8,000 years ago, is moisture and odour absorbent, quick dry, anti-bacterial and anti-mold, and provides lasting elasticity and comfort.

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 "Form EVAlite" 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;

- "YuShuai VII" (馭帥VII) basketball shoes: The shoe surface adopts the latest "stitchless" seaming technique and replaces 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;

- Urban Sports "Infinite Motion" (動無限) series: The series employ real leather with cushion protective materials and "China hemp" insole technology to create a healthy and comfortable space for foot movement. The shock-absorbing and durable soles also make the shoes suitable for various occasions; and

- "Combat 1st Generation" (實戰一代) basketball shoes: The product is part of the fast response series. We completed the cycle from consumer demand assessment, to product design and development, mass production, retail pilot tests and the final launch within just two months. These basketball shoes have both high professional functionality as well as value proposition to consumers, and were very well received by the market. The successful launch of the product has proved the company's fast response capability, and we are introducing more products to the market through our quick response platform.

Apparel Products

The research and development team continued to make innovation breakthroughs in product technology and deepened the research and analysis of three-dimension data regarding human sports movement, while gradually applying this data to product testing. Based on the results, products were optimised and the prototypes were then incorporated for practical use into the final products. During the period, the Group implemented the following initiatives in apparel innovation:

- With an innovative research concept focusing on consumer experience, the apparel product science and technology research team developed proprietary manufacturing technologies for ultralight sports coats, and successfully applied the Men's ultralight sports windbreaker, a world-record conceptual product, to seasonal products.

- Through on-going research on ventilation technologies, including cut-out techniques on the main areas that the human body perspires and upgrades to the breathable fabric, the Ventilation II – AT Venting technology was successfully developed and an apparel micro climate management system was established, allowing reinforced heat exchange for a comfortably cool and dry feeling.

- Using ergonomic analysis, static body measurements were compared with dynamic measurements in the stances of professional badminton players, including the forehand smash, drop shot and net play. Thermoplastic polyurethanes (TPU) materials and special puncturing craftsmanship were adopted to mitigate local pressure and tension on functional badminton apparel to improve the apparel's comfort. The functional badminton apparel was granted a utility model patent by the State Intellectual Property Office.

- To further diversify the LI-NING brand apparel products, a functional apparel with a storage bag as a neck pillow was successfully developed and applied to seasonal products. This was granted a utility model patent by the State Intellectual Property Office in China.

- Through further streamlining and optimisation, the LI-NING AT technology platform is recognized as a leading platform for industry standards. By focusing on products functionalities and the application of AT fabric, the Group increased the utilisation of AT high-tech materials in seasonal products, especially that of functional materials in special products.

On sponsorship products, the Group rolled out a gym suit with elasticity design. With a special design tailored for the figure and kinetic characteristics of a gymnast, the product adopted seamless full-moulding garment craftsmanship and special elastic fibres, integrating variable elasticated areas at certain positions to meet the special needs for muscle support and joint protection in gymnastics.

Badminton Rackets

As one of the Group's core sports categories, the LI-NING Racket Research and Development Manufacturing Centre is equipped with some of the most 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 features ground-breaking manufacturing craftsmanship that has made it an instant hit, strengthening the professional status of the LI-NING brand in the badminton racket market.

Supply Chain Management

As part of the Company's Transformation Plan, and in response to emerging industry challenges, the Group views the build-up of leading supply chain capabilities and retail operations capabilities as a core competitive advantage and a critical component of our new business model. Upgraded supply chain capabilities will be critical in controlling costs, clearing inventory, increasing operational efficiency, reducing lead times and laying the foundations for a retail oriented, fast replenishment business model. A dedicated supply chain management centre was established to improve procurement efficiency and reform the previously decentralised supply chain functions. Cost optimization tactics were executed to draw upon the centralised strengths, mainly including:

- streamlining suppliers to build up bargaining power;

- establishing effective bidding and procurement processes and introducing more cost-competitive suppliers to drive down procurement costs;

- decreasing procurement cost;

- improving versatility of materials, reducing complexity and the number of SKUs, and centralising orders to attain economies of scale; and

- establishing overseas production bases and arranging part of procurement from overseas and mid and west China.

In 2012, Li Ning Company streamlined and reformed internal operational processes, and shortened supply cycle through the coordination with suppliers so as to enhance its capability to respond to market demands. The Company determined production volume based on market feedback in a move to reduce the risk arising from inaccurate prediction, thereby effectively reducing inventories.

The Company established a new business operation model under its retail operation. Based on market demand, the Company developed innovative products jointly with its partners/suppliers in a rapid manner, and such products were delivered directly to sales points. Through flexible and fast products replenishment and allocation, the Company reduced its losses arising from product shortage. The new operational model enabled us to rapidly capture and satisfy market demands.

The Group began to construct an effective supply chain and logistics support system to accommodate the retail oriented business model, aiming to enhance the rapid response ability and forge a flexible and swift supply chain system to meet market demand. A wide range of initiatives were introduced in order to enhance the flexibility and responsiveness of the supply chain system. These initiatives included renovation of the logistics system, optimisation of network and inventory management, direct delivery, building to demand for fast production, integration of suppliers at various levels and renovation of the IT platform. These initiatives are expected to have a more significant impact on operations starting in 2013.

The Group continued to optimise its logistics and distribution system towards a demand-driven model, aiming for a more flexible system to facilitate the shift from a wholesale-focused business model to a retail-oriented model. The Group's logistics system has established the basic operating capability for the retail-oriented model. In addition, the Group established a dedicated inventory management centre for returned goods, which is designed to assist distributors to complete the return of goods under the Channel Revival Plan, speed up stock clearance and gradually rationalise the inventory level. The centre has established a sizable clearance capability for returned goods, paving the way for the Group's Channel Revival Plan.

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 manufacturing, research and development, marketing and sale of table tennis and other sports equipment.

During the year, Double Happiness continued to adopt "sponsoring 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 image spokespeople for its table tennis products. Double Happiness also actively sponsored various professional tournaments in China and around the world, including table tennis and badminton games at the London Olympic Games, where four table tennis players who are image spokespeople of Double Happiness won Olympic championships. In addition to the Olympic Games, Double Happiness sponsored and provided professional equipment for events including the International Table Tennis Federation ("ITTF") Pro Tour, the 51st Dortmund World Table Tennis Championship, Men's and Women's Table Tennis World Cup and the Chinese Table Tennis Club Super League in 2012.

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

Double Happiness possesses strong capabilities in product research, development and design. Besides equipment for professional players, Double Happiness successfully rolled out more than 200 new products in 2012, complementing its product lines and showcasing the brand's strong capabilities in product research and development and design.

Double Happiness products are mainly distributed via wholesale and integrated sports goods stores. It has adopted a wholesale model with a relatively stable clientele across 30 provinces and municipalities. In 2012, Double Happiness pushed forward the reforms started in 2011 on two distribution channels – the professional table tennis equipment distributor system and the supermarket distributor system, while proactively exploring group sale business to further integrate customer resources and strengthen customer management.

Lotto Brand

In light of recent market conditions and in line with the Group's strategic goal of focusing resources on the LI-NING brand, the Group made strategic adjustments to the operations of the Lotto brand in 2012.

The Group and the licensor reached a consensus and entered in to a supplemental agreement to the licensing agreement in June 2012, pursuant to which the termination date of the license of the Lotto brand was amended to 31 December 2018 from the original date of 21 December 2028. To prioritise self-operation sales, a self-operation retail team was established; and stores with negative or nil profit were closed for stock clearance. The authorised operation model for domestic distributors was cancelled and obsolete goods were bought back. Promotional and marketing activities were carried out in cooperation with e-commerce channels. Furthermore, strict control was exercised over costs and expenses in aspects including daily operation of subsidiaries and the Group's management team. The focus going forward is to improve profits for the Lotto brand operations.

AIGLE Brand

In 2012, AIGLE's products gained higher recognition among consumers in Shanghai, Beijing and other major first-tier cities in the PRC, largely due to the brand's unique positioning and competitive edge as a French outdoor and casualwear brand. During this year, the existing and new stores maintained exceptional business performance as evidenced by the double-digit growth in same-store sales, which contributed to the improving retail sales for the brand to secure its position among the leading outdoor and casual sectors.

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 (蔡贇), the Chinese Youth Badminton Team and six strong provincial badminton teams.

During the reporting period, Kason brand's sales in apparel, footwear, rackets and equipment accessories grew rapidly as a result of the comprehensive upgrades 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 the Kason brand to increase its market share in the badminton category.

ORGANISATIONAL REFORM AND HUMAN RESOURCES

In 2012, the Group focused on the transformation and development of LI-NING Brand's core business by proactively improving organisational processes, strengthening operational execution capabilities and solidifying the culture of achieving excellence in performance especially in light of the new competitive dynamics in the industry.

The addition of new members to the management team with significant experience in the retail sector greatly supported the on-going execution of the Company's Transformation Plan. The newly appointed Chief Supply Chain Officer, previously a senior executive of Dell responsible for supply chain management in the PRC, has extensive experience with over 19 years in supply chain management and operations. The acting Chief Sales Officer also has extensive experience in the industry, with previous roles including regional general manager for Nike China. Our Chief Product Officer headed key global design centres in previous roles at both Adidas and Nike. Our Chief Designer previously held positions with Nike and Umbro. Our Chief Marketing Officer has accumulated extensive industry experience working at General Mills, Johnson & Johnson, Procter & Gamble among other consumer brands. These new additions to the management team have transitioned quickly into the organization and are supporting and contributing towards the Group's new strategic direction.

The Group regards its workforce as an important asset for corporate development and has placed special emphasis on the recruitment, training, motivation and retention of core management and professional staff. Over the course of 2012, in line with cost structure optimization targets in its Transformation Plan, the Group placed a priority on rationalising the organisation and human resources of the LI-NING brand core business. Constant efforts were made to improve organizational efficiency through optimizing organizations, streamlining staff, integrating resources and rewarding excellent employees. The Group systematically builds up internal and external talent pools, with an emphasis on identifying, assessing, promoting and appointing internal talents while effectively attracting excellent new recruits from the industry. Adhering to the principle of rationally considering job positions, individual performance and capabilities when determining employee compensation packages, the Group also enhanced the linkage between remuneration and performance paying close attention to the competitiveness of remuneration for key employees.

As at 31 December 2012, the Group had 3,447 employees (31 December 2011: 4,180), of whom, 1,703 (31 December 2011: 2,176) were from the Group's headquarters and retail subsidiaries, and 1,744 (31 December 2011: 2,004) were from other subsidiaries.

ISSUE OF CONVERTIBLE BONDS

On 19 January 2012, the Company entered into subscription agreements (the "Subscription Agreements") with TPG ASIA, Inc. (TPG ASIA, Inc., and/or its affiliates "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 (the "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, was approximately RMB745,691,000, and was used by the Company to continue its investment in the business development of the LI-NING brand, including branding, securing sport sponsorships, roll-out of the sixth-generation stores as well as product design and research and development and as general working capital of the Group.

As of 31 December 2012, no Convertible Bonds have been converted into Shares under the Subscription Agreements.

On 23 January 2013, the Company entered into the Amendment Deeds with TPG and the GIC Investor respectively to amend certain terms of the Subscription Agreements and the terms and conditions attached to the Convertible Bonds, among which the Initial Conversion Price was reset to HK$4.5 per Share. Please refer to the announcement of the Company dated 25 January 2013 for more details.

OUTLOOK AND STRATEGIES

In the long term, the continuing rapid urbanisation process, increasing disposable income, consumers' needs for better products and brands, rising prices of consumer goods and the increasing participation in sports in China will provide China's sporting goods industry with more room to develop. The industry in China still has greater growth potential than in more developed countries due to the relatively low per capita consumption of sporting goods. At the same time, the sporting goods industry of China has seen competition intensify, and increase in consumers' demand for better brand and product value as well as for better buying experience.

The Company is in the first phase of a multi-year transformation which started with the announcement of the Transformation Plan in July 2012. We have had initial successes but also continue to face challenges especially given the uncertainties in market and industry conditions as well as the evolving competitive landscape. The Company has made a conscious decision on improving sell-through first, and in the near term, the Company expects that continued reduction on sell-in will still have an impact on revenue. As a result, the Company's financial performance is expected to remain challenging into at least the first half of 2013. However, with the recent adoption of initiatives on channel efficiency and faster replenishment, the Company will start to have healthier cash flow and a foundation for more sustainable growth. The Company will continue to push the execution of the transformation strategy, optimize resource allocation, improve our execution capabilities, and build stronger competitiveness and better profitability.

In order to support the transformation strategy, the Group also announced a financing plan in January 2013, through which the Group plans to raise funds of approximately HK$1.85 to 1.87 billion in a public offering of convertible securities, which will be used towards funding the overall Transformation Plan, increasing working capital and optimizing the capital structure.

We expect that fundamental shifts in the business model and competitive dynamics in the sportswear industry are inevitable. While the transformation of the existing business model and resolution of channel issues built up over multiple years may take time and lead to a near-term down-sizing of our business, we are confident that with the support of our shareholders and other constituents, the management reform and strategic adjustments currently taking place in the Group will help us to strengthen our capabilities and realize our value and long-term growth potential as China's leading sporting goods brand.

SUBSEQUENT EVENTS

1. On 4 January 2013, the Company entered into an agreement with Viva China Holdings Limited ("Viva China") to renew the relevant original agreement, pursuant to which Viva China and its subsidiaries may continue to provide to the Group services in relation to (i) brand or product endorsement; (ii) sponsorship; and (iii) event management. The agreement would take effect from 4 January 2013 to 31 December 2015 or the day on which Viva China ceases to be a connected person of the Company (whichever is earlier). Please refer to the announcement of the Company dated 4 January 2013 for more details.

2. The Company proposes to raise not less than approximately HK$1,847.8 million and not more than approximately HK$1,868.6 million (before expenses) by way of open offer of the Convertible Securities on the basis of each Convertible Securities with the principal amount of HK$3.50 for every two existing Shares held on 19 March 2013. Please refer to the announcement of the Company dated 25 January 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

The Company did not redeem any of its listed securities during the year ended 31 December 2012. Apart from the purchase of the Company's shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the Restricted Share Award Scheme rules, neither the Company, nor any of its subsidiaries, purchased or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

The Company is committed to upholding a high standard of corporate governance by continued review and enhancement of its corporate governance practices.

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 31 December 2012, with the exception of provisions A.5.1 and A.2.1 of the Corporate Governance Code, the Company complied with all the 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 (the "Nomination Committee") currently consists of the following directors of the Company (the "Director"): 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 Nomination 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.

According to code provision A.2.1 of the Corporate Governance Code, which came into effect on 1 April 2012, the role of the chairman and chief executive of the Company should be separate and should not be performed by the same individual. During the period under review, from 1 January 2012 to 3 July 2012, this requirement has been complied with as the roles of the Chairman and the chief executive officer ("CEO") of the Company had been segregated and performed by Mr. Li Ning and Mr. Zhang Zhi Yong respectively. However, since the stepping down of Mr. Zhang as the CEO from 4 July 2012, the Company has not yet identified a suitable candidate to be the CEO. As a result, the day-to-day responsibilities of the CEO has been assumed by Mr. Li Ning, the Executive Chairman, who manages the external affairs and relationships of the Group, and by Mr. Jin-Goon Kim, the Executive Vice Chairman, who manages the internal affairs and the operations of the Group from 4 July 2012 to 31 December 2012 during the period under review. Therefore, there was no separation of the roles of the chairman and the CEO as both of the roles are currently undertaken by the Executive Chairman and/or the Executive Vice Chairman of the Board. Notwithstanding the above, the Board is of the view that the current management structure remains to be effective for the Group's operations and sufficient checks and balances are in place. The operations and management of the Company is constantly subject to the scrutiny and valuable contributions of the independent non-executive Directors. The Board will continue to review the management structure regularly to ensure that it continues to meet these objectives and is in line with industry practices. The Board will also continue to identify suitable candidates to become the CEO.

Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report 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 annual results for the year ended 31 December 2012.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at 11: 00 a.m. on Friday, 31 May 2013.

A notice of the AGM will be dispatched to the shareholders together with the Company's annual report 2012, on or about 12 April 2012 and published on the Company's website at www.lining.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk.

The Company has also prepared materials for the 2012 annual results presentation. The presentation slides can be found on the Company's website at www.lining.com.

By order of the Board
Li Ning Company Limited
Li Ning
Executive Chairman

Hong Kong, 25 March 2013

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Jin-Goon Kim and Mr. Zhang Zhi Yong. The non-executive directors are Mr. James Chun-Hsien Wei and Mr. Chen Yue, Scott. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Mr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel.