李寧有限公司

# LI NING COMPANY LIMITED

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

(Stock Code: 2331)

# 2010 Annual Report


## MISSION

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

## VISION

A world's leading brand in the sports goods industry

## CORE VALUES

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

# CORPORATE PROFILE

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

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


# CONTENTS



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This annual report is printed on environmentally friendly, totally chlorine-free paper.

# MAKING CHANGE IN 20 YEARS WE ARE STILL AN ENERGETIC

## 1989
Established in Guangdong and registered the "LI-NING" trademark

### August 1990
Sponsored the Chinese delegation for the 11th Asian Games

### July 1992
Sponsored the Chinese delegation for Barcelona Olympics

### 1993
Took the lead in establishing nationwide franchise operations

### July 1996
Sponsored the Chinese delegation for Atlanta Olympics

### March 1998
Established the first design and R&D centre in Foshan, Guangdong

### 1999
Became the first company in China's sporting goods industry to implement ERP system

### September 2000
Sponsored the Chinese delegation for Sydney Olympics, "Dragon Wear" (龍服), "Butterfly Shoes" (蝶鞋) were acclaimed by reporters from all over the world as the "Best Award-Acceptance Gear"

### 2001
Honoured with the title of "Strategic Partner of China Olympic Committee"

### 2002
Established corporate mission, vision, core values and business development strategy

Established brand positioning and slogan "Anything is possible"

### 2003
Commenced the implementation of the information management system for distribution channel and installed E-POS system at retail terminals

### June 2004
Officially listed on the Main Board of the Hong Kong Stock Exchange (Stock code: 2331), becoming the first Chinese mainland sporting goods company listing in Hong Kong

### August 2004
Sponsored the Chinese delegation for Athens Olympics

Contracted with the Spanish Basketball Association to became the official sponsor of the men's and women's Spanish National Basketball Teams

### November 2004
Established an apparel design and R&D centre in Hong Kong

### January 2005
Became a constituent stock of Hang Seng Composite Index Series and Hang Seng Free Float Index Series

Formed a strategic alliance with the NBA

# PLAYER

## April 2005

LI-NING brand named as "My Favourite China Brand in 2005" organised by CCTV in the PRC

## June 2005

Included as a constituent stock of MSCI China Index Series

## July 2005

Entered into a joint venture with AIGLE, a famous outdoor sporting goods brand

## November 2005

Awarded "The 2005 Work China™ Best Company to Work For"

## January 2006

Signed an agreement with NBA star, Damon Jones, and became the first Chinese sports brand to appear in an NBA basketball court

## March 2006

Cooperated with Association of Tennis Professionals (ATP) as its official marketing partner

## April 2006

Became the title sponsor of the new China University Football League

Honoured as "2005 Most Respectable Enterprise in China"

## May 2006

Awarded the "Most Creative Organisation" at The First Grand Ceremony of Creative China

## August 2006

Collaborated with NBA superstar, Shaquille O'Neal, to jointly develop in China's basketball market

## September 2006

Launched the first technology platform with proprietary IP rights, the "LI-NING BOW" (李寧弓) anti-shock technology

"Flying Armor" (飛甲) basketball footwear won the German "iF China 2006 Industrial Design Award"

## October 2006

Established China's premier professional running interactive platform – the "Li Ning iRun Running Club"

## December 2006

Established a strategic collaboration with CCTV National Sports TV Channel

## January 2007

Entered into an agreement with Argentina Basketball Federation and became the official sponsor of the men's and women's Argentina National Basketball Teams

Became the designated official partner to provide sportswear for the Swedish Olympic Delegation

Honoured "2006 The Best Enterprises' Public Image Award" jointly organised by the Enterprise Research Institute, the Development Research Center of the State Council, Business.sohu.com, China Credit Research Center of Peking University and Guanghua media

## March 2007

Honoured as "2006 CCTV The Best Employer"

## April 2007

Honoured as "2006 The Most Respectable Enterprise in China" for two consecutive years

## April 2007

Collaborated with Beijing Sports University to promote sports development in rural areas of China, charitable "Let's Do Sports Together" education project launched for sports teachers in rural villages

### April 2007

Launched Z-DO brand products and entered into the hypermarket distribution channel

### June 2007

Became the official partner of the Spanish Olympic Committee and the official sportswear sponsor of the Spanish Olympic Delegation

### September 2007

Signed an agreement with tennis top seed Ivan Ljubicic

### November 2007

Announced the acquisition of well known table tennis brand – "Double Happiness"

Honoured with "Directors of the Year Award 2007 – Board Category" by The Hong Kong Institute of Directors

### December 2007

"Banpo" (半坡) basketball shoes won the 2007 "iF Design Awards" and "2007 China Innovative Design Red Star Award"

### March 2008

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

### July 2008

Entered into a 20-year license agreement with Lotto

### August 2008

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

### October 2008

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

### November 2008

Commenced operation of Li Ning Sports Science R&D Centre

Signed up an NBA star, Baron Davis

### December 2008

Commenced construction of the Li Ning (Jingmen) Industrial park

### January 2009

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

### March 2009

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

### April 2009

Announced the sponsorship of Chinese National Badminton Team, the fifth gold-medal winning team after Chinese National Table Tennis Team, Chinese National Gymnastics Team, Chinese National Shooting Team and Chinese National Diving Team, to work in collaboration with the LI-NING brand

### May 2009

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

## July 2009

The grand opening of LI-NING brand flagship store in Singapore

Publicly announced the acquisition of the entire issued share capital of Kason Sports

## August 2009

LI-NING brand awarded by CCTV as the "60th Anniversary of the Founding of the PRC – 60 Brands Promoting China's Economy and with Impact on People's Lives"

## October 2009

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

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

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

## December 2009

LI-NING brand's "X-Claw"（猫爪5代）cross-country running shoes, "Fossil"（化石） upstream shoes and "G-Shark"（年輪）basketball shoes were awarded the "China Red Star Design Award 2009"

Awarded "The Most Respectable Enterprise in China" for the third time

## 2010

Became the top official strategic partner of China's National Basketball League

## February 2010

The grand opening of the first LI-NING brand retail store in Oregon, Portland, in the United States

## March 2010

Signed an agreement with the top Norwegian javelin thrower, Andreas Thorkildsen, also known as the "Prince of Javelin"

## May 2010

Officially promoted LI-NING brand badminton products in Malaysia

## July 2010

Reshaped the image of the LI-NING brand and unveiled LI-NING brand's new logo and slogan "Make the change". The LI-NING brand will take lead in the upgrade of China's sporting goods industry and move forward to become a global brand

## September 2010

Cooperated with Australian sportswear specialists SKINS to launch the world's leading gradient compression sportswear

Signed an agreement with NBA's 2nd overall draft pick, Evan Turner

## October 2010

Signed an agreement with Jamaican sprinter, Asafa Powell

## December 2010

Signed an agreement with tennis player, Marin Cilic

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

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

### Non-executive Directors

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

### Independent non-executive Directors

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

## EXECUTIVE COMMITTEE

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

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

## AUTHORISED REPRESENTATIVES

Mr. ZHANG Zhi Yong
Mr. CHONG Yik Kay

## COMPANY SECRETARY

Ms. LEE Hung

## REGISTERED OFFICE

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## OPERATIONAL HEADQUARTERS

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

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## AUDITOR

PricewaterhouseCoopers
*Certified Public Accountants*

## LEGAL ADVISORS

*Hong Kong law*
Baker & McKenzie

*PRC law*
Beijing Guorui Law Firm

## PRINCIPAL BANKERS

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

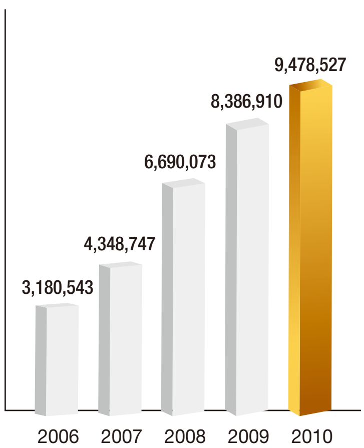
*PRC*
Industrial & Commercial Bank of China
China Construction Bank
Bank of China
China Merchants Bank
Bank of Beijing
Hang Seng Bank (China) Limited
Standard Chartered Bank (China) Limited

# Five-year Financial Highlights

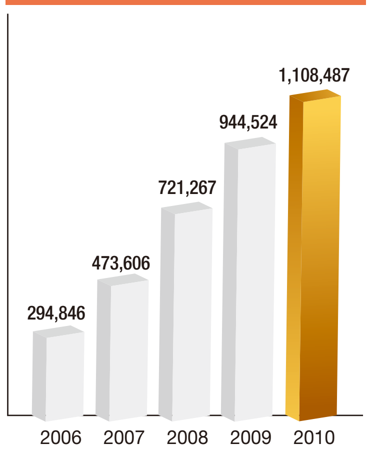
(All amounts in RMB thousands unless otherwise stated)

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | 2007 | 2006 |
| **Operation results** | | | | | |
| Revenue | **9,478,527** | 8,386,910 | 6,690,073 | 4,348,747 | 3,180,543 |
| Operating profit | **1,546,775** | 1,341,896 | 960,213 | 609,855 | 402,518 |
| Profit before taxation | **1,509,514** | 1,283,130 | 929,238 | 618,532 | 401,153 |
| Profit attributable to equity holders | **1,108,487** | 944,524 | 721,267 | 473,606 | 294,846 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | **1,759,192** | 1,524,911 | 1,070,516 | 681,764 | 438,407 |
| **Assets and liabilities** | | | | | |
| Non-current assets | **2,368,205** | 2,215,895 | 1,518,985 | 607,052 | 276,476 |
| Current assets | **4,193,587** | 3,161,975 | 2,817,944 | 2,173,799 | 1,888,809 |
| Current liabilities | **2,371,642** | 1,864,928 | 2,086,843 | 977,429 | 688,452 |
| Net current assets | **1,821,945** | 1,297,047 | 731,101 | 1,196,370 | 1,200,357 |
| Total assets | **6,561,792** | 5,377,870 | 4,336,929 | 2,780,851 | 2,165,285 |
| Total assets less current liabilities | **4,190,150** | 3,512,942 | 2,250,086 | 1,803,422 | 1,476,833 |
| Equity attributable to equity holders | **3,369,302** | 2,674,508 | 1,896,413 | 1,744,601 | 1,399,490 |
| **Key financial indicators** | | | | | |
| Gross profit margin | **47.3%** | 47.3% | 48.1% | 47.9% | 47.4% |
| Margin of profit attributable to equity holders | **11.7%** | 11.3% | 10.8% | 10.9% | 9.3% |
| EBITDA ratio | **18.6%** | 18.2% | 16.0% | 15.7% | 13.8% |
| Earnings per share | | | | | |
| – basic (RMB cents) | **105.84** | 90.75 | 69.63 | 45.83 | 28.65 |
| – diluted (RMB cents) | **104.39** | 89.61 | 68.64 | 45.09 | 28.25 |
| Dividend per share (RMB cents) | **42.12** | 36.12 | 49.67 | 22.85 | 11.44 |
| Return on equity holders' equity | **36.7%** | 41.3% | 39.6% | 30.1% | 23.0% |
| Net tangible assets per share (RMB cents) | **225.25** | 153.65 | 138.44 | 157.63 | 127.00 |

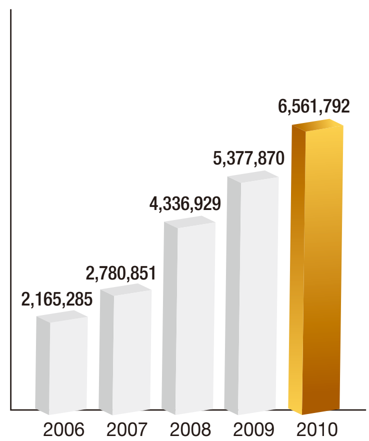

## TURNOVER



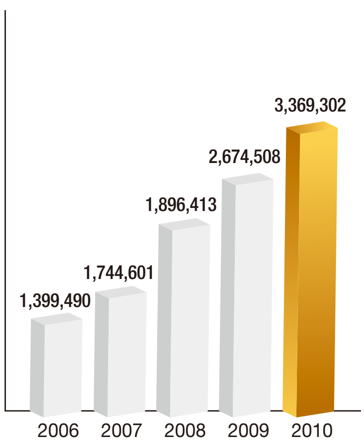

## PROFIT ATTRIBUTABLE TO EQUITY HOLDERS



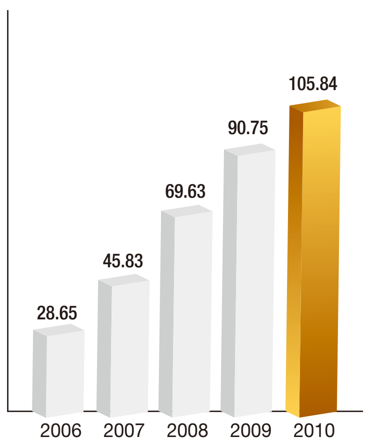

## TOTAL ASSETS



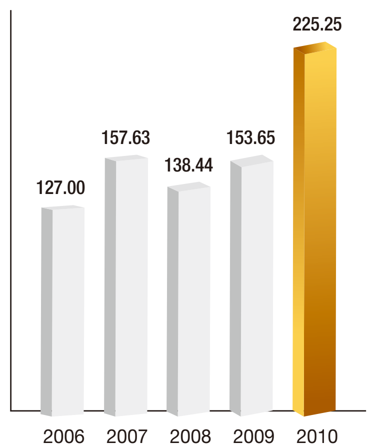

## EQUITY ATTRIBUTABLE TO EQUITY HOLDERS



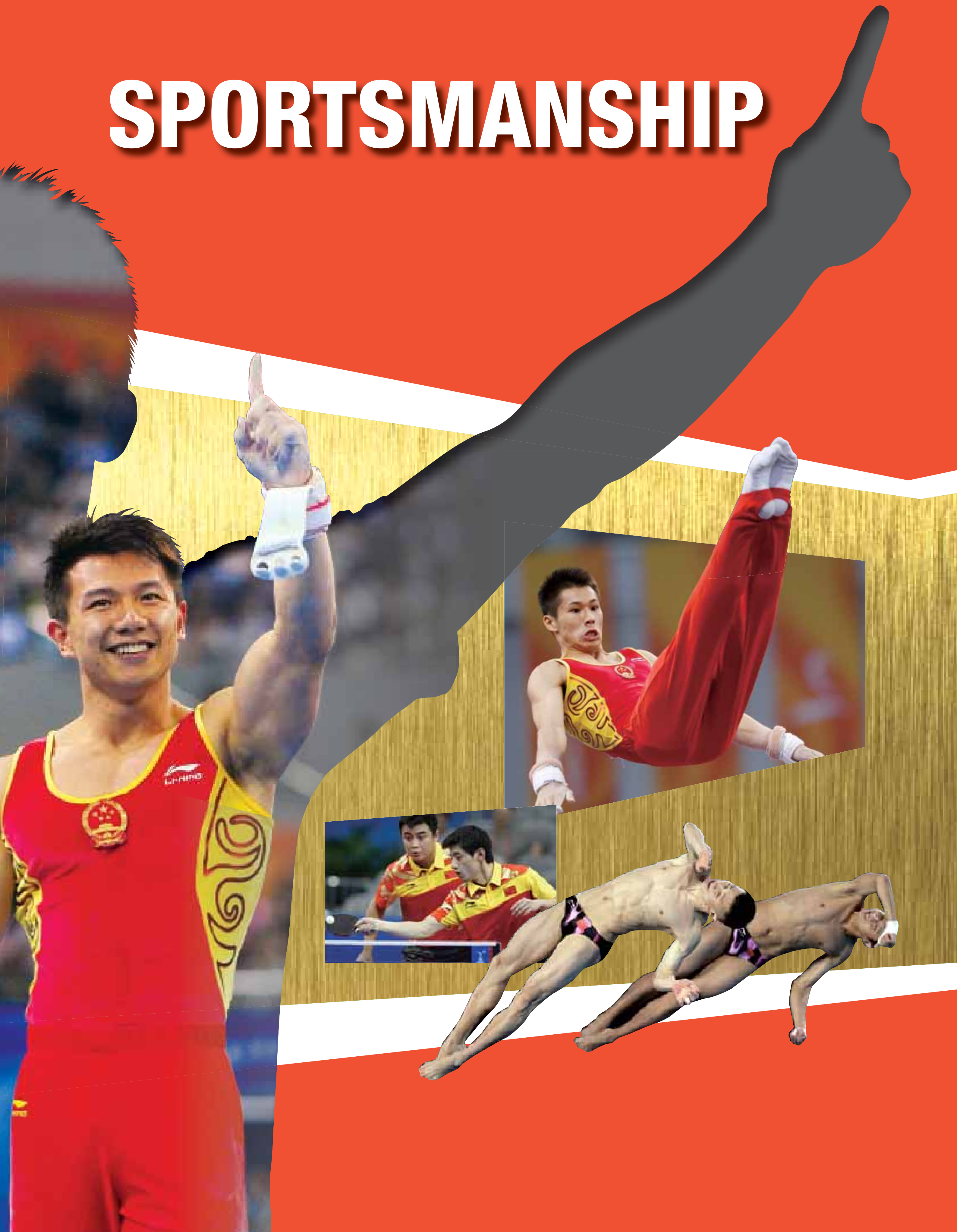

## EARNINGS PER SHARE – BASIC (RMB CENTS)




## NET TANGIBLE ASSETS PER SHARE (RMB CENTS)



# SPORTSMANSHIP




LI-NING

# Chairman's Statement


**Mr. LI Ning**
*Chairman*

# DEAR SHAREHOLDERS,

## FOREWORD

The year 2010 marked the 20th anniversary of the establishment of the LI-NING brand. All the way from the initial "China's new generation of hope" to "Anything is possible" to today's "Make the change", we have witnessed the LI-NING brand's development from an infant to a challenge-driven teen with vitality, which continues to instill confidence and liveliness into the sporting goods industry in China. On behalf of the Board, I would like to take this opportunity to extend our sincerest appreciation to our business partners and Shareholders for their continued, unwavering support for the Group over the years.

## THE TWO-DECADE JOURNEY

The two-decade path that the Group has travelled since its establishment is a testament to our pioneering spirit and achievements. We take great pride in our business accomplishments over the past 20 years. In particular, the Group has successfully emerged as a company of scale, operating under modern corporate management over the past ten years, and consistently achieved a compound annual growth rate of over 30% for ten consecutive years. Such achievements are outstanding not just in our own industry, but also among local Chinese companies operating in other market sectors. As the Group's founder, I take pride in the Group's robust growth and our team's unparalleled accomplishments.

Nonetheless, the market in China is undergoing change. What previously was considered an environment with huge business opportunities has now become highly competitive as more and more players enter the market. Many have adopted a similar channel-expansion growth model, which is driving the industry into a fierce cycle of price competition. This highly competitive market, when coupled with the rapid maturity of consumers and urban development in China, has initiated changes in the fundamental nature of the business environment, posing new challenges to brand owners and prompting reforms to their business models. This has prompted us to look forward and prepare ourselves well in advance to address these issues as they develop through constant in-depth analysis of market trends, examining our own strategic goals and adjusting the implementation of our strategies.



## MARKET JUDGMENT, CHOICE OF STRATEGY

Although we have managed to make big strides by leveraging our learning and experiences over the decades, we have yet to fully establish the core competencies we long for. Our deep-seeded capability, which is of greater value and strength, has yet to be fully tapped. Hence to meet today's consumer needs, and based on our analysis of the development trends for the sporting goods industry in China, we believe that now is the time to initiate change.

Our very first goal at the time of founding the Group was to create a Chinese sports brand, and together we have determinedly pursued this goal over the past 20 years. Today, we must more clearly convey that LI-NING brand is a sports brand that provides professional sporting goods and instills a deep sense of pride and brand value. To this end, the LI-NING brand has opted to refrain from competing in the basic market. Instead we will focus on competing for the value-driven mainstream market in an effort to really evolve into a sports brand operating company.

Looking forward, we shall dedicate our key resources to enhancing the LI-NING brand in order to reach our ultimate goal of becoming a world-class sports brand from China. To achieve this, the LI-NING brand must contribute to, and achieve notable performances in various mainstream sports. Our efforts in pursuing this goal must be reflected in our product design, sports marketing, customer experiences and our brand positioning. Our aim is not to charge higher prices in itself, but to provide products with more professional functionality, higher usage value and more cutting-edge sports fashion, while instilling a deeper sense of glory in our brand and products. This is the type of change we are pursuing, and one which we see as the very foundation of a sustainable business model. We believe that only when we are able to establish LI-NING as a true sports brand, will we achieve infinite vitality and reach our goal of becoming a world-class sports brand.

Creating a world-class sports brand from China as a home-grown company is a great challenge and takes considerable time. However, I truly believe that our well-defined strategy will stimulate the creativity of the Li Ning team to reach this goal. Through this, we shall witness a LI-NING brand, well equipped with an unparalleled competitive edge, embarking on a new path of rapid development.

## OUTLOOK

Some ten years ago, the Group found itself at a similar cross-roads that called for decisive action on the direction of the Group's future development. Although the process went through twists and turns, the success of the changes laid the foundation for the Group's subsequent decade-long spectacular growth and reinforced the LI-NING brand's market position today. In light of the changes China and international markets are experiencing today, we once again find ourselves in a critical moment in history when we must rise up to meet the challenges and capitalise on the opportunities available to us.

2011 marks a year during which the Group will initiate adjustments to the implementation of its business strategies. It will be the beginning of a journey in pursuit of change where new development opportunities and new challenges are bound to emerge. Notwithstanding the numerous difficulties and immense challenges that lie ahead, with our clearly defined strategic objectives, our unrelenting implementation and the uncompromising efforts of our team, we firmly believe that our investments, contributions and commitment to reform in the next few years will establish a firm footing to support another stage of rapid growth in the forthcoming development cycle.

Today, the LI-NING brand kick-starts its revitalised pursuit of becoming a world-class sports brand. As we proceed down this road, myself and the rest of the Board are calling for the continued trust and support of our business partners and Shareholders. Your faith and support will constitute the firm foundation and strong courage to excite the Li Ning team to embrace more challenges and realise our dreams.

Let's "Make the change" together!

**Li Ning**
*Chairman*

Hong Kong, 16 March 2011

**Mr. ZHANG Zhi Yong**
*Chief Executive Officer*

Having grown rapidly for a lengthy period of time, China's sporting goods industry is entering a more stable stage of development. The competitive landscape has embraced change, and the industry value chain has started to adjust, as customer needs and expectations have grown. Against such a backdrop, the Group has made timely adjustment to its strategic implementation plans to reflect market trends while adhering to its core strategies. In 2010, the Group implemented two important initiatives, unveiling its brand revitalisation exercise for the LI-NING brand and commencing a series of reforms aimed at strengthening its distribution channels.

To revitalise the brand, the Group launched a far more complete brand management framework, including clearly-defined brand essence, brand DNA, a brand manifesto, brand positioning and brand personality. The revitalisation campaign also comprised the launch of new branding tools (logo and slogan) and helped to improve the content and format of brand marketing, streamlined product lines planning and prompted the image design of the new generation retail stores. Such revitalisation measures do not simply represent change, but a systematic upgrade and evolution.

With regards to distribution channel reforms, the Group considers that as the industry environment continues to change, the horizontal expansion model of the past — which relied heavily on store openings — is no longer sustainable. What is needed is a shift to a retail-efficiency-driven vertical growth model so as to achieve sustainable growth in the long term. To bring about such changes, distributors/sub-distributors need to enhance economies of scale, strengthen product life cycle management and improve their retail management capabilities. Distributors should be given greater support to alleviate cost pressures.

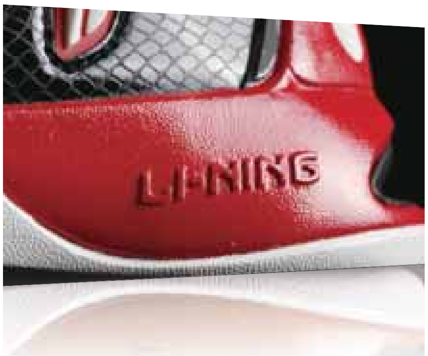
Having taken such steps, the Group strengthened its communication and exchanges with Shareholders, investors and the general public. Details of the reforms and the strategic nature of our efforts attracted widespread public attention. To this end, the management would like to address some of the most frequently raised questions to foster greater understanding of our implementation plans.

1. **Do the brand revitalisation efforts and distribution channel reforms suggest a major shift in the Group's strategies?**

   **Management:**

   - As a leader in China's sporting goods market, the Group has, since its inception, positioned itself as "China's world-class sporting goods brand company." It has adhered to its core strategy of focusing on brand enhancement and product innovation, competing by differentiation, sticking to the essence of sports and using sports to inspire people's desire and ability to achieve breakthroughs. From this perspective, our strategies remain intact.

   - In response to market changes, we conducted a detailed analysis of the trends shaping the needs of consumers and of developments in the industry value chain. While trends for some external factors were in line with the Group's preliminary assessments, the speed at which these trends have developed surpassed the Group's expectations. We actively adjusted the way we implemented our strategies, with an eye firmly fixed on the future. As we continue to make more adjustments and roll out reforms, we will not only stick steadfastly to our strategic positioning as a sports brand, but go the extra mile to improve our brand, products, distribution channels and supply chain to accommodate industry trends.



2. **What were the Group's considerations in terms of the timing of these two above mentioned reform measures?**

**Management:**

- We must stress that the decision to carry out the brand revitalisation exercise and distribution channel reforms represents an active initiative taken by the Group rather than a passive one.

- After years of preparation, 2010 marks the time when it is right for us in terms of capabilities and conditions to implement the revitalisation strategy. At the same time, we see changes in the external environment. We must seize the opportunities afforded by the reform measures. Upgrading among Chinese consumers has become a prominent trend. The tendency in higher-tier markets is for growth to be driven by value rather than volume, which is the case in lower-tier markets. As people's incomes continue to grow, increasing numbers of consumers will be more demanding in terms of brand personalities. The Group decided there was a need to establish a brand with a more distinguished personality early on and to highlight the brand's unique DNA to win the hearts of targeted consumer groups in future competitions.

- After the 2008 Beijing Olympic Games, the market environment started to change. Future growth will be driven mainly by the operating capabilities of retailers, not by opening more stores. The retail model will also change as consumers' needs and cost inflation escalate. Under such circumstances, the Group initiated its channel reforms to strengthen our distribution system and select the distributors and sub-distributors best-placed to cope with the demands of the Group's future development and to enhance our retail efficiency.

- However, steps taken to enhance the brand and reform the distribution channel cannot be completed overnight. We need to maintain consistent communication with consumers and restructure the distribution system for different regions and clients. It will take time to see visible results and there may be two years of temporary pain in front of us, but we believe we are headed in the right direction. The Group will keep periodically reviewing its achievements and consistently improve on execution.

3. **How do these two reform measures relate to one another? Which one is more important?**

**Management:**

- We believe that the brand revitalisation and distribution channel reforms represent two different aspects of China's changing sporting goods market and that their goal is to allow the Group to develop in a sustainable way in the long term. Their contribution to reinforcing the Group's leading position is equally important.

- Brand revitalisation is crucial to the long-term development of the LI-NING brand and constitutes a more in-depth strategic upgrade amid efforts to enhance the brand and achieve differentiation. It is by bringing together the unique essence of the LI-NING brand, personalities of the athletes, the spirit of sports events and consumer preferences that the unique DNA of the LI-NING brand can be established and its core competences enhanced.

- The distribution channel reforms represent more tactical execution. We believe that the store-opening-driven growth model that the industry has been relying so heavily on will no longer be sustainable. The key to developing soundly in the future will lie in enhancing the efficiency of store operations. The Group is addressing this issue well in advance by initiating reforms to our distribution system. In so doing, we are addressing the major challenges facing the retail sector and ultimately making our retail network more efficient, with higher same-store sales growth. Our efforts should help put the entire retail sector on a healthier footing.

4. **What is the correlation between brand revitalisation and pricing strategy?**

   **Management:**
   - The LI-NING brand has progressively raised prices for its products. But the price increases have not merely been about shifting the cost burden onto consumers or about charging more for the sake of it. Much emphasis has been placed on marketing products that offer more value for money. Simply put, brand revitalisation represents our strengthened commitment to sell goods that are worth more for their money.
   - With the competitive landscape looking increasingly complex, brand and product differentiation are key to going above and beyond simple price competition. We see "upgrading" occurring in the sporting goods market as a result of rising incomes and growing sophistication among Chinese consumers. The real competition in the sporting goods market lies in branding and sports. The Group believes that in order to satisfy changing consumer needs, we need to offer a truly unique brand experience and improve product quality and functionality. Over the years, the Group has been committed to investing in our brand and products to strengthen our core competencies in these two areas, hence offering better value for money to our customers.
   - In addition, in light of the current environment, where costs have escalated across the board, the Group believes that brand revitalisation can help to expand the value chain. This can, in turn, alleviate cost pressures facing the industry as a whole.

5. **How has the Group persuaded distributors/sub-distributors to take part in distribution channel reforms and hence ensure the smooth implementation of such measures?**

   **Management:**
   - It is vital to ensure there is common understanding among distributors/sub-distributors and to spell out the benefits of reform to facilitate a number of win-win situations:
     - As for the distributors, the scale of the retail network is vital to boost operational efficiency. In addition, considerations such as business stability are also taken into account, suggesting that consolidation of sub-distributors would be desirable.

  - As for the sub-distributors, support will be given to better performers with higher capabilities, including those linked to regional distribution planning/credit facilities. Inefficient sub-distributors which are not keen on expanding will be consolidated.

  - As for individual distributors and sub-distributors, the Group helped them produce profit estimation models based on their operating conditions. By comparing the overall profit capabilities of the stores before and after consolidation, we can highlight the impact of improved economies of scale and product movement, so as to establish a sound footing for constructive dialogue.

- Furthermore, the Group will offer a wider variety of training possibilities to distributors/sub-distributors, to help improve their retail management and product procurement capabilities.

- Thirdly, in order to encourage distributors/sub-distributors to take part in the reforms, the Group has adjusted its policy on channel support. In addition to offering a more favourable wholesale discount policy, the Group will provide more effective incentives for store renovation/openings as well as for stores that meet their sales performance targets. Lending more support to stores which sell more and are better run can, in turn, improve the overall efficiency of retail operations.

**6. What impact have the adjustments had on the financial performance of the Group? What is the Group's view on this?**

**Management:**

- Firstly, we would like to stress that the financial planning and allocation of financial resources are in line with the Group's overall strategic development objectives. We would like to encourage investors to look beyond the impact of financial resource allocation and not simply at how the adjustments will affect the financial model.

- The Group believes that the sporting goods industry in China is undergoing deep transformation and that the Group is still at the investment stage of nurturing its long-term competitiveness. The Group needs to direct its resources to areas such as branding and product research and development in a reasonable and effective way. This is a must if the Group is to fulfill its strategic goals. We believe that these moves are critical to the Group's long-term, healthy development.

- 2011-2012 financial resources planning:

  - According to current cost planning, the Group's gross profit margin will remain steady at 46-47%.

  - It is important to note that a recent surge in the cost of raw materials such as crude oil and cotton have added uncertainties to cost management. If the trend continues, the Group's gross profit margin may face downwards pressure.

  - Advertising and promotion expenses as a percentage of revenue will reach 16-17%.

  - Human resources expenses as a percentage of revenue will stand at 7.5-8%.

- Lower operating profit margin and margin of profit attributable to equity holders in the short term.

- The Group will focus more on enhancing retail efficiency. It will use same-store sales growth, retail inventory, the retail discount rate, order execution rates, overall retail growth rates and distributor management capabilities, etc. as key indicators to assess the business.

- The reform process will take time and challenges will inevitably arise. Nevertheless, the Group's professional management team, strong brand assets, sound strategic analytical judgment and solid execution capability will ultimately allow the Group to meet its objectives. We believe that the reforms will help put the Group on a healthier path to development.

**7. How will the two reform measures affect the Group's international expansion strategy?**

**Management:**

- There will be no major change to our international business expansion plan as a result of the two reform measures.

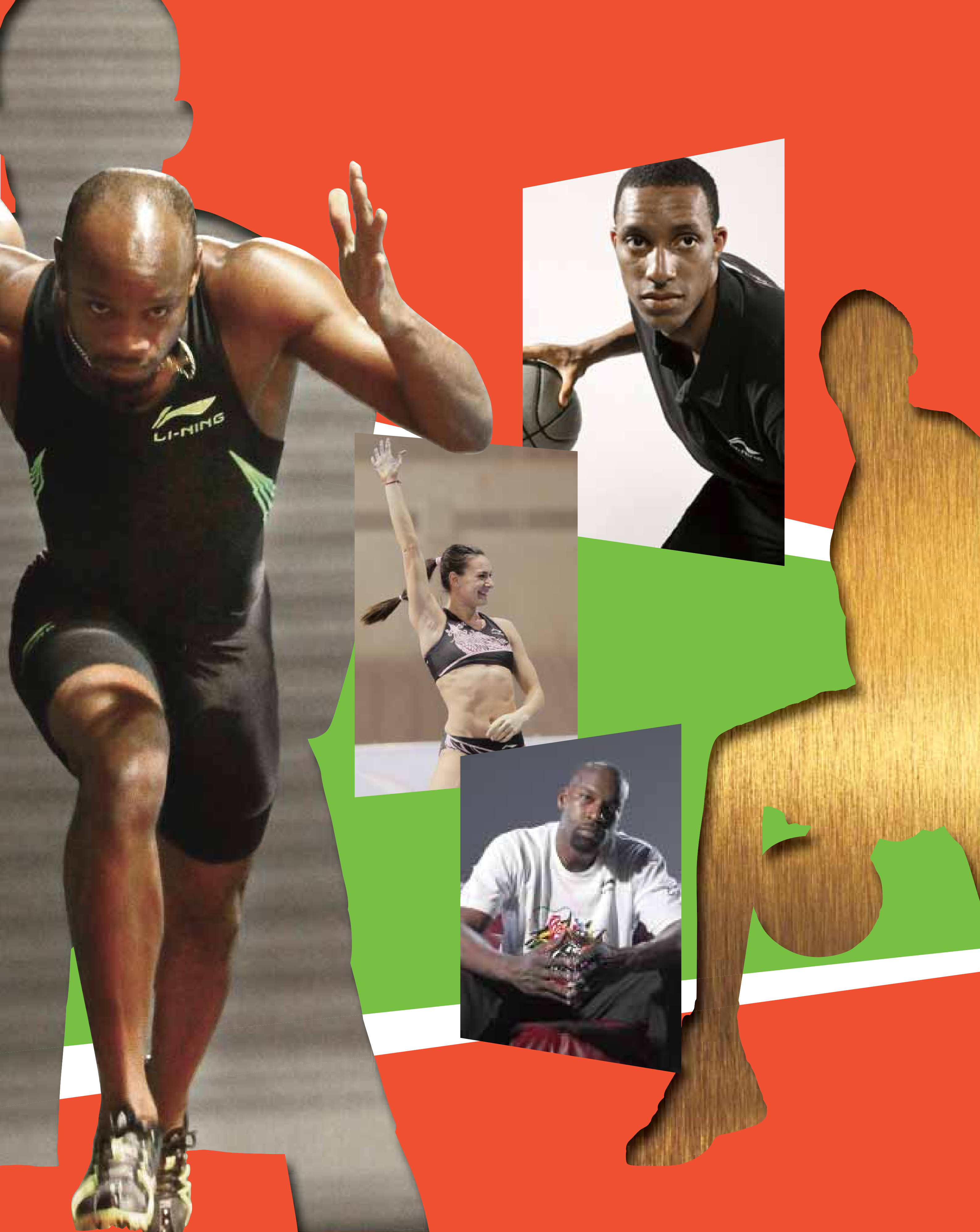
- International expansion is one of the Group's long-term strategic goals. Nevertheless, we will adopt a gradual approach and plan meticulously to ensure that we manage any risks. At present, the Group remains largely focused on the domestic market. We believe that the gradual expansion of overseas business will help us enhance our brand image and facilitate domestic business.

- Going forward, the Group will gradually test the waters and gain experience and expertise in a number of areas including human resources, distribution channel and supply chain management, product design and market intelligence, in order to lay solid foundations for the Group's international expansion. The Group will only pursue such a strategy on condition that it manages all associated risks.

**Mr. CHONG Yik Kay**

*Chief Financial Officer*


EVERY 'BODY'
can become a legend


LI-NING

## MACRO ECONOMY AND INDUSTRY REVIEW

China's macroeconomic environment remained broadly positive in 2010, but uncertainties remained. There was the unexpected outbreak of the Euro debt crisis on the international front and, despite the fact that exports had returned to positive growth, investment remained the key driver for economic growth and the transformation of China's economy is not yet complete. Domestic consumption, although exhibiting signs of recovery, was concentrated in industries and sectors which benefitted from governmental policies. Inflation continued to rise. Manufacturing costs surged due to rising labour and raw material overheads, while production capacities were also tight in supply.

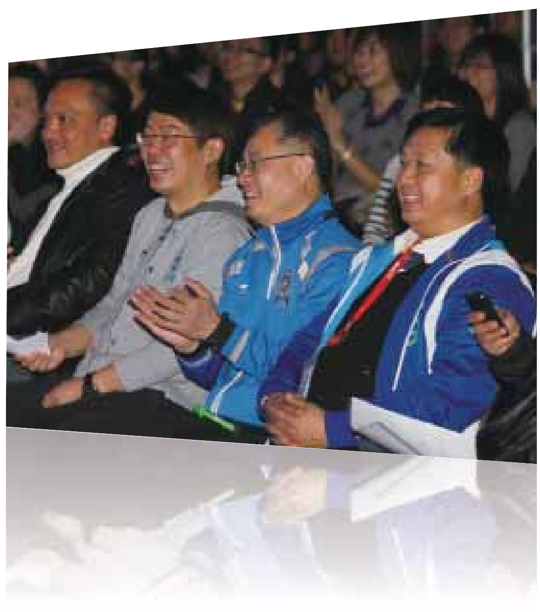
**Mr. ZHANG Zhi Yong**
*Chief Executive Officer*

According to the Group's analysis, the sporting goods industry in China maintained a double-digit growth in 2010, which is a result of the "trading up" trend amongst consumers. This trend is attributable to China's urbanisation process which has fueled an evolving demand for basic products, as well as an increasing demand for sophisticated brands and products from urban dwellers. As China's sporting goods market continues to mature, it also faces more detailed segmentation. Higher-end markets are driven by the value of sporting goods, while lower-end markets rely more on volume for continued growth. Different market segments have discreetly different requirements for branding, products, pricing and distribution channels. Consumers in higher-end markets demand more from product and brand innovation, while those in lower-end markets focus more on pricing and distribution efficiency.

The market trend in the last few years shows that the lower-end, price-driven market segments grew much faster than the higher-end, value-driven markets. At the same time, sporting goods in China are increasingly being substituted by leisure products. The core competence of sports brands – functional products – enjoys only limited growth. Nonetheless, we believe this situation is temporary. As the urban environment in China continues to improve, combined with the continued increase in the number of sports venues and the development of community– and/or youth-based sports events, the sporting population is expected to increase, leading to much better prospects for the sporting goods industry. On the contrary, escalating costs for labour and rentals will inflict substantial pressure on business models that compete primarily on pricing.

As one of the leading players in China's sporting goods industry, the Group has adhered strictly to its core strategy and mission: focusing on branding and product innovation and competing on the basis of brand and product differentiation. Through our focus on the essence of sports, we inspire people's desire and power to make breakthroughs. This positioning has underpinned the sustained growth of the LI-NING brand in the past decade and we will continue on this path.

In response to changes in the market, we have conducted a detailed analysis of the trends which have led to shifts in consumers' needs as well as developments in the industry value chain. While changes in some external factors were in line with the Group's preliminary assessments, the speed of these developments was beyond the Group's expectation. In response, we proactively initiated adjustments of a forward-looking nature in the implementation of our business strategies. During this process of adjustment, we remain committed to our strategic positioning as a sports brand and going the extra mile to improve our brand, products, distribution channels and supply chain to accommodate the changing business environment for the sporting goods industry in China.



## FINANCIAL REVIEW

Through continued implementation of sound and effective management measures in 2010, the Group maintained satisfactory performance in its various key financial indicators. Results of the key operating and financial indicators of the Group for the year ended 31 December 2010 are set out below:

| | Year ended 31 December | | Change |
|---|---|---|---|
| | **2010** | 2009 | **(%)** |
| **Income statement items** | | | |
| (All amounts in RMB thousands unless otherwise stated) | | | |
| Revenue | **9,478,527** | 8,386,910 | **13.0** |
| Gross profit | **4,481,599** | 3,969,864 | **12.9** |
| Operating profit | **1,546,775** | 1,341,896 | **15.3** |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 1)* | **1,759,192** | 1,524,911 | **15.4** |
| Profit attributable to equity holders | **1,108,487** | 944,524 | **17.4** |
| Basic earnings per share (RMB cents) *(Note 2)* | **105.84** | 90.75 | **16.6** |
| **Key financial ratios** | | | |
| ***Profitability ratio*** | | | |
| Gross profit margin (%) | **47.3** | 47.3 | |
| Operating profit margin (%) | **16.3** | 16.0 | |
| Effective tax rate (%) | **25.0** | 24.5 | |
| Margin of profit attributable to equity holders (%) | **11.7** | 11.3 | |
| Return on equity holders' equity (%) | **36.7** | 41.3 | |
| ***Expense as a % of revenue*** | | | |
| Director and employee benefit expenses (%) | **7.5** | 7.5 | |
| Advertising and marketing expenses (%) | **15.1** | 15.4 | |
| Research and product development expenses (%) | **2.6** | 2.7 | |
| ***Asset efficiency ratios*** | | | |
| Average inventory turnover (days) *(Note 3)* | **52** | 53 | |
| Average trade receivables turnover (days) *(Note 4)* | **52** | 47 | |
| Average trade payables turnover (days) *(Note 5)* | **71** | 70 | |

| | As at 31 December | |
|---|---|---|
| | **2010** | 2009 |
| ***Asset ratio*** | | |
| Debt-to-equity ratio (%) *(Note 6)* | **89.1** | 94.1 |
| Interest-bearing debt-to-equity ratio (%) *(Note 7)* | **9.3** | 9.7 |
| Net asset value per share (RMB cents) | **339.04** | 273.92 |

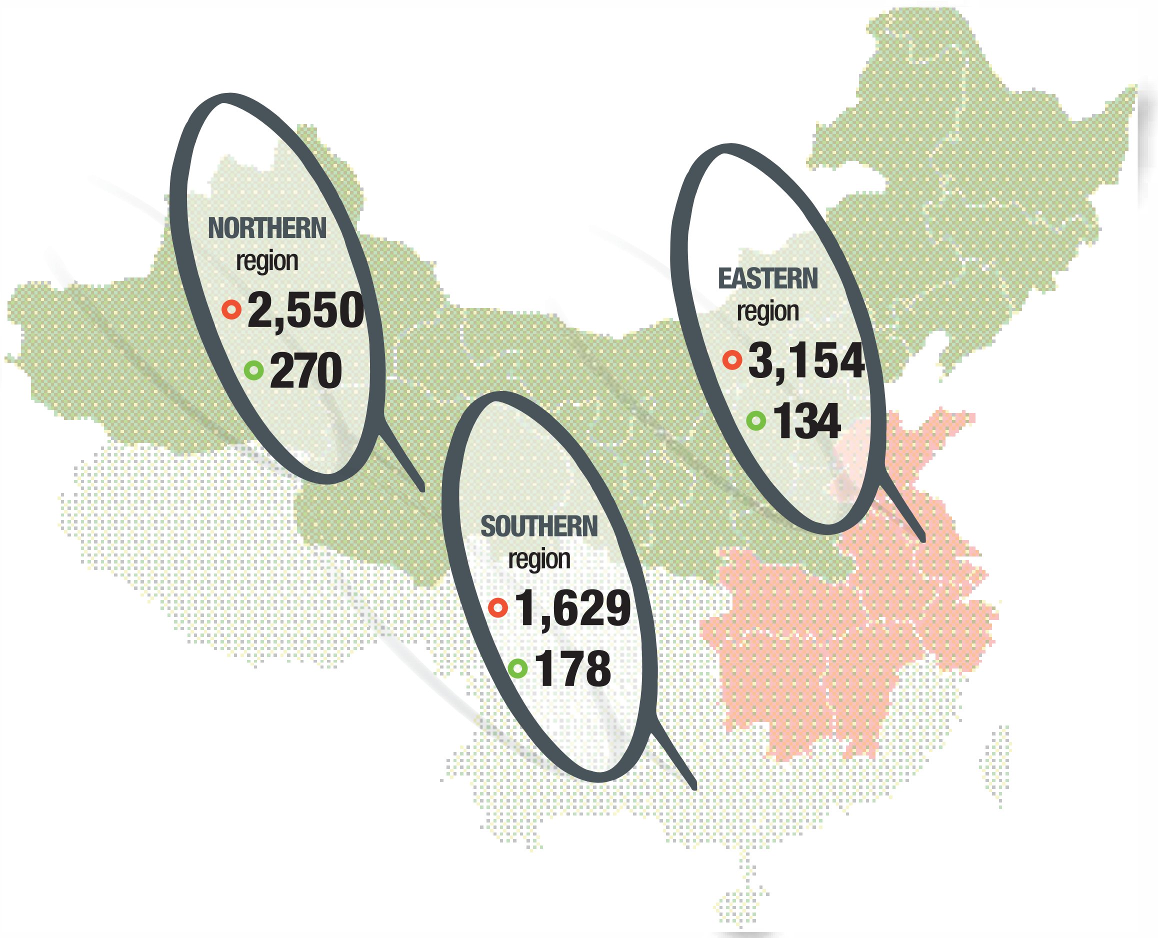
*Notes:*

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

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

## NATIONWIDE DISTRIBUTION AND RETAIL NETWORK

(As at 31 December 2010)




| LI-NING brand stores | Frachised retail stores | Directly operated retail stores | Total number of stores |
|---|---|---|---|
| Eastern region *(Note 1)* | 3,154 | 134 | 3,288 |
| Northern region *(Note 2)* | 2,550 | 270 | 2,820 |
| Southern region *(Note 3)* | 1,629 | 178 | 1,807 |
| **Total** | **7,333** | **582** | **7,915** |

*Notes:*

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi and Shandong.

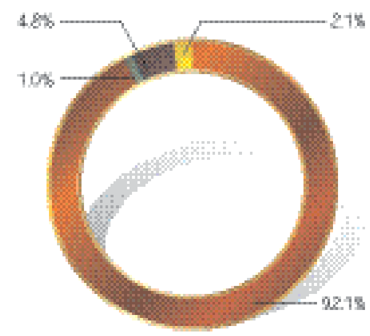
2. Northern region includes Beijing, Shaanxi, Xinjiang, Gansu, Qinghai, Ningxia, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.

3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

## Revenue

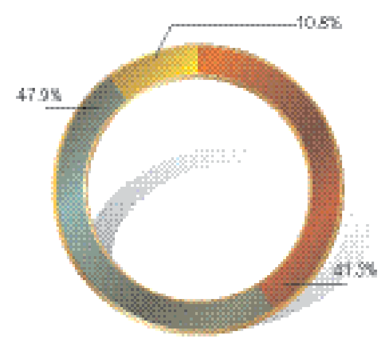
The Group's revenue for the year 2010 amounted to RMB9,478,527,000, representing a growth of 13.0% as compared to 2009.

**PERCENTAGE OF REVENUE BY BRAND**




- LI-NING brand
- Double Happiness brand
- Lotto brand
- Other brands

**PERCENTAGE OF REVENUE BY PRODUCT CATEGORY**




- Footwear
- Apparel
- Equipment/accessories

### Revenue breakdown by brand and product category

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2010** | | 2009 | | **Revenue growth (%)** |
| | **RMB'000** | **% of total revenue** | RMB'000 | % of total revenue | |
| **LI-NING brand** | | | | | |
| Footwear | **3,829,982** | **40.4** | 3,473,889 | 41.4 | **10.3** |
| Apparel | **4,383,625** | **46.2** | 3,787,648 | 45.2 | **15.7** |
| Equipment/accessories | **520,687** | **5.5** | 431,726 | 5.1 | **20.6** |
| Total | **8,734,294** | **92.1** | 7,693,263 | 91.7 | **13.5** |
| **Double Happiness brand** | | | | | |
| Equipment/accessories | **458,291** | **4.8** | 427,088 | 5.1 | **7.3** |
| Total | **458,291** | **4.8** | 427,088 | 5.1 | **7.3** |
| **Lotto brand** | | | | | |
| Footwear | **23,578** | **0.3** | 25,642 | 0.3 | **(8.0)** |
| Apparel | **63,132** | **0.7** | 47,335 | 0.6 | **33.4** |
| Equipment/accessories | **3,718** | **0.0** | 3,178 | 0.0 | **17.0** |
| Total | **90,428** | **1.0** | 76,155 | 0.9 | **18.7** |
| **Other brands*** | | | | | |
| Footwear | **59,079** | **0.6** | 56,813 | 0.7 | **4.0** |
| Apparel | **95,628** | **1.0** | 95,079 | 1.1 | **0.6** |
| Equipment/accessories | **40,807** | **0.5** | 38,512 | 0.5 | **6.0** |
| Total | **195,514** | **2.1** | 190,404 | 2.3 | **2.7** |
| **Total** | | | | | |
| Footwear | **3,912,639** | **41.3** | 3,556,344 | 42.4 | **10.0** |
| Apparel | **4,542,385** | **47.9** | 3,930,062 | 46.9 | **15.6** |
| Equipment/accessories | **1,023,503** | **10.8** | 900,504 | 10.7 | **13.7** |
| **Total** | **9,478,527** | **100.0** | 8,386,910 | 100.0 | **13.0** |

* Including AIGLE, Z-DO and Kason.

In 2010, the Group's core brand, the LI-NING brand achieved revenue of RMB8,734,294,000, accounting for 92.1% of the Group's total revenue and representing an increase of 13.5% as compared to 2009, which was broadly in line with the overall industry growth pace for the year. Among the different product categories, equipment products recorded a faster growth rate, which was attributable to the higher than average sales growth achieved by badminton products.

Double Happiness brand achieved a growth rate of 7.3% in its revenue in 2010 due to the market nature of table-tennis equipment business. Being a new brand which joined the Group only two years ago, the brand recognition of Lotto brand has been enhanced as a result of the Group's promotional efforts. Lotto brand's revenue grew by 18.7% as compared to 2009, although this was still below the Group's expectation. AIGLE brand products have gradually exemplified their value advantage, contributing substantially higher revenue than in 2009. Due to changes in the market environment, Z-DO brand and Kason brand registered a slower pace of growth in revenue.

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

| | Year ended 31 December | | |
|---|---|---|---|
| | **2010 % of revenue of LI-NING brand** | 2009 % of revenue of LI-NING brand | **Change** |
| **LI-NING brand** | | | |
| PRC market | | | |
| Sales to franchised distributors | **83.8** | 86.6 | **(2.8)** |
| Sales by directly-operated retail stores | **14.8** | 12.4 | **2.4** |
| International markets | **1.4** | 1.0 | **0.4** |
| Total | **100.0** | 100.0 | |

Revenue generated from sales to franchised distributors as a percentage to total revenue of LI-NING brand dropped in 2010 as compared to 2009. This was mainly due to the increasingly competitive environment of the sporting goods industry, under which discrepancy between wholesale and actual retail sales remained, prompting aggressive discounting at the retail level. This, combined with the increasing costs for labour and rentals, meant that some sub-distributors were unable to increase store efficiency to meet future needs due to a lack of economy of scale. As a result, the Group accelerated the reform of its distribution channel, including the integration of sub-distributors with low efficiency, taking up some stores of distributors, optimising store structure, enhancing product life cycle management and offering more discounts to distributors. Despite the short-term impact of these measures on the revenue growth generated from sales to franchised distributors, the Group considers it beneficial in enhancing store efficiency and market share of LI-NING brand in the long run.

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

| | | Year ended 31 December | | | | |
|---|---|---|---|---|---|---|
| | | **2010** | | 2009 | | |
| | *Note* | **RMB'000** | **% of revenue of LI-NING Brand** | RMB'000 | % of revenue of LI-NING Brand | **Revenue growth (%)** |
| **LI-NING brand** | | | | | | |
| PRC market | | | | | | |
| Eastern region | *1* | **3,315,843** | **38.0** | 3,016,914 | 39.2 | **9.9** |
| Northern region | *2* | **3,691,274** | **42.2** | 3,168,568 | 41.2 | **16.5** |
| Southern region | *3* | **1,608,181** | **18.4** | 1,427,876 | 18.6 | **12.6** |
| International markets | | **118,996** | **1.4** | 79,905 | 1.0 | **48.9** |
| Total | | **8,734,294** | **100.0** | 7,693,263 | 100.0 | **13.5** |

*Notes:*

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Anhui, Hubei, Hunan, Jiangxi and Shandong.

2. Northern region includes Beijing, Shaanxi, Xinjiang, Gansu, Qinghai, Ningxia, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Jilin and Heilongjiang.

3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.


Sales growth in the eastern region was slower than the other regions, mainly due to the realignment of its distribution channel after years of rapid growth and the Group's reform initiatives towards the distributors and sub-distributors was still at the initial stage. This was further intensified by the increasing competition in the region. Moving forward, the Group will further implement the structural reform of the sales regions and enhance the regional product life cycle management in order to boost sales growth in different regions.

During the year, the Group continued to explore the international markets, including Southeast Asia, resulting in a significant year-on-year increase in LI-NING brand's revenue from international markets.

## Cost of Sales and Gross Profit

In 2010, overall cost of sales for the Group amounted to RMB4,996,928,000 (2009: RMB4,417,046,000), and overall gross profit margin was 47.3% (2009: 47.3%). Overall gross profit margin remained stable at the same level as in 2009.

Cost of sales of LI-NING brand amounted to RMB4,539,574,000 (2009: RMB3,960,625,000), and gross profit margin was 48.0% (2009: 48.5%). The decrease in gross profit margin of LI-NING brand was attributable to the continued rising costs for raw materials and labour charged by industry upstream suppliers as well as the discount clearance conducted on some products bearing the classic logo of LI-NING brand during the year.

Cost of sales of Double Happiness brand amounted to RMB275,391,000 (2009: RMB263,985,000), and gross profit margin was 39.9% (2009: 38.2%). The increase in gross profit margin of the Double Happiness brand as compared to 2009 was mainly attributable to certain realignment of product structure which resulted in a more favourable product/revenue mix. The effective control of rising cost of sales was also achieved through reduction of labour costs by increased outsourcing and keeping raw material costs stable by stocking up inventory when prices were relatively low.

Cost of sales of Lotto brand amounted to RMB58,234,000 (2009: RMB55,526,000), and the gross profit margin was 35.6% (2009: 27.1%). During the year, the Group's continued investment in the development of sales channels of the Lotto brand resulted in a stable growth of sales revenue of the brand. Benefitting from economies of scale, research and development expenses as a share of the total costs decreased, resulting in an increase in gross profit margin in 2010.

## Distribution Costs

In 2010, the Group's overall distribution costs amounted to RMB2,511,175,000 (2009: RMB2,152,150,000), accounting for 26.5% of the Group's total revenue (2009: 25.7%).

Distribution costs of LI-NING brand amounted to RMB2,244,156,000 (2009: RMB1,973,612,000), which accounted for 25.7% of the LI-NING brand's revenue, the same as in 2009. Advertising and marketing expenses of LI-NING brand for the year amounted to RMB1,292,024,000 (2009: RMB1,191,152,000), representing a year-on-year increase of 8.5%. During the year, the Group launched the marketing campaign for the LI-NING brand revitalisation and marketing activities for events such as the Guangzhou Asian Games, resulting in a higher amount of advertising and sponsorship expenses as compared to 2009. However, as the new store openings fell short of the target set at the beginning of 2010, and there was also a delay in the original store opening plan for the sixth-generation stores during the year as the Group wanted to ensure the stores are properly tested and fine tuned before broader roll out, the Group spent less than what was originally budgeted on support to stores, resulting in a drop in the percentage of advertising and marketing expenses to revenue of LI-NING brand. The increase in the number of directly-operated stores and the rise in rental expenses contributed to a higher percentage of rental expenses of stores to revenue of LI-NING brand than in 2009. On the other hand, the percentage of salaries and benefits of sales staff, depreciation expenses, sundry expenses etc. to revenue of LI-NING brand remained stable. As a result of all these factors, the overall percentage of distribution costs of LI-NING brand to revenue of LI-NING brand remained at the same level as in 2009.

Distribution costs of Double Happiness brand amounted to RMB58,153,000 (2009: RMB36,009,000), which accounted for 12.7% of Double Happiness brand's revenue and was 4.3 percentage points above the 8.4% recorded in 2009. The distribution costs of Double Happiness brand mainly comprised advertising expenses, sponsorship fees and other marketing expenses, as well as salaries and benefits for sales staff. Due to the increased sponsorship of major events during the year, distribution costs as a percentage of revenue of Double Happiness brand increased as compared to 2009.

Distribution costs of Lotto brand amounted to RMB139,312,000 (2009: RMB91,973,000), which included the amortisation fee of license rights of RMB19,690,000 (2009: RMB19,690,000) for the year in relation to the 20-year license relating to Lotto trademarks (the "Lotto License").

According to International Accounting Standards, the Lotto License carries a present value of RMB393,798,000 which was recognised as "Intangible assets – license rights" and amortised in each relevant period using straight-line method starting from 2009 and included in the distribution costs. In addition, the amortisable finance cost amounted to RMB555,102,000 was recognised and amortised in each relevant period using the effective interest rate method starting from 2009 and included in the finance costs. During the year, the amortisation of license fees amounted to RMB19,690,000 and the amortisation of finance cost was RMB32,392,000. The combined effect of these two costs was a reduction of RMB52,082,000 on profit before tax for 2010.

In addition, being the focus for the Group's new business development, Lotto brand is still in the early stages of brand development and therefore requires greater investment in marketing and promotion. During the year, the Group continued to invest extensively in channel expansion and brand promotion for Lotto brand. The level of marketing expenses for advertising, special promotions in shopping centres and channel establishment remained relatively high during the year.

## Administrative Expenses

In 2010, the Group's overall administrative expenses amounted to RMB618,280,000 (2009: RMB602,929,000), which accounted for 6.5% of the Group's total revenue (2009: 7.2%). The reasonable and effective cost-control measures adopted by the Group during the year resulted in a decrease in administrative expenses as a percentage of revenue for the respective brands under the Group.

Administrative expenses of LI-NING brand amounted to RMB540,209,000 (2009: RMB522,566,000), accounting for 6.2% (2009: 6.8%) of LI-NING brand's revenue. Such expenses mainly comprised directors' and staff costs, management consulting expenses, office rental, depreciation and amortisation charges and other sundry expenses. Through the Group's effective management of its consulting expenses, consulting costs were reduced and the efficiency of consulting enhanced. Together with the reduction in amortisation of staff share option expenses, administrative expenses as a percentage of revenue of LI-NING brand decreased as a result.


Administrative expenses of Double Happiness brand amounted to RMB55,265,000 (2009: RMB56,703,000), which accounted for 12.1% (2009: 13.3%) of Double Happiness brand's revenue. Such expenses mainly comprised staff costs, depreciation and amortisation charges and other sundry expenses. Sundry expenses, including travelling expenses and business-related expenses, decreased while the increase in the percentage of labour costs was also slightly lower than the percentage of revenue growth.

Administrative expenses of Lotto brand amounted to RMB4,824,000 (2009: RMB5,569,000), which accounted for 5.3% (2009: 7.3%) of Lotto brand's revenue. Such expenses mainly comprised staff costs, basic research and development costs, depreciation and amortisation charges and other sundry expenses. During the year, sundry expenses and staff costs remained relatively stable. The basic research and development costs were relatively higher in 2009, as the products were still at the basic research and development stage. All these factors resulted in the overall decrease in administrative expenses of Lotto brand in 2010.

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

In 2010, the Group's EBITDA amounted to RMB1,759,192,000 (2009: RMB1,524,911,000), representing an increase of 15.4% as compared to 2009.

EBITDA of LI-NING brand amounted to RMB1,767,187,000 (2009: RMB1,502,344,000), representing an increase of 17.6% as compared to 2009. This was mainly attributable to the growth of revenue, stable gross profit margin and reasonable control of expenses.

EBITDA of Double Happiness brand amounted to RMB92,098,000 (2009: RMB89,792,000), representing an increase of 2.6% as compared to 2009. Such growth rate is slower than the revenue growth rate of 7.3% due to the higher ratio of distribution costs recorded for the year.

Lotto brand was at its preliminary stage of development and promotion, which involved relatively higher product research and development expenses and brand promotion expenses. EBITDA of Lotto brand during the year amounted to a loss of RMB91,749,000 (2009: loss of RMB56,935,000).

## Finance Costs

In 2010, the Group's net finance costs amounted to RMB37,261,000 (2009: RMB58,766,000), representing 0.4% of the Group's total revenue (2009: 0.7%), amongst which the interest expense charged in the year for the discounted license fee payable for the Lotto License was RMB32,392,000 (2009: RMB30,414,000) using the effective interest rate method in accordance with International Accounting Standards.

## Income Tax Expenses

In 2010, income tax expenses of the Group amounted to RMB377,378,000 (2009: RMB313,799,000) and the effective tax rate was 25.0% (2009: 24.5%).

## Consolidated Profitability

In 2010, the Group's profit attributable to equity holders amounted to RMB1,108,487,000 (2009: RMB944,524,000), representing an increase of 17.4% as compared to 2009. The margin of profit attributable to equity holders for the year was 11.7% (2009: 11.3%), representing an increase of 0.4 percentage points as compared to 2009.

During the year, the Group's return on equity was 36.7% (2009: 41.3%). The decrease in return on equity was due to the slower pace of growth of profit attributable to equity holders than the average equity growth for the same period. Nevertheless, driven by the management's goal to maximise shareholders' value, the Group continued to achieve a relatively higher return on equity among its industry peers through professional management and reasonable control of operating expenses.

## Provision for Inventories

The Group's policy in respect of provision for inventories for 2010 was the same as that in 2009. Inventories are stated at the lower of cost and net realisable value. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers that the aforesaid policy ensures sufficient provision for inventories.

As at 31 December 2010, accumulated provision for inventories was RMB115,082,000 (31 December 2009: RMB72,526,000), which includes the special provision for inventories in respect of products bearing the classic logo of the LI-NING brand in the wholesale segment during the year. In line with its brand revitalisation, the Group formulated corresponding treatment for the inventories bearing the LI-NING brand classic logo to ensure that such inventories were handled in an orderly manner. Taking into account the stock clearance discounts offered in the wholesale segment, the Group made a reasonable special provision for the inventories bearing the classic logo in the wholesale segment in accordance with its prudent accounting principles.

## Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for 2010 was the same as that in 2009.

As at 31 December 2010, the accumulated provision for doubtful debts was RMB1,382,000 (31 December 2009: RMB1,184,000).

## Liquidity and Financial Resources

The Group's net cash inflow from operating activities for 2010 amounted to RMB990,895,000 (2009: RMB1,306,668,000). As at 31 December 2010, cash and cash equivalents (including cash at banks and in hand, and fixed deposits held at banks with original maturity of no more than three months) amounted to RMB1,470,435,000, representing a net increase of RMB206,092,000 as compared with the position as at 31 December 2009. The increase was brought about by the following items:

| Items | Year ended 31 December 2010 RMB'000 |
|---|---|
| Net cash inflow generated from operating activities | 990,895 |
| Net capital expenditure | (268,675) |
| Payment for acquisition of interests in subsidiaries and other companies | (63,203) |
| Dividends paid to equity holders of the Company | (465,463) |
| Dividends paid to non-controlling interests of a subsidiary | (31,568) |
| Net proceeds from bank borrowings | 55,238 |
| Other net cash outflow | (11,132) |
| Net increase in cash and cash equivalents | 206,092 |

Since the cash turnover rate of distributors decreased as affected by the retail market, the Group strengthened its support for distributors, which led to the increase in accounts receivable turnover days and the overall cash turnover days, and the decrease in net cash inflow generated from operating activities for 2010.

The Group has sufficient standby bank credit facilities to cope with the funding needs arising from daily operations and future developments. As at 31 December 2010, the Group's available banking facilities amounted to RMB1,469,750,000, amongst which the outstanding bank borrowings amounted to RMB312,248,000. The outstanding bank borrowings to equity holders' equity ratio (i.e. the gearing ratio) was 9.3% (31 December 2009: 9.7%).

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

## Foreign Exchange Risk

The operation of the Group is mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group has also established subsidiaries in Singapore and the United States for expansion of its international business and Singapore Dollars and United States Dollars are used as their respective functional currencies. As the Group continues to develop its international business, transactions settled in foreign currencies will increase gradually. A small portion of the Group's cash and bank deposits are denominated in Hong Kong Dollars, United States Dollars, Euros and Singapore Dollars. The Company also pays dividends in Hong Kong Dollars. In addition, the Group pays certain 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 exposure to risks arising from fluctuations in exchange rates during the year. Any significant exchange rate fluctuations of foreign currencies against Renminbi may have a financial impact on the Group.

## Pledge of Assets

As at 31 December 2010, buildings with net book value of RMB24,239,000 (31 December 2009: RMB29,799,000) and land use rights with net book value of RMB15,442,000 (31 December 2009: RMB39,324,000) of the Group were pledged to secure certain bank borrowings by Group companies.

## Contingent Liabilities

As at 31 December 2010, the Group had no significant contingent liabilities.

# BUSINESS REVIEW

2010 was a challenging year for both the macroeconomic environment and the sporting goods industry. It was also a year when the Group initiated strategic reforms. While driving growth in the short term, the Group put more emphasis on its long-term development as it adjusted the implementation of its strategies as a result of its continued reviews of the external business environment and its own development strategies. During the year, the Group initiated a brand revitalisation exercise and maintained its insistence on product and branding innovations, while implementing distribution channel reforms and strengthening supply chain management to establish a firm footing in support of its long-term sustainable development.

## LI-NING BRAND

### Brand Revitalisation

Brand building is the focus of the Group's business and reflects the Group's core competence. After several years of preparation beginning in 2007, the Group kicked off the brand revitalisation campaign for the LI-NING brand in July 2010 to mark the brand's 20th anniversary.

After two decades of rapid development, the LI-NING brand is well aware of the evolution of the sporting culture and the overall industry advancement of the sporting goods sector in China. Taking reference from in-depth research of the maturity cycle of the market, industry development analysis, competitive landscape analysis and positioning and understanding of consumption trends, the Group sought to reconfigure the LI-NING brand's DNA to clearly define its brand positioning and target consumer groups. This helped to create a new personality and attitude for the LI-NING brand to interpret the brand essence that best encapsulates "inspiring sportsmanship", with a view to further strengthening brand loyalty.

The brand revitalisation strategy has integrated communications, product and retail experience to convey the brand's DNA to consumers in a continuous and consistent manner, and hence bring consumers an authentic, meaningful, refreshing and innovative experience:

- Unveiled a new logo and a new slogan to express the brand's new proposition and positioning. The new logo of the LI-NING brand gives a new interpretation of the iconic attributes of the original logo in a modern design language. Not only does the new logo convey the rich visual heritage of the classic "LN" symbol, it also subtly outlines the "Li Ning Cross" gymnastic posture created by Mr. Li Ning. The new logo effectively conveys the brand's sports values using the resemblance of its shape to the Chinese character "人" meaning people, encouraging everyone to express themselves and achieve self-actualisation through sports. The new slogan "Make the change" transforms the evolution from "dare to think" to "dare to do", encouraging people to embrace change and achieve breakthroughs;

- The brand revitalisation campaign goes beyond visual upgrades. The Group also carried out a number of organisational revitalisation initiatives, including systemic upgrading of its sporting goods categorisation, division of business regions, product research and development and design. As part of the brand revitalisation process, the LI-NING brand also unveiled new product collections that carry rich new features: the "Athletic Pro" collection of top-notch sports gear for professional athletes, the multi-function "Urban Sports" collection for light urban sports, the all-orange "Brand Heritage" collection that reflects the brand equity, and the "Crossover" collection that collaborates local and foreign design talents. In addition, more innovation was introduced at the retail level to offer consumers an authentic and meaningful brand retail experience.

The brand revitalisation exercise is a strategic move which is critical to the long-term development of the LI-NING brand and is not to be completed in a short period of time. Its significance is that the long-term position of any brand has to be kept consistent in order to give consumers a clear positioning and impression. We believe this is the best timing and initiative in light of the consumer upgrading nowadays. As we can see from the brand review as of the end of 2010, consumers' recognition of the new logo and new slogan, which is one of the milestones of the brand revitalisation exercise for the six month period, has been achieved with the brand preference index remaining at the top of the industry. Looking ahead, through effective integration of branding, product and retail, the Group will fully implement the brand revitalisation strategy among its target consumer groups and will step up its efforts in building the unique positioning and character of the LI-NING brand as well as enhancing the brand's core competencies.

## Brand Marketing and Promotion

In July 2010, the LI-NING brand was ranked 19th among brands of all industries in China and was the highest ranked Chinese sports brand in the "Forbes 2010 Most Valuable China Brands", up four places from the last rankings in 2007, and the second fastest in terms of the growth of brand value of all the brands on the list. The list's adjudication panel considered that the gap between the LI-NING brand and international brands has narrowed significantly as a result of the brand's strategy in benchmark sports, its ongoing efforts in creating differentiation, its establishment of overseas research and development centres and its in-depth involvement in major events such as 2008 Beijing Olympics. The position that the LI-NING brand earned on Forbes' list is a testament to the Group's ongoing efforts in brand building. It also encourages us to work even harder towards our goal of becoming an international brand.

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

## Newly signed international sports sponsorship resources

The signing of the following sponsorship resources during the year were important measures of the Group to strategically secure top-notch international sports resources on the basis of its brand position and to enhance the brand image on the international front:

- In March 2010, the Group announced the sponsorship for the top Norwegian javelin thrower, Andreas Thorkildsen, also known as the "Prince of Javelin". The Group will provide high quality professional gear to Thorkildsen, who is the first javelin thrower in history to have been crowned champion in all three major international tournaments, including the European Athletics Championships, the World Athletics Championships and the Olympics. In October 2010, the Group sealed a sponsorship deal with Jamaican sprinter, Asafa Powell. Powell has been included more times than any other athlete in the history of 100-metre sprint on the International Association of Athletics Federation's TOP LIST. Together with Russian female pole vault athlete, Elena Isinbayeva, the spectacular performances by these three world-class, heavyweight track and field athletes, and their incessant pursuit of excellence, perfectly epitomise LI-NING's brand essence – "inspiring sportsmanship".

- In August 2010, the Group announced the sponsorship of NBA rookie, Evan Turner. Joining four other NBA stars, Baron Davis, Shaquille O'Neal, Jose Calderon and Hasheem Thabeet, his participation further boosts the Group's line-up of basketball sports sponsorship resources. In addition, the Group-sponsored Spanish Basketball Team and Argentina Basketball Team continued to deliver remarkable performances.

- In November 2010, another leading and promising tennis player, Croatian Marin Cilic, became the newest member of the LI-NING tennis stars line-up. Cilic made it to the semi-finals in the 2010 Australian Open, enabling him to join the world's top 10 for the first time. Meanwhile, Ivan Ljubicic, another tennis player sponsored by the Group, won his first championship for the singles at the ATP1000 during the year.

- In February 2010, the Group signed up Espanyol, a leading football team in Spain La Primera as the first ever European football team sponsored by the Group. The Group further signed up Malaga, another leading football team in Spain La Primera, during the year.

- In August 2010, the Group signed up one of the world's leading diving teams, the USA National Diving Team.

## Integrated Marketing Campaign for the Asian Games

Participating in and promoting the development of the sporting goods industry in China reflects the essence of the LI-NING brand and its positioning. During the 2010 Guangzhou Asian Games, the spectacular performances of the Group's sponsored athletes and the Group's uniquely-integrated marketing strategy portrayed a perfect interpretation of LI-NING brand's "sportsmanship" spirit while conveying the new LI-NING brand's positioning of "real sports for real sports lovers". Both inside and outside the stadium, the LI-NING brand achieved "Make the change" and won a key battle after the launch of the brand revitalisation, and deepened the reach and spread of the new brand image.

The Group's long-sponsored Chinese National Teams in badminton, table tennis, diving, gymnastics and shooting achieved glorious victories, winning a total of 60 gold medals at the 2010 Guangzhou Asian Games, which accounted for over one-third of the total gold medals won by the Chinese delegation at the Games.

In addition to supporting professional competitions, the LI-NING brand is also actively involved in broadening the appeal of sports through advocating the brand's sports spirit and the joy of sports. Sports stars from the Group's five sponsored Chinese National Teams were actively involved in engaging the public and encouraging people to participate and enjoy sports as well as to embrace change and achieve breakthroughs.

In parallel with the Asian Games, the LI-NING brand also ran themed advertisements "Fully geared for the Games" (全型備戰) and "Unpredictable outcome is fun" (結局難料才有趣) along with interesting online interactive activities. The Group also seized this opportunity to promote "Urban Sports", the product line that caters more specifically for the practical needs of the Chinese market. The LI-NING brand achieved remarkable results for its Asian Games integrated marketing campaign, both in terms of sales performance and brand image building.

## Badminton

During the year, the Group conducted a series of activities that integrated marketing, product and retail experiences for its badminton products. The activities emphasised the strengthening of the consumer experience with the brand and the product, and enhanced consumers' recognition of the LI-NING brand badminton products, the association of the LI-NING brand with badminton as well as the recognition and preference level among professional badminton enthusiasts, resulting in an increase in market share.

During the year, the Group sponsored the "BWF Super Series – 2010 LI-NING China Masters" and "BWF Super Series – LI-NING China Open 2010", raising the profile of the LI-NING brand in professional badminton while further promoting the development of the badminton tournament culture.

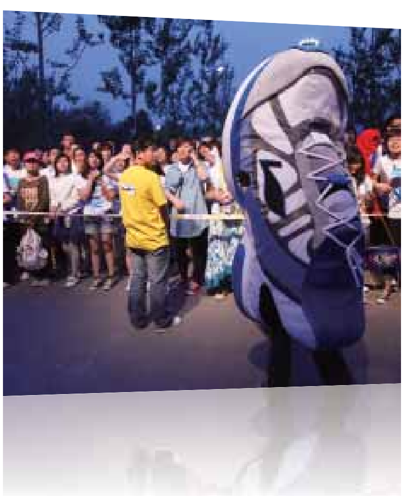
In addition, the Group continuously placed badminton product advertisements in CCTV sports channel (CCTV-5) and print sports media, and deepened collaboration with professional badminton websites.

## Running

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

iRUN inspires the inner joy of sports enthusiasts from the essence of running and spreads the running concept of "Run for Joy".

Featuring a 10 km highway run and 10 km relay event, the "iRUN 跑天下" series hosted a total of 12 events, covering 10 cities in China and attracting about 10,000 participants during the year. In addition, the "LI-NING FUNRUN Super Night", a three-in-one event featuring a 6 km night run, interactive experience and concert, was successfully held in Beijing for the second consecutive year. The event drew over 12,000 participants. The new and stylish format of iRUN events significantly enhances the trendiness of the LI-NING brand and the night-run concept has developed into a unique running event for the LI-NING brand.



## Basketball

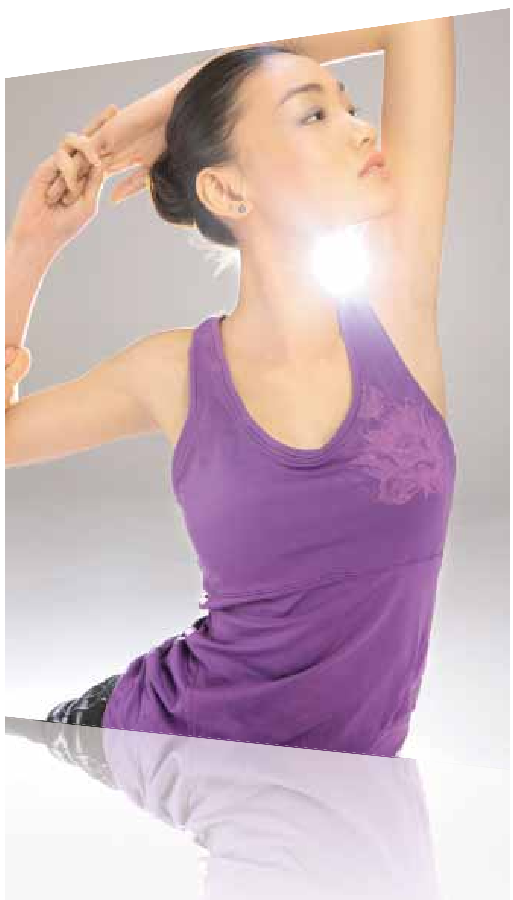
During the year, the Group carried out a series of integrated marketing activities surrounding its arsenal of core international basketball sports resources. These activities fully brought out the individual charms of each sponsored player and effectively combined the unique selling points of the Group's products, which can be used on and off the court and in daily life, gaining sound media exposure and word-of-mouth while fulfilling the functional and emotional needs of target consumers.

During the year, the Group sealed the top strategic official partnership with the National Basketball League ("NBL"). NBL currently covers 18 second-tier cities in China and, starting in 2010, university students and foreign players were allowed to take part for the first time, which significantly raised the standards and attractiveness of the competition while gaining increasing attention and influence from media and basketball fans. The partnership with NBL enriches LI-NING brand's marketing resources in the basketball sector and broadens the scope of development of LI-NING brand basketball products while promoting the brand expansion in the second– and third-tier cities in China.

## Fitness

The Group strives to highlight brand differentiation and personality in the promotion of fitness products. Focusing on the concept of "Inner Shine" – pursuit of fashionable and healthy female charm, the Group made a strong push in women's fitness products used in yoga, jogging and dancing. During the year, the Group joined forces with Beijing Nirvana Yoga and successfully launched the "LI-NING Nirvana Yoga 2010 Yoga Workshop" in Beijing, Shanghai, and Shenyang. The workshop aims to develop into a large scale professional interaction platform and has aroused enormous attention from female consumers. Near the end of 2010, LI-NING brand cooperated with actress and celebrity, Chiling Lin (林志玲), to promote and highlight the "Inner Shine" product positioning.

Following the cooperation agreement with Beijing CSI Bally Total fitness Investment Management Limited ("CSI"), the Group also entered into an agreement with Lesmills China in January 2010 for an in-depth nationwide joint brand collaboration. Lesmills is a leading supplier of fitness products in the international fitness industry. Lesmills China has over 200 franchise clubs in China and is a mainstream provider of fitness programmes in the country. During the year, the Group also signed a cooperation agreement with Shenzhen's largest fitness club, Physical Club. The collaboration with Beijing Nirvana Yoga, CSI, Lesmills China and Physical Club of Shenzhen has established a solid foundation for the development of LI-NING brand in the women's fitness industry.



## Tennis

In tennis, following the signing of sponsorship agreement with acclaimed Yan Zi (晏紫), who has won a number of glorious victories for the Chinese National Tennis Team, and Taiwanese professional tennis player Yang Tsung-Hua (楊宗樺), who was named International Tennis Federation Junior World Champion, the Group also signed up another prominent Chinese female tennis player, Peng Shuai (彭帥) in the beginning of 2010. Peng Shuai (彭帥) won or shared four gold medals in the 11th National Games, namely female singles, female doubles, mixed doubles, and the female team event. She also won her championships for the female singles and female team event at the 2010 Guangzhou Asian Games.

The Chinese and international tennis stars, including Peng Shuai (彭帥), Yan Zi (晏紫), Yang Tsung-Hua (楊宗樺), Ivan Ljubicic and Marin Cilic, form the core tennis sponsorship resources of the Group, and help to enhance the image of LI-NING brand and promote the development of the tennis products of LI-NING brand.

## Community Marketing Events

During the year, the Group also extensively sponsored and organised various sports events targeting sports enthusiasts and young people. These include:

- Sponsorship of the "Chinese University Football League" (CUFL) and organisation of the "LI-NING China Basketball Draft Camp";
- The Group's meticulously-planned "LI-NING Hero Vans" (李寧大篷車), aimed at encouraging sports enthusiasts to participate in sports activities and enjoy the pleasure of sports, was held for the third consecutive year in China. In 2010, the activity lasted for nine months and the vans travelled over 99,000 kms, staging 122 events in 119 cities covering 24 provinces, autonomous regions and municipalities, attracting about 420,000 participants;
- "The LI-NING Sports Theme Park in Beijing Chaoyang Park" (北京朝陽公園李寧體育園) built by the LI-NING brand has marked its third anniversary. With multi-purpose urban stadiums as its platform, the LI-NING brand continued to communicate with sports lovers through venue advertising, mini matches and brand outlets. During the year, various activities were organised, attracting tens of thousands of participants, who experienced a memorable and lasting impression of the brand. The exclusive LI-NING basketball court in the park has attracted the participation of many basketball fans, and is gradually developing into an iconic basketball venue in the local area; and
- "LI-NING Sports World" (李寧運動天地) went live on the sports section of the official website of CCTV, along with the introduction of the LI-NING online store. LI-NING brand's presence is also found in other mainstream national online media, all of which further creates a positive impact for the LI-NING brand.

## LI-NING Brand Sponsorship Resources

| | Running (Track & Field) | Basketball | Tennis | Fitness | Badminton | Football | Olympic Champion Teams |
|---|---|---|---|---|---|---|---|
| **Top-notch sports teams/ athletes/ sports clubs** | Elena Isinbayeva | Shaquille O'Neal | Marin Cilic | Lesmills | Chinese National Badminton Team | | Chinese National Table Tennis Team |
| | Asafa Powell | Baron Davis | Ivan Ljubicic | | Lin Dan | | Chinese National Diving Team |
| | Andreas Thorkildsen | Jose Calderon | Peng Shuai | | | | Chinese National Shooting Team |
| | | Evan Turner | Yan Zi | | | | Chinese National Gymnastics Team |
| | | Spanish National Basketball Team | | | | | |
| | | Argentina National Basketball Team | | | | | |
| **Tournaments** | Beijing Marathon | NBL | ATP | | China Open | CUFL | |
| | | LI-NING Basketball Draft Camp | | | China Masters | | |
| | | | | | China Badminton Club Super League | | |
| | | | | | China National Badminton Cup | | |
| **Other important sponsorship resources** | 13 provincial track & field teams | Hasheem Thabeet | Yang Tsung-Hua | Nirvana Yoga | Shanghai Badminton Team | | USA National Diving Team |
| | | | Pliskova sisters | CSI Bally | 8 1 Badminton Team | | |
| | | | | Physical Club of Shenzhen | Guangdong Badminton Team | | |

## Sales Channel Expansion and Management

### Retail Stores

The LI-NING brand has established a nationwide distribution and retail network covering all provinces, autonomous regions and municipalities in China. As at 31 December 2010, there were 7,915 LI-NING brand retail stores in China, representing a net increase of 666 stores for the year. As at 31 December 2010, the distribution and retail network comprised:

- 7,333 LI-NING brand franchised retail stores;
- 582 directly-operated LI-NING brand retail stores; and
- 90 distributors which was 38 distributors less as compared with the position as at 31 December 2009. This was mainly due to the integration of certain small-scale distributors by some large-scale distributors in the northern region of China in the second half of the year in order to improve management efficiency of the distribution channels.

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

| LI-NING brand stores | 31 December 2010 | 31 December 2009 | Change (%) |
|---|---|---|---|
| Franchised retail stores | **7,333** | 6,854 | **7.0** |
| Directly-operated retail stores | **582** | 395 | **47.3*** |
| Total | **7,915** | 7,249 | **9.2** |

* As some stores of distributors were taken over by the Group's subsidiaries, there was a relatively large increase in the number of directly-operated retail stores.

### Number of retail stores by geographical location

| LI-NING brand stores | 31 December 2010 | 31 December 2009 | Change (%) |
|---|---|---|---|
| Eastern region *(Note 1)* | **3,288** | 3,071 | **7.1** |
| Northern region *(Note 2)* | **2,820** | 2,545 | **10.8** |
| Southern region *(Note 3)* | **1,807** | 1,633 | **10.7** |
| Total | **7,915** | 7,249 | **9.2** |

*Notes:*

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

The Group is of the view that escalating costs of raw materials and labour and retail space rentals inflict substantial pressure on each of the segments within the whole industry chain. The prior growth model of reliance on store openings by the sub-distributors is no longer sustainable. All segments of the market are gradually shifting from rapid, scale-driven growth to a more structured growth. The Group has adopted a pre-emptive approach to address these problems and challenges and implemented the following measures in channel development and management during the year:

- Advanced distribution channel reform in order to exercise more influence on the management capability and service quality of the sales channel, including the distributors, sub-distributors and retail stores, with a view to enhancing store efficiency and retail market share. At the same time, the

Group increased the integration and acquisition of sub-distributors by distributors so as to reduce the number of sub-distributors operating single stores and enhance the sub-distributors' capability in operational risk management.

- Implemented organisational reform in the sales division to establish an infrastructure consisting of three major sales regions, namely northern, eastern and southern China in order to strengthen the Group's ability to respond to the needs of customers as well as raise the quality of management of different sales regions. Emphasis was placed on management of product lifecycles based on major sales regions as well as the establishment of integrated marketing capabilities to improve management efficiency;

- Placed emphasis on strengthening the development and management of sales channels in shopping centres and sports centres in metropolitan and first-tier cities, thereby reinforcing the LI-NING brand's leading position among domestic players in these more competitive channels;

- Continued to expand the sales channel coverage in which second- and third-tier cities were the major markets for sales channel expansion;

- Accelerated the establishment of an inventory clearance channel supported mainly by factory outlets to optimise the retail stores channel structure that facilitates an orderly flow of products in different stages of product lifecycles; and

- Continued to upgrade store image with the sixth-generation stores being tested and adjusted with more trendy decor, highlighting the characteristics and value of the LI-NING brand and promoting the sporting lifestyle and the consumer's shopping experience. Renovations and new openings of the sixth-generation stores in metropolitan, first– and second-tier cities are scheduled throughout 2011 to effectively enhance consumers' experience of the new brand assets at the retail end.

## E-Commerce

With the increasing popularity of the internet, number of internet users and online shopping continue to surge. Leveraging this trend, the Company actively expanded its online sales channels and achieved significant results. Currently, the Company has an official online shop under the LI-NING brand (www.e-lining.com). Online flagship shops for the LI-NING brand have been opened on reputable third-party, e-commerce platforms in China such as Taobao.com and Paipai.com. Other well-known e-shops in China such as Joyo Amazon, 360buy.com and S.CN have dedicated web pages for purchasing LI-NING brand products online as well. The Group has introduced credit card reward programmes from various Chinese banks. During the year, the expansion of LI-NING brand's online shops was smooth, and there was significant growth in the efficiency of comparable stores. Outstanding performances were recorded in horizontal and vertical growth.

E-commerce plays a positive role in promoting and enhancing the brand image, while offering a chance to communicate and interact with target consumers to contribute to the business growth. As strong growth in China's e-commerce has become a norm, e-commerce is set to become an important channel to the Group. Apart from the LI-NING brand, the Group has also established online sales channels for Lotto, Double Happiness, Z-DO and Kason.

## Product Design, Research and Development

Under the brand revitalisation, "sportsmanship" remains fundamental to the LI-NING brand. As a professional sporting goods brand, the Company is committed to product design and innovation in research and development with a view to offering products that cater best to the needs of both professionals and consumers.

### Research and Design Centres

The Group has design, research and development centres in mainland China, Hong Kong, and Portland, Oregon in the United States. Established in November 2008, the Li Ning Sports Science Research and Development Centre, which specialises in sports science research, underwent a major reorganisation during the year. Reinvigorated with a new vision and equipped with new research facilities in accordance with international standards, the centre has further improved its research capabilities, innovation, as well as training of personnel. Currently, the research centre is equipped with China's best and internationally recognised sports biomechanics laboratory, staffed by an excellent team of Ph.D– and Masters-level professionals. The team is dedicated to advancing sports science and biomechanics, product testing, research and development and product innovation. The centre will closely follow global technological advancements and further construct multi-functional laboratories to proactively expand its research capabilities, attract talented staff and promote international exchange and cooperation, so that it will develop into a world-class sports science research centre.

The Group has also worked on an ongoing basis with universities and professional bodies throughout China and around the world to conduct research and development aimed at enhancing the functionality of product technology and achieving breakthroughs in technology, while helping the LI-NING brand maintain its leading position and enhance the brand image and product reputation.

## Products for Professional Sponsorships

The Group's domestic and international sports sponsorship resources are grounded on its strengths in product design as well as innovative research and development, thus strengthening LI-NING's position as a leading brand in terms of professionalism and sports competitions:

- Badminton gear has very high technical requirements. With in-depth understanding of the latest trends and in light of the characteristics of the sport, the Group's research and development team has used special techniques in developing a comprehensive range of specialised professional products for the Chinese National Badminton Team. Every aspect of LI-NING badminton gear, including grip, attacking power of the racket, comfort and protection of footwear, as well as the fit and moisture-absorption ability of apparel products, have all satisfied the professional needs of the Chinese National Badminton Team.

- In addition to the Chinese National Badminton Team, the various leading sports teams sponsored by the Group, including the Chinese National Table Tennis Team, Chinese National Diving Team, Chinese National Gymnastics Team, Chinese National Shooting Team, Spanish National Basketball Team and Argentina National Basketball Team have benefitted from the Group's research and development and advanced technological capabilities in their quests to deliver outstanding performances in competitions.

- Specialising in the development of superior sports gear for professional athletes, the "Athletic Pro" series adopts the most cutting-edge sports motion theory. From product functionality, aesthetics, to customisation of personal needs, these attributes consistently meet the needs of, and are recognised and praised by, the top world athletes sponsored by the Group, marking the international advanced level of the LI-NING brand's research and development capabilities in sports science. The top-end "Athletic Pro" series provides over 35 sports gear items covering track and field, football, basketball, tennis, badminton and other sports categories. The products include:

- The "Champion" (奪帥) professional badminton shoes for the famous men's badminton singles player, Lin Dan (林丹);

- The sports shoes and apparel for the world's No.1 pole vault athlete, Elena Isinbayeva;

- Professional LI-NING branded javelin shoes, apparel and accessories tailor-made for the "Prince of Javelin", Andreas Thorkildsen;

- The professional gear for Jamaican sprinter, Asafa Powell;

- The basketball shoes developed for NBA stars, such as "BD Doom" for Baron Davis, "G-Shark" (年輪) shoes for Shaquille O'Neal, "Master V" (馭帥V) for Jose Calderon and professional shoes for Evan Turner and Hasheem Thabeet; and

- The "Fish Fin" (奇魚) tennis shoes for tennis star Ivan Ljubicic, and tennis gear for the rising tennis star Marin Cilic. Also, the professional tennis gear for domestic tennis stars Yan Zi (晏紫) and Peng Shuai (彭帥).

## Footwear Products

In addition to developing products for professional athletes, the Group also offers a wide range of products for general sports enthusiasts. The Group is devoted to footwear innovation, focusing on enhancing comfort, shock-absorption, bounce, lightness, personalisation and fitness. Through its research and development initiatives, the Group has developed a series of new technologies applicable to footwear, including the "LI-NING Unit BOW" (模塊化李寧弓), clamshell technology, women's fitness technology and personalised shoes. During the year, the Group continued to develop its core technology, the "LI-NING BOW"(李寧弓), using it as a platform to design footwear suitable for different types of sports for sports lovers. The Group also conducted a study with various research organisations in China and around the world to develop the "LI-NING Last" (李寧楦) that better fits the shape of foot of Chinese consumers. This shoe last has since been implemented in new products to improve comfort and the overall experience for general sports lovers.

The Group's footwear product design, research and development has long been recognised in the industry. During 2010, the Group's sprint track running shoes, "Razine" (鋭勁), which was commended with the highest honour of "Gold Medalist" for the internationally renowned "iF Design Award China 2010". Candidates for the iF Design Award were judged based on 10 categories, including quality of design, production technique, innovative concept, environmental-friendliness, practicality, safety and brand value.

## Technology Platform of LI-NING Brand Footwear Products


## Apparel Products

During the year, the Group adopted the following research and development measures in the realm of apparel products:

- In September 2010, the Company announced its partnership with Australia's SKINS to launch superior-quality LI-NING SKINS gradient compression sportswear in China. Bio-acceleration is the core technology behind gradient compression sportswear. The technology combines special material with scientific tailoring targeted at different parts of the body. This not only increases muscle power and reduces muscle vibration, but also improves blood circulation and effectively removes lactic acid, thus markedly improving the wearer's sporting ability. In addition, gradient compression sportswear allows the body to thermo-regulate in a wide range of external temperatures and, therefore, keeps the skin comfortably dry and fresh. At the same time, the material can curb bacteria, remove odour and block harmful UV rays with a UFP 50+. The products have been endorsed by the Australian Physiotherapists Association and are the first choice of high-tech sports gear for many elite sports physiologists, athletic teams and individual athletes around the world. At present, the LI-NING SKINS gradient compression gear has been tested and endorsed by the Group's sponsored athletes. Leveraging the Group's massive sports resources and rich experience in the sports industry, the gradient compression technology is set to enjoy an expanding market share and be put to wider use.

- To promote research and development of new products, the Group established the apparel product science and technology research centre, which studies the physical features of the human body, simulating real human activities. This provides scientific data and analysis related to specific sports categories, the human body and apparel, and applies it to different products. The studies effectively incorporate sports and human body research and development results with the design, garment blocks and materials of sports apparel products, bring into play the superior functionality of products, and provide a more comprehensive range of assurance on innovation and product quality;

- Continued to consolidate the AT functional material platforms, so that the LI-NING AT technology platform can offer consumers better experiences through its functional materials. In terms of ATCool functions, moisture absorption and quick-dry materials of ATDry and ATDry Smart technologies and 3D light permeable mesh fabric have been applied, which, integrated with technical cutting based on the main perspiration areas of the human body, form an apparel micro climate management system that reinforces heat exchange, making the human body feel comfortably cool and dry. As for the functions of the ATWarm platform, bamboo charcoal fibre, hollow yarn and other high-tech materials have been used and processed in the insulation product series to create a 3D heat-trapping space insulated from external air flow and keep warm;

- Conducted experiments that involved the functional apparel on the ATCool platform to prove the high heat-dissipating ability of the functional apparel through instrument experiments related to sports, including basketball, running, badminton, football and tennis, and created application standards and design guidelines on the ATCool functional apparel of the LI-NING brand. The Group has applied for a State invention patent for its ATCool functional apparel and a State utility model patent for ATCool functional apparel;

### AT Technology Platform of LI-NING brand apparel products

- Attached importance to the relations between apparel product design and the brand's DNA and used the logo of Lucky Line and applied for appearance patent;
- In line with efforts to revitalise the LI-NING brand, the Group launched the LI-NING "Urban Sports" series catering to urban dwellers, which underscores the concept of sports life and successfully exemplifies the integration of innovation with modern technology;
- Introduced crossover collaboration marked by the perfect combination of LI-NING brand products with the creative ideas of high-calibre artists; further improved basic garment blocks to refine different series of sports products and provide consumers with a wider choice;
- Participated in environmental projects, which included promoting organic cotton products, and collaborating with core suppliers to extend the Eco-circle series and promote the vitality and low-carbon green apparel concept; and
- Regulated and standardised basic data, developed different development manuals and construction mock-up innovative project to form an internal knowledge system.

## Supply Chain Management

The Group endeavours to establish a demand-driven, flexible and effective supply chain system to cope with its business growth effectively. In 2010, the Group undertook the following measures in respect of LI-NING brand's supply chain management:

- Continued to improve supply chain planning that regulates output based on demand and purchase based on output, in an effort to further reduce the minimum required inventory level and warehousing time. The Group also stepped up the implementation of direct delivery and streamlined the whole process to alleviate the gridlock built up in logistics operations and speed up the supply chain response time. The average inventory turnover cycle in 2010 amounted to 52 days, one day less compared with 2009;
- Continued to enhance the Group's channel logistic capacity with logistic operations of 19 subsidiaries consolidated according to plans during the year. A logistic platform that combines wholesaling with retailing was established, which enables unified management of logistic outsourcing, information technology application as well as visibility of inventory;
- Provided distributors with logistic consultation services in different forms of logistic capabilities, including network design and operation optimisation solutions, to help distributors in outsourcing logistic tasks and provide direct delivery to sub-distributors and factories;
- The Group foresaw the rapid escalation in the labour cost and prices of raw materials in China and predicted that there would be labour shortages in the traditional processing and manufacturing bases in coastal areas such as the Pearl River Delta and the Yangtze River region in the next few years. Therefore, it proactively initiated a shift toward central China and invited its core suppliers to establish production facilities in Jingmen, Hubei Province. This has mitigated much of the pressure rising from the surge in costs and also alleviated problems related to production capacity resulting from the shrinking labour force in coastal areas, which has also enhanced efficiency in supply chain management; and

- The architectural design of the planned "LI-NING Logistics Centre", a fully automated warehouse of more than 50,000 sq. m. in Jingmen Industrial City, designed to enable the Group to adapt to the needs of the market in a timely manner, has been completed and is scheduled for trial operation at the end of 2011. Upon completion, the Group will be able to react more swiftly to retail and distribution demands in areas covered, which will, in effect, make the centre an integrated base for manufacturing and distribution.

## 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 a 57.5% equity interest, and is principally engaged in the manufacture, research and development, marketing and sales of table tennis and other sports equipment.

Double Happiness continued to adopt sponsorship of sports stars and sports events as its core marketing and promotion strategy. In 2010, Double Happiness maintained its sponsorship of outstanding table tennis players in China, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞), as spokespersons for its table tennis equipment. The Group also actively sponsored various professional tournaments and provided professional equipment for events in China and around the world, including the Table Tennis World Tour (with 17 stops), the 50th Table Tennis World Championship held in Moscow, the 23rd Asian Table Tennis Championships, Singapore's first Youth Olympics – Table Tennis, Guangzhou Asian Games – Table Tennis as well as China Table Tennis Super League.

On the technology front, in line with the trend towards inorganic glue as stipulated by the International Table Tennis Federation, Double Happiness introduced its "NEO" equipment series which quickly became the preferred equipment for the Chinese National Table Tennis Team, with up to 80% of team members opting for the equipment. In addition to professional gear, Double Happiness also successfully launched more than 200 new products with breakthroughs in design and appearance in 2010. Product innovation adopted includes patented technologies applied in racket rubber cover products, and rackets that feature handle grips customised for individual users. These new products complement Double Happiness' product range and showcase the strong research and development capabilities and design strengths of Double Happiness.

Double Happiness brand products are mainly distributed via wholesale and integrated sporting goods stores. It has adopted a wholesale model with a relatively stable clientele across 30 provinces and municipalities in China. During 2010, Double Happiness strengthened its customer management efforts and implemented detailed management of customer behaviour and sales policies. It established "product display walls" to exhibit exclusively the full range of Double Happiness brand products in about 400 professional equipment stores. These "product display walls" occupied dedicated retail space in the stores and were managed by dedicated salesmen supported by appropriate retail promotional programmes. In the second half of 2010, Double Happiness developed product series and channel strategy that specifically targets the supermarket channel, which will be explored in full scale in 2011.

LI-NING and Double Happiness brands will continue to enjoy synergies in respect of brand marketing and promotion, sports tournaments sponsorships and sales channel development, hence further solidifying the Group's position in China's table tennis sector.

## LOTTO BRAND

The Group is the licensee for the Italian sports fashion brand, Lotto (樂途). As the Group's newest strategic business unit, Lotto's brand awareness continued to increase during the year with the gradual developments in product style and distribution.

The year 2010 marked an important year for the development of Lotto brand in China. During the year, the Group completed the repositioning of Lotto brand in China, defined the brand's core values and established points of differentiation through a continuous clarification process. The Group also completed defining the product design themes for the Lotto brand, established a product structure underpinned by the brand's unique competitive advantages and continuously enhanced product innovation through crossover cooperation, application of new technologies and development of new products.

In 2010, the Lotto brand fully implemented a series of entertainment marketing events, including the sponsorship of movies, TV drama series and TV programmes. These sponsorships were aimed at establishing a connection between the brand and the celebrities, sports stars and stylish events favoured by target consumers in order to increase brand awareness among the target group. In addition, the Group provided more support to new store opening events and strengthened the resources in sales-driven campaigns such as out-of-store advertising, in-store advertising and product display as well as special promotional events to promote sales or boost distributors' confidence in the brand.

During the year, the Group continued to invest in channel expansion for Lotto brand. The growth of the Lotto brand business in 2010 was, however, below expectation due to the impact of the market and increased competition. The Lotto brand made a timely move to fine-tune its strategies in mid 2010 to put more focus on the importance of retail performance and profitability, reasonably monitored the pace of channel development and the store distribution structure and identified key markets in order to achieve business breakthroughs. At present, the Lotto brand business is gradually moving in a more positive direction.

## OTHER BRANDS

### AIGLE

AIGLE brand specialises in high-end outdoor sports and casual apparel and footwear products that target the metropolitan and first-tier cities in China. AIGLE's business model has gradually matured. Its core products are gaining recognition among consumers, largely due to the brand's unique competitive edge. During the year, the business performance of new stores fared well. Same-store sales exhibited significant growth while helping drive sales.

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

- Further and more clearly defined product positioning and established unique competitive edge by developing functional, yet fashionable, products;
- Enhanced brand awareness and image by appropriate marketing investment and continuous placement of print advertising in travel and outdoor magazines;
- Continued collaboration with Asia product lines of AIGLE France and AIGLE Hong Kong to enhance product mix and to lower costs, and worked with suppliers in France and Hong Kong to develop a localised production and supply chain;
- Replicated the management style and experience of the directly-operated retail stores and key strategic stores in metropolitan cities in the stores operated by distributors in order to promote channel and market expansion; and
- Significantly improved the quality of retail stores by adopting the international standards on store layout promulgated by the AIGLE brand.

### Kason

Kason is a well-known badminton equipment brand in China. Its sponsorships include the Chinese National Youth Badminton Team and various provincial badminton teams.

Kason forms an integral part of the Group's badminton strategy. During the year, the Group continued to reorganise and integrate Kason's brand positioning, product mix, research and development and sales channel. The Group will also continue to combine Kason's brand leading manufacturing techniques and research and development capabilities with its core competitive advantages, and fully utilise the mutual advantages in sports marketing resources to increase the Group's market share in the badminton sector.

## Z-DO

Z-DO adopts hypermarkets as its main distribution channel. Its sales model, sales network and product mix are clearly distinct from the LI-NING brand and Z-DO brand's operational model continues to mature well. During the year, the major operation measures implemented included:

- Conducted in-depth research into the consumption behaviour and demand of target consumers so as to establish a clear focus on the core consumer group as well as the product mix and style. The brand unveiled "Enjoy comfort and go with heart" (享舒適、隨心動) as its brand motto during the year. The Group also successfully made changes in product and brand identity that defined a clearer brand image;

- With clarification of the brand positioning and target consumer groups and the adjustment in product styles, developed a more focused product portfolio, further optimised the structure of seasonal product offering and made use of a single style, but with different colour to significantly drive the contribution from a single product line;

- Made gradual improvements to shop image and lowered shelf costs, while adjusting the product displays that catered more to the characteristics of hypermarket channels and are better suited to the consumption habits of customers in the hypermarket channels;

- Explored a directly-operated model through direct cooperation with hypermarkets. Measurements such as store coverage ratio, product coverage ratio and sales revenue all increased during the year. In future, the Group will continue to fine-tune the business model that caters to the characteristics of the hypermarkets; and

- Continued to optimise the structure of suppliers and improve the supply chain system while implementing reasonable cost control at the background of cost escalation to enable suitable pricing for the hypermarket channel, thereby increasing product competitiveness.

## HUMAN RESOURCES

During the year, the Group continued to optimise and adjust its organisation and personnel structure. As at 31 December 2010, the Group had 4,215 employees (31 December 2009: 4,432), of whom, 2,100 (31 December 2009: 2,248) were from the Group's headquarters and retail subsidiaries, and 2,115 (31 December 2009: 2,184) were from other subsidiaries.

The Group regards its workforce as an important asset for corporate development and has placed special emphasis on the recruitment, training, motivation and retention of staff. During the year, to cope with the strategic development needs, the Group focused on investments in human resources for the streamlining of the organisation structure based on business priorities, establishment and optimisation of the recruitment mechanism from within as well as outside the organisation, building of motivation system, human resources information system and the professional and leadership skills development system. The Group has strived to be a trustworthy employer able to meet the career development needs of its staff.

The Group adopts a talent supply and development system based on opportunities and vacancy risk management protocols, with an emphasis on accelerating the nurturing and development of existing staff capabilities. Through job rotations and enriching job opportunities, the Group aims to enhance the skills of its employees in order to better meet the requirement in their skills development in line with the Group's business developments and transformation.

The Group's compensation packages reflect an effective combination of the job positions, individual capabilities and performance. Overall, salary levels are relatively competitive in the market, which helps foster staff enthusiasm and creativity while closely aligning and integrating the Group's overall strategic objectives. In addition to base salary, core employees who deliver outstanding performance are also rewarded by way of cash, restricted shares, share options and annual individual or departmental awards, to allow employees to share the fruit of the Group's business success.

In 2010, the Company was once again awarded "China's Best Employer in Apparel Business" (中國服裝行業最佳僱主企業) and was among the "Best 50 Workplaces" (50佳第一工作場所), further endorsing the Company's principle of being a people-oriented enterprise with a high degree of social responsibility.

## PROSPECT AND STRATEGIES

### Macro-economy and Industry Outlook

The global economy is expected to continue to improve in 2011, albeit at a slower pace. The dual impact of the gradually stabilising external conditions and the policy initiatives implemented by the government are starting to take effect and bode well for China's economy in 2011. Nevertheless, the recovery is still fragile and not without risk, especially at a time when the adjustment of the mode of economic growth is still underway.

The sporting goods sector is set to benefit from the growth in the sporting population, the rise in income, and the shift of China's economy from an investment-driven to a consumption-driven model. However, consumer confidence is not strong enough and the growth in income levels has not quite translated into a sustainable increase in purchasing power for sporting goods. In addition, due to the increase in competition


from casual brands in certain sub-segments of the sporting goods industry and the lack of major sports tournaments, it is anticipated that growth in the sporting goods industry in 2011 will be affected to a certain degree. Based on orders from trade fairs that the Group hosted for the first and second quarters of 2011, total order value (based on tagged retail prices) for the first quarter increased by 12% as compared to the corresponding period in 2010, and remained at the same level as in the corresponding period in 2010 for the second quarter. As the distribution channel reform and the improvement of retail environment take time, it is expected that the trade fairs for the third and the fourth quarters will not achieve order growth rates higher than the levels achieved for the first two quarters.

## Market positioning underpinned by long-term strategy

The Group believes that, while the sporting goods industry in China will maintain a low double digit growth in the coming years, some factors that will affect the industry's development are brewing.

First of all, sporting goods share some basic attributes of casual clothing and footwear products, such as convenience, comfort and visual appearance. Although these attributes have been major growth drivers of the sporting goods industry in China in the past, if it were to continue to rely on these drivers, sports brands will experience difficulties in competing with leisure and casual wear brands on differentiation and will complicate the broader competitive environment. The Group believes that the core competence of sporting goods rests in their branding and sports attributes. This competence capitalises on improvements to some of the fundamentals for the future development of the sports sector, including growth in the sporting population, an increase in the number of sports events, the increasing popularity of sports culture and the building of more sporting venues. While these elements are not improving as fast as they could be, we believe this is a temporary situation. As the environment in China's cities continues to improve, along with the continued increase in the number of sports venues as well as the development of community or youth-based sports events, the sporting population is expected to increase, leading to much improved prospects for the sporting goods industry.

Secondly, though the consumer market in China is highly segmented, there is a tendency for consumers to upgrade their consumption experiences. Currently, higher-end market segments are increasingly counting on value as the growth driver, whereas the lower-end segments still rely on volume for growth. As consumer income continues to increase and the fundamentals for the development of the sports industry continue to improve, consumers will demand more brand personality, sports essence and product functionality and performance.

Thirdly, escalating costs of raw materials and labour and retail space rentals will inflict substantial pressure on all aspects of the industry.

In the context of these trends, the Group is of the view that the sporting goods market is entering a critical stage of transformation that will bring about considerable change in the industry's business model over the next five years. The market will be further differentiated into:

- Mainstream market – this market relies on brand building and product innovation to create better brand and product experiences such that brand operators will be able to charge premium prices to meet the escalating costs in every aspect of the value chain. Typified by more mature and value-oriented consumers, this market will become the mainstay in the future.

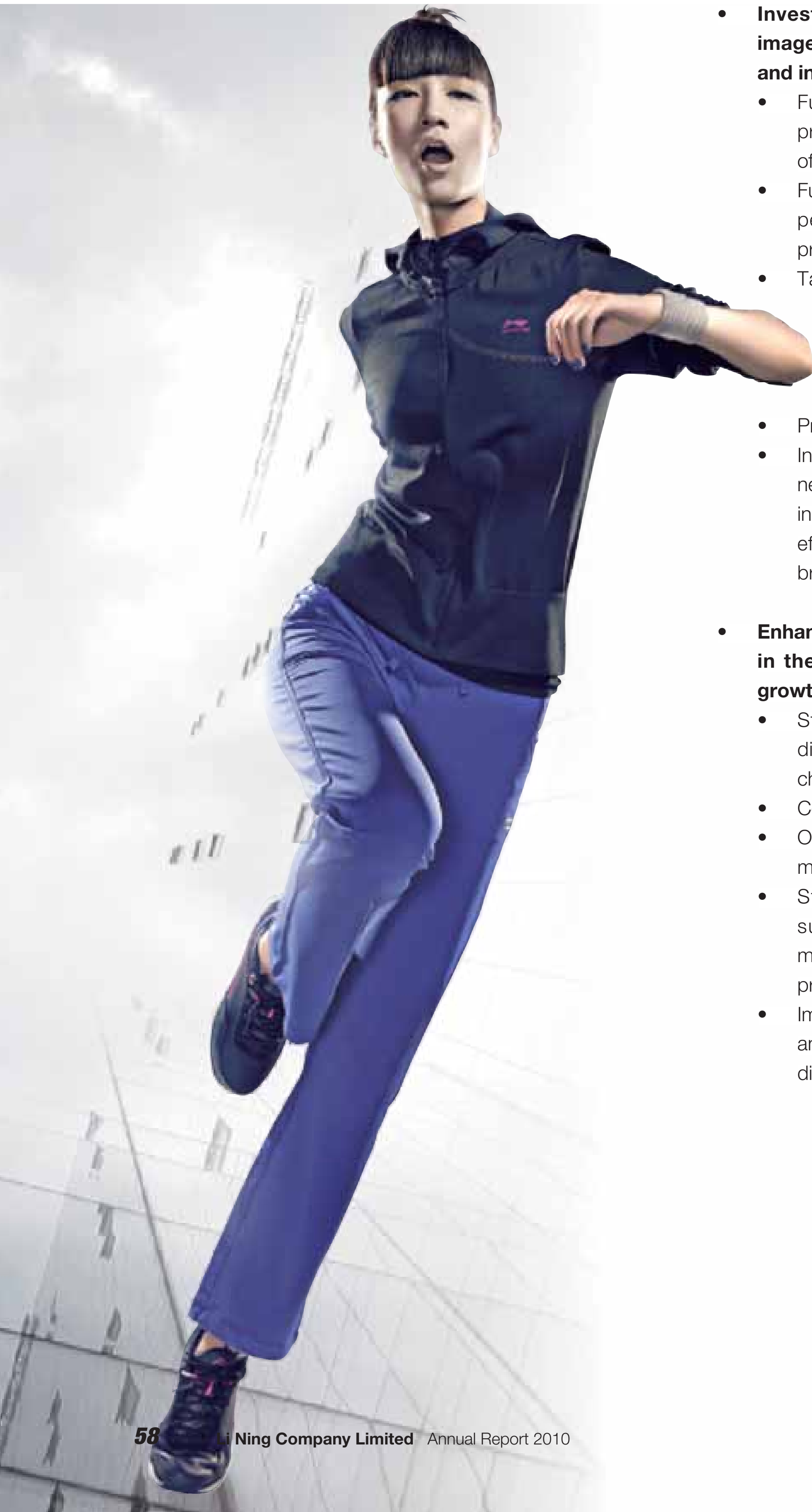
- Basic market – this market strives to minimise spending on brand promotion and product research and development such that basic products can be provided at lower prices. Pressure on costs can be mitigated via flexible management of the supply chain to effectively meet the needs of price-conscious consumers.

At the moment, metropolitan and first-tier cities have already exhibited mainstream market attributes while second- and third-tier cities are ramping up their ascendance to become mainstream markets.

The Group believes that targeting the mainstream market is the correct choice for the LI-NING brand, a decision made in accordance with our capabilities, brand positioning, external environment and corporate vision, and it is now the best time for us to make such a proactive choice.

## Execution strategy

To accommodate the future development trends and the business direction we have chosen, the Group has started to make in-depth adjustments to the brand, products, distribution channels and supply chain.



- **Investing more on branding to upgrade the brand image and win greater recognition from consumers and instilling more value to the brand:**
  - Further increase spending on brand marketing and promotion, and strengthen the efficient management of investments in branding
  - Further upgrade the brand image by highlighting brand personality and differentiation while strengthening professional sports attributes of the products
  - Target value-oriented consumers in cities in China, win support from target consumers through better products and better integrated marketing, and implement customised promotion activities for different market segments
  - Prepare for the 2012 London Olympics
  - Increase the number of sixth-generation stores through new store openings and renovation of existing stores in the metropolitan, first-tier and second-tier cities, to effectively boost consumers' experience of the new brand assets at the retail end

- **Enhance retail efficiency through deepening reforms in the distribution channels to pursue a healthier growth model:**
  - Strengthen the cooperation with large multi-brand distributors in order to secure our foothold in retail channels that possess greater competitive advantage
  - Consolidate low efficiency sub-distributors
  - Optimise store structure and improve product lifecycle management
  - Strengthen professional training for distributors/sub-distributors in order to enhance their retail management capabilities and, in turn, increase their profitability
  - Implement a new wholesale discount policy to maintain and improve the profit margin of the distributors/sub-distributors

- **Improve the product offering structure and raise product competitiveness to bring more value to our consumers:**
  - Establish a product innovation structure that works consistently with the Group's brand positioning
  - Offer products that are closer to market needs and are more suitable to the preferences of different regions
  - Offer consumers better experiences on product value in order to support the Group's brand positioning and product pricing
  - Raise the proportion of footwear in the product portfolio and enhance the competitiveness of our footwear products in the mid- to high-end market segments

- **Establish a corporate culture that stresses management by objectives and high efficiency:**
  - Enhance staff cohesion with the Company's culture as the core
  - Continue to increase investment in human resources in professional fields such as brand marketing and product design and research and development as well as in corporate management in order to attract high calibre talent
  - Strengthen implementation of business strategies and measurement of performance

This reform exercise will take time and challenges will inevitably arise during the process. Nevertheless, the Group's professional management team, strong brand assets, sound strategic analytical judgment and solid execution capability will empower ultimate achievement of the reform objectives. Though we expect some short-term hardship during the period of transformation over the next two years, we believe that this exercise will pave the way to a healthier development path for the Group's performance in the longer term, which will further solidify the leading industry position of the LI-NING brand and pave the way to realising our vision of becoming a world-class China sports brand. We stand by our belief that a day will come when China's homegrown sports brands will successfully shine on the world stage. This is the aspiration of our founder and the Group.

light-hearted wit
true to life

# CURIOUS INVENTIVE


LI-NING

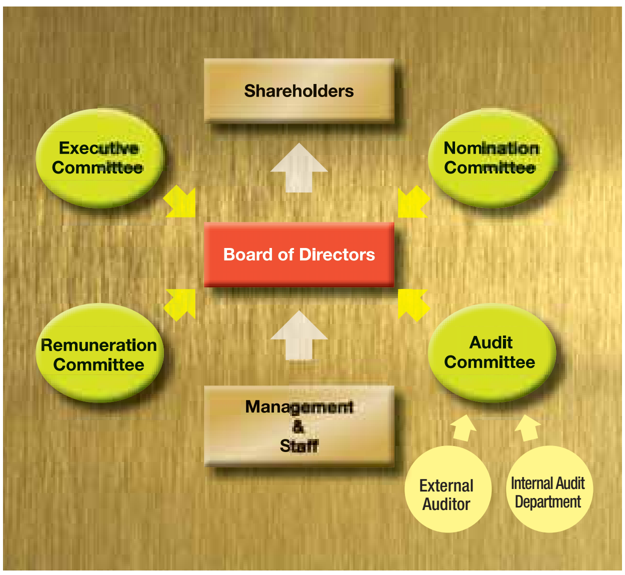
The Board is committed to promoting and upholding good corporate governance in order to fulfill its mission of creating value for and maximising returns to the Shareholders. This report sets out the corporate governance structure and major corporate governance practices adopted by the Company.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year ended 31 December 2010, the Company applied all the principles and fully complied with all the code provisions, and where appropriate, adopted the recommended best practices of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code").

## CORPORATE GOVERNANCE STRUCTURE

The corporate governance structure of the Company is as follows:




## THE BOARD OF DIRECTORS

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

### Composition of the Board

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

| Category and name of Director | Date of first appointment to the Board | Date of last re-election by Shareholders |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Li Ning *(Chairman)* | 3 April 2004 | 14 May 2010 |
| Mr. Zhang Zhi Yong *(Chief Executive Officer)* | 6 May 2004 | 15 May 2009 |
| Mr. Chong Yik Kay *(Chief Financial Officer)* | 9 February 2009 | 15 May 2009 |
| ***Non-executive Directors*** | | |
| Mr. Lim Meng Ann | 6 May 2004 | 15 May 2009 |
| Mr. Chu Wah Hui | 1 June 2007 | 9 May 2008 |
| Mr. James Chun-Hsien Wei | 1 September 2007 | 9 May 2008 |
| ***Independent non-executive Directors*** | | |
| Mr. Koo Fook Sun, Louis | 6 May 2004 | 14 May 2010 |
| Ms. Wang Ya Fei | 6 May 2004 | 15 May 2009 |
| Mr. Chan Chung Bun, Bunny | 6 May 2004 | 14 May 2010 |

The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. Biographical details of the Directors are set out on pages 76 to 78 of this annual report.

All Directors are aware of their collective and individual responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives a comprehensive, formal and tailored induction to ensure that he has a proper understanding of the business and operations of the Group and that he is fully aware of his duties and responsibilities as a director under applicable rules and requirements. Directors are updated on any developments or changes affecting their obligations from time to time.

## Chairman and Chief Executive Officer

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

## Non-executive Directors and Independent Non-executive Directors

Non-executive Directors and independent non-executive Directors play an important check-and-balance role to safeguard the interests of the Company and the Shareholders as a whole, and will take the lead when potential conflicts of interests arise. The incumbent non-executive and independent non-executive Directors have extensive professional experience and have participated in the meetings of the Board in a conscientious and responsible manner. They serve actively on the Board and its committees to provide their independent and objective views, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control.

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. One of the independent non-executive Directors has the appropriate qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of his or her independence as required under the Listing Rules. Independence of each of the independent non-executive Directors has been assessed by the Board and the Board continues to consider each of them independent as required under the Listing Rules.

## Principal Responsibilities of the Board

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

regular basis and also exercises a number of reserved powers, including:

- formulating long-term objectives and strategies;
- approving strategic, operational and financial plans;
- monitoring and controlling the Group's operational and financial performance;
- approving financial statements and public announcements;
- setting the dividend policy; and
- carrying out major acquisitions and disposals, formation of joint ventures and capital transactions.

## Responsibilities for Accounts

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

## Board Meetings

The Board holds at least four regular Board meetings a year at approximately quarterly intervals and additional Board meetings are held as and when necessary. Regular Board meetings are scheduled a year ahead to facilitate maximum attendance by the Directors. The meeting agenda is set after consulting with members of the Board so that all Directors have the opportunity to include matters in the agenda. The agenda and accompanying papers are normally sent to the Directors one week before the date of the meeting.

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

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

The Board held five meetings in 2010 and the attendance record of the Directors is set out below:

| Members of the Board | Number of Board meetings attended |
|---|---|
| ***Executive Directors*** | |
| Mr. Li Ning | 5 out of 5 |
| Mr. Zhang Zhi Yong | 5 out of 5 |
| Mr. Chong Yik Kay | 5 out of 5 |
| ***Non-executive Directors*** | |
| Mr. Lim Meng Ann | 4 out of 5 |
| Mr. Stuart Schonberger *(Note)* | 2 out of 2 |
| Mr. Chu Wah Hui | 5 out of 5 |
| Mr. James Chun-Hsien Wei | 5 out of 5 |
| ***Independent non-executive Directors*** | |
| Mr. Koo Fook Sun, Louis | 5 out of 5 |
| Ms. Wang Ya Fei | 5 out of 5 |
| Mr. Chan Chung Bun, Bunny | 5 out of 5 |

*Note:*

Mr. Stuart Schonberger ceased to act as non-executive Director after completion of his term of service under his service agreement with the Company on 28 June 2010 and there were two Board meetings during his term of office in 2010.

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

## Directors' Appointment and Re-election

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

## Directors' and Officers' Liability Insurance

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

## Board Committees

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

## Executive Committee

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

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

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

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

- examining and approving financial arrangements of member companies of the Group within a limit approved by the Board; and

- deciding on the appointment and removal of senior management members of the Group.

The Board reviews the terms of reference of the Executive Committee regularly to ensure that proper and appropriate delegation of authority is achieved, and the delegation remains appropriate to the Company's needs.

## Nomination Committee

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

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

The Nomination Committee adopts the recommended terms of reference set out in the Corporate Governance Code as its terms of reference which are available on the Company's websites. Its primary role is to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession planning for Directors based on certain criteria adopted by the Committee, including appropriate skills, knowledge and industry experience, personal ethics and integrity and time commitment to the Board's affairs. The Nomination Committee normally engages professional recruitment consultants in discharge of its duties. Candidates who satisfy the criteria are short-listed and met by the Nomination Committee before the final candidate is nominated to the Board for consideration. The process ensures that the Board comprises a sufficient number of Directors and consists of Directors having sound knowledge, experience and/or expertise pertaining to the business operations and development of the Group. The Nomination Committee considers the current structure, size and composition of the Board suitable for directing the Group's development and made no recommendations to the Board on any proposed changes during the year.

The Nomination Committee met twice in 2010 to review and discuss the competency model of the core management team to match with the Company's development strategy needs, which serves as a guidance for the work of the management. The attendance record of the members of the committee is set out below:

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

In 2010, the Nomination Committee, together with the Board, assessed the independence of each of the independent non-executive Directors and continued to consider that all independent non-executive Directors were independent as required under the Listing Rules.

## Remuneration Committee

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

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

The Remuneration Committee currently consists of following three Directors:

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

The Remuneration Committee met two times in 2010 and the attendance record of the members of the committee is set out below:

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

The following is a summary of the major tasks carried out by the Remuneration Committee in 2010:

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

- review and determining of the bonus execution plan for year 2010 according to the key performance indicators for year 2010;

- review and setting of key performance indicators and bonus plan for year 2011; and

- review and setting of the execution plan of the long-term incentive schemes for year 2011.

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

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

Directors do not participate in decisions or attend meetings approving their own remuneration. The emoluments of each Director for the year ended 31 December 2010 are set out in note 25 to the consolidated financial statements.

## Audit Committee

The Audit Committee was established since the Company's listing in June 2004. Its role is to assist the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, overseeing the Group's financial reporting systems, internal control procedures and the Company's relationship with the external auditor.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are in compliance with the Corporate Governance Code. The current terms of reference are available on the Company's websites.

The Audit Committee currently consists of the following three Directors:

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

The Audit Committee met three times in 2010 and the attendance record of the members of the committee is set out below:

| Members of the Audit Committee | Number of committee meetings attended |
|---|---|
| Mr. Koo Fook Sun, Louis | 3 out of 3 |
| Mr. Stuart Schonberger *(Note 1)* | 1 out of 1 |
| Ms. Wang Ya Fei | 3 out of 3 |
| Mr. Chan Chung Bun, Bunny *(Note 2)* | 2 out of 2 |

*Notes:*

1. Mr. Stuart Schonberger ceased to act as non-executive Director and therefore a member of the Audit Committee with effect from 28 June 2010 and there was one Audit Committee meeting during his term of office in 2010.

2. Mr. Chan Chung Bun, Bunny was appointed as a member of the Audit Committee with effect from 28 June 2010 and there were two Audit Committee meetings during his term of office in 2010.

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

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

The following is a summary of the work performed by the Audit Committee in 2010:

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

- review of and recommendation for the Board's approval of the annual results announcement and annual financial statements for the year ended 31 December 2009 and the interim results announcement and interim financial statements for the six months ended 30 June 2010 with focus particularly on changes in accounting policies and practices, compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;

- discussion with the external auditor and the management on possible accounting risks and major findings in the course of audit/review;

- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor;

- approval of the audit fees and terms of engagement of the external auditor;

- review of internal audit findings in 2010 and recommendations and approval of 2011 internal audit plan;

- review of the effectiveness of the internal audit function and the collaboration between the internal and external auditors without prejudice to the independence of the external auditor;

- review of the effectiveness of the Company's risk management functions and internal control system, including the financial reporting and compliance functions; and
- conducting a self-evaluation of the functions and performance of the Audit Committee.

## EXTERNAL AUDITOR

For the year ended 31 December 2010, the total remuneration for the audit services provided by the external auditor amounted to RMB3,900,000 (2009: RMB4,050,000). The audit fees were approved by the Audit Committee.

For the year ended 31 December 2010, the total remuneration for permissible non-audit services provided by the external auditor and its affiliates amounted to RMB1,029,000 (2009: RMB1,386,000). The non-audit services mainly comprised tax compliance and other tax advisory services. The Audit Committee had been notified with the non-audit services and fees and was satisfied that such services did not (in terms of the nature of services and the related fee levels) affect the independence of the external auditor.

Prior to commencement of the audit of the Company's accounts for year 2010, the Audit Committee had received a confirmation from the external auditor on their independence and objectivity. External audit partners are subject to periodic rotation.

The statement of the external auditor of the Company about their reporting responsibilities on the consolidated financial statements is set out on pages 109 and 110 of this annual report.

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

## INTERNAL CONTROL

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

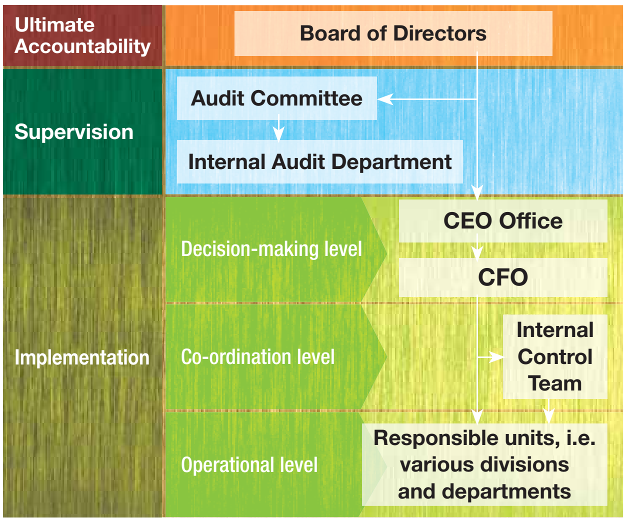
In 2010, the Group further strengthened its internal control in various operational, financial and compliance aspects.

### Internal Control System

Based on the experience in operation control over the years, the Company has put in place an integrated system of internal control. The system adopts the globally recognised framework outlined by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"), with the Group's business, operational and financial risks, corporate culture and management philosophy being taken into account. The system is designed to achieve (i) effectiveness and efficiency of operations; (ii) enhancement of reliability of internal and external financial reporting; and (iii) compliance with applicable laws and regulations. The system serves to provide reasonable, but not absolute, assurance against material misstatement, fraud or loss.

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

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




The Company has established a top-down organisational and management structure with clear-cut responsibilities and authorities for internal control purposes, embracing three levels which are responsible for ultimate accountability, supervision and implementation, respectively: (i) the Board has the ultimate accountability and authority in internal control management. It is externally accountable to the Shareholders for corporate governance responsibility, whereas internally it acts as the highest authority to foster internal control; (ii) the Audit Committee is responsible for supervising the establishment and operation of the internal control system by the management, monitoring the Group's internal control procedures and advising the Board on the effectiveness thereof. Preliminary assessment on the effectiveness of internal control is conducted by the Internal Audit Department which reports directly to the Audit Committee; (iii) the implementation level comprises a decision-making group (which is an executive team led by the Chief Executive Officer and the Chief Financial Officer being responsible for the daily internal control management), a coordination body (namely, the Internal Control Team, which is responsible for supporting the planning and establishment of the Group's internal control system, coordinating the promotion and implementation of the internal control structures in different systems, and organising examination on the effectiveness of the internal control and assessment of risks) and operational level (which are the units being responsible for execution of the internal control, including various operational and functional divisions and departments that are accountable to the establishment, enhancement and effectiveness of the internal control system).

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

(2) Possession of effective and forward-looking strategic management and operation management information and financial and accounting management systems to support the supervision of implementation and performance of business strategies and plans. Timely and regular

operational and financial reports are submitted to and reviewed by the senior management, the Board or its designated committees. This allows them to monitor and control situations against the established annual operating and financial targets and to consider necessary actions as well as to ensure such actions being carried out promptly to remedy any significant failures or weaknesses.

(3) Ongoing implementation of the Internal Control Manual of Li Ning Company Limited (the "Internal Control Manual"), which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system. The Internal Control Manual currently covers areas comprising the management procedures in respect of sales and trade receivables, procurement and trade payables, inventories, capital, financial reporting, taxation, management functions of the Group, administration and human resources, intellectual property rights, export and fixed assets. The Internal Control Manual is updated at least once a year, depending on the needs for business changes and procedural refinement, so as to further improve and monitor the effectiveness of the internal control system on a continuing basis. With the arrangement and coordination of the Internal Control Team, 72 key items of internal control and the detailed corresponding control procedures of the Internal Control Manual were updated by relevant departments during the year 2010, with such updated procedures implemented during the year.

(4) Establishment of an effective annual self-assessment and evaluation mechanism under the internal control framework, with satisfactory results and attaining the following goals:

    (i) fostering middle and senior management to review and comment whether control targets on corporate level can be achieved, and to identify inadequacy and make improvement in a timely manner;

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

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

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

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

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

## Annual Review

The Board is fully aware of its accountability in respect of the Group's internal control system and its responsibility for reviewing the effectiveness of the system. The enhancement of internal control is a continuous process and needs to be responsive and remain relevant over time in the continuously evolving business environment. The Group's internal control system is therefore subject to continuous review and improvement to enable the Group to have appropriate responses to any changing risks faced by the Group.

A comprehensive review on the effectiveness of the Group's internal control system is conducted annually, covering all material controls including financial, operational and compliance controls and risk management functions. The review is performed internally on a self-assessment approach (CSA) with a complete set of reporting forms. Persons in-charge of each division and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In 2010, the Company continued to improve methods for self-assessment, which included simplifying questionnaires, use of information technology systems to complete the questionnaires and increasing the number of interviews. The self-assessment covered more than 70 divisions or departments based on the Company's organisational restructuring and business expansion. In addition, members of senior management were required to assess the effectiveness of the internal control system against the elements outlined by the COSO internal control system, including control environment, risk assessment, information and communication, and control. The review process has enabled the persons-in-charge to verify whether the internal control system is working as intended, to identify failures or weaknesses and to take relevant remedial actions. The Internal Audit Department also carried out independent examination and analysis on the reviewing process and the results. Based on the results, the Chief Executive Officer and the Chief Financial Officer submitted a declaration to the Audit Committee and the Board, certifying the adequacy and effectiveness of the Group's internal control system.

The results of the review conducted for the year ended 31 December 2010 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirms that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. Improvement areas of the systems and procedures have been identified and remedial actions have either been taken or designated to be taken. No material weaknesses have been identified so far and there were no significant areas of concern which may affect the Shareholders.

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

The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the code provisions in respect of internal control under the Corporate Governance Code for the year ended 31 December 2010.

## Internal Audit

The Internal Audit Department has been established soon after the Company's listing on the Hong Kong Stock Exchange in 2004. The main functions of the Internal Audit Department are reviewing operational and financial conditions of the Group free from restrictions, so as to disclose potential risks, and to follow up with related remedial measures, with a view to continue to enhance operation effectiveness and efficiency of the Group. The Internal Audit Department plays an important role in the

Group's internal control and risk management framework with an aim to providing objective assurance to the Audit Committee and the Board that a sound internal control system and risk management system is maintained and operated and that the risks associated with the achievement of business objectives are being managed properly and circumvented. The Internal Audit Department reports directly to the Chief Financial Officer and can refer matters to the Audit Committee directly. The head of the Internal Audit Department attends every meeting of the Audit Committee and maintains constructive dialogue with the Company's external auditor. The Internal Audit Department also collaborates with the external auditor where appropriate.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk assessment results, and engages in related tasks with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular audit and evaluation of the operational effectiveness and efficiency of various business and functional systems; and (ii) special audits in various concerned areas designated by the management and the Audit Committee based on the assessment of risks. In the year 2010, the Internal Audit Department conducted audits on the product system, sales system, supply chain management system, retail subsidiaries and finance system of LI-NING brand, as well as on new business areas, including Double Happiness, Lotto, Kason and international markets, and submitted the relevant audit reports to the Audit Committee, Chief Executive Officer and Chief Financial Officer.

For material audit findings and risk factors, the Internal Audit Department will notify the Audit Committee and the management of such risks in a timely manner, and will regularly follow up with the improvement progress. As at 31 December 2010, various audit findings and risk factors had been or were being properly handled by the management, and there were no material irreparable audit findings and risk factors. Based on the risk assessment and the Group's strategic focus, the Internal Audit Department has planned to carry out audits focusing on brand, sales channels (including various regions and retail subsidiaries), supply chain, human resources, information technology system and new businesses in 2011.

The Internal Audit Department also plays an important role in the realm of internal control and risk management system and is responsible for reviewing and assessing the adequacy and compliance level of the Group's internal control system and risk management system and providing an independent and objective opinion on the effectiveness of the systems. In 2010, the Internal Audit Department participated in certain parts of the relevant work on reviewing the risk management system and internal control, and also conducted audits on the implementation of the risk management review of sales channels and the internal control review of the information technology system.

## PRICE-SENSITIVE INFORMATION

With respect to procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is fully aware of its obligations under the Listing Rules and the overriding principle that price-sensitive information should be announced immediately when it is the subject of a decision. The Company reviews from time to time its internal guidelines on price sensitive or potentially price sensitive information by reference to its own and industry circumstances and the Guide on Disclosure of Price-Sensitive Information issued by the Hong Kong Stock Exchange. The Company's policy contains a strict prohibition on the unauthorised use of confidential or insider information and has established and implemented procedures for responding to external enquiries about the Group's affairs. The Chairman, Chief Executive Officer and the Chief Financial Officer are identified and authorised to act as the Company's spokespersons to respond to enquiries made in relation to the Group's affairs.

## COMPLIANCE WITH THE MODEL CODE ON SHARE DEALINGS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules regarding securities transactions by its Directors. Directors are reminded regularly of their obligations under the Model Code. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2010.

Employees who are likely to be in possession of unpublished price-sensitive information of the Group are also subject to the compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in year 2010.

## SHAREHOLDERS' RIGHTS

Under the Company's articles of association, any one or more Shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board to require an extraordinary general meeting to be called by the Board for transactions of any business specified in such requisition. Such requisition can be deposited at the Company's principal place of business in Hong Kong situated at Suites 2804-5, Times Square, Shell Tower, Causeway Bay, Hong Kong. Shareholders may also send their enquiries which require the Board's attention to the same address.

For the year 2010, there was no change made in the Company's articles of association.

## SHAREHOLDERS' MEETINGS

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

The Company has adopted poll voting in its Shareholders' meetings since listing in 2004 before poll voting was made mandatory for all general meetings effective from 1 January 2009 under the Listing Rules. All resolutions put forward at any Shareholders' meeting are voted by poll so that each Share is entitled to one vote. The procedures for demanding and conducting a poll are included in the circular to the Shareholders accompanying the notice of the meeting and are explained at the beginning of the meeting.

The last annual general meeting, which was also the last Shareholders' meeting of the Company, was held on 14 May 2010. To encourage Shareholders to attend the meeting, more than 20 clear business days' notice and a circular containing necessary information were given to Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered in the meeting. A majority of the Directors, including all executive Directors, a non-executive Director and all independent non-executive Directors, and the Company's external auditor were present at the meeting. A question and answer session was available for Shareholders to raise questions.

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

- adopting the audited financial statements for the year ended 31 December 2009;
- declaration of final dividend;
- re-election of three Directors and authorisation to the Board to fix the remuneration of the Directors;
- re-appointment of auditor and the authorisation to the Directors to fix their remuneration; and
- providing Directors with general mandates to repurchase and issue and allot shares of the Company subject to the relevant limits under the Listing Rules.

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

No extraordinary general meeting was held during the year. The next annual general meeting of Shareholders will be held on 13 May 2011. Details of the meeting and necessary information on issues to be considered in the meeting are set out in the circular dispatched to the Shareholders together with the Company's annual report 2010.

## WAY FORWARD

During the year, the Company was delighted to be one of the awardees at the "Class of 2010 The Best of Asia" by Corporate Governance Asia, one of the Region's most authoritative publications on corporate governance. The award is a stamp of approval to the Group's continued efforts to ensure that its affairs are conducted in an ethical, transparent and accountable manner. In December 2010, the Company was also honoured to be one of the awardees of the Titanium Award for "Corporate Governance, Social Responsibility and Investor Relations" in "The Assets Corporate Awards" by The Asset, an Asia's leading financial publication.

Corporate governance is a continuous process. The Board will continue to review and improve its corporate governance regime in response to internal and external changes with an aim to maintain a high degree of transparency, accountability and independence.

By order of the Board

| | |
|---|---|
| **Zhang Zhi Yong** | **Chong Yik Kay** |
| *Executive Director &* | *Executive Director &* |
| *Chief Executive Officer* | *Chief Financial Officer* |

Hong Kong, 16 March 2011

## DIRECTORS

### Executive Directors

**Mr. LI Ning**, aged 48, is the founder of the LI-NING brand and the Group's Chairman and an executive Director. He is primarily responsible for providing leadership for the Board and formulating the Group's overall corporate strategies and planning.

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

After retiring in 1989 from his athlete career, Mr. Li Ning initiated the idea of LI-NING brand with the goal of creating the first national sports goods brand in the PRC. He has dedicated the past 21 years to the development of the Group's business, making great contribution to the development of the PRC's sports goods industry. Mr. Li also serves as chairman and executive director of Viva China Holdings Limited, a company listed on the Growth Enterprise Market of the Hong Kong Stock Exchange with effect from 2 June 2010. Mr. Li holds a bachelor's degree in law from School of Law of Peking University (北京大學), an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院), a technical honorary doctorate from Loughborough University in the United Kingdom and a degree of Doctor of Humanities honoris causa of The Hong Kong Polytechnic University. In June 2010, Mr. Li was also conferred honorary fellowship from The Hong Kong University of Science and Technology.

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

**Mr. ZHANG Zhi Yong**, aged 42, is the Chief Executive Officer and an executive Director. Mr. Zhang joined the Group in October 1992 as a finance manager of Beijing Li Ning Footwear Co., Ltd. (北京李寧鞋業有限公司), became the financial controller of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) in April 1999 and was the general manager of the company from February 2001 to June 2004. Since the listing of the Company on the Hong Kong Stock Exchange in June 2004, Mr. Zhang has been the Company's Chief Executive Officer and executive Director, responsible for the overall strategy of the Group, and promoting the development of human resources, information resources and financial resources in line with the Group's brand development. Since 1992 when he began his career in the sports goods industry in China, Mr. Zhang has accumulated 19 years of China experience in the industry with thorough understanding of the change of the consumer market in China, the building of brand images and change management for Chinese firms. Mr. Zhang holds a bachelor's degree from Beijing College of Economics (北京經濟學院) and an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院).

**Mr. CHONG Yik Kay**, aged 43, is the Chief Financial Officer and an executive Director. Mr. Chong joined the Group in February 2009. He is primarily responsible for the Group's overall financial and accounting management, capital planning and allocation, and investor relations affairs. Mr. Chong has 19 years of experience in the field of accounting, financial and business management. Prior to joining the Group, he was the senior finance director of Dell (China) Company Limited responsible for the China, Hong Kong and Taiwan regions. Prior to that, he was the finance head of the customer business development of Procter & Gamble (China) Limited responsible for the China region. Mr. Chong holds a bachelor degree in Economics and Statistics from the National University of Singapore.

## Non-executive Directors

**Mr. LIM Meng Ann**, aged 47, is a non-executive Director, Chairman of the Nomination Committee and a member of the Remuneration Committee. Mr. Lim joined the Group in July 2003. Mr. Lim is partner of a leading emerging markets-focussed private equity firm, Actis, and is responsible for its private equity investment in China, since he joined in July 2007. Prior to joining Actis, Mr. Lim was the executive vice president of, and was responsible for the investment activities in Greater China for GIC Special Investments Pte. Ltd., the private equity arm of Government of Singapore Investment Corporation Pte. Ltd., which he joined in 1997. Prior to that, he was an investment officer of International Finance Corporation, the private sector investment arm of the World Bank group, from 1993 to 1997. Mr. Lim holds a bachelor's degree of engineering (first class honors) from University College of London and a M.B.A. degree from University of Strathclyde. Mr. Lim is also a Chartered Financial Analyst.

**Mr. CHU Wah Hui**, aged 59, is a non-executive Director and a member of the Nomination Committee. Mr. Chu joined the Group in June 2007. Mr. Chu is currently an executive director and chief executive officer of Next Media Limited, a company listed on the Main Board of the Hong Kong Stock Exchange. He is also a director and a nominating and corporate governance committee member of the board of Mettler-Toledo International Inc., a U.S. corporation listed on the New York Stock Exchange. Mr. Chu was non-executive chairman of PepsiCo International's Asia Region between 2007 and 2008. He was president of PepsiCo International — China Beverages Business Unit from 1998 to 2007 and concurrently chairman of PepsiCo (China) Investment Company Limited from 1999 to 2007. Before joining PepsiCo International in 1998, Mr. Chu held various management positions in several U.S. multinational companies, namely, Quaker Oats, HJ Heinz, Whirlpool and Monsanto. Mr. Chu obtained his Bachelor of Science degree from the University of Minnesota and M.B.A. degree from Roosevelt University, both in the United States.

**Mr. James Chun-Hsien WEI**, aged 53, is a non-executive Director. Mr. Wei joined the Group in September 2007. Mr. Wei has been appointed as an executive board member of Beiersdorf Aktiengesellschaft, a global skin and beauty care company listed on the German Stock Exchange, with effect from 1 June 2009. Prior to that, Mr. Wei was the senior vice president of Avon Products, Inc., Asia Pacific ("Avon") and had been responsible for Avon's operations in 10 markets, including Japan, Taiwan, Australia, Philippines and India from 2003 to May 2009. Before joining Avon, Mr. Wei spent 19 years at Procter & Gamble where he rose to become the vice president and general manager of Procter & Gamble Greater China, overseeing the company's health and beauty care business in that region. Mr. Wei holds a B.S.E.E. degree from National Taiwan University and a M.B.A. degree from the University of Chicago in the United States.

## Independent non-executive Directors

**Mr. KOO Fook Sun, Louis,** aged 54, is an independent non-executive Director, Chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. Mr. Koo joined the Group in June 2004. Mr. Koo is the managing director of Hercules Capital Limited, a corporate finance advisory firm. Prior to the founding of Hercules Capital Limited, he was the managing director and the head of corporate finance department of a major international bank, and a director and chief executive officer of a company listed on the Main Board of the Hong Kong Stock Exchange. Mr. Koo also serves currently as an independent non-executive director of Weichai Power Company Limited, Midland Holdings Limited, Good Friend International Holdings Inc., Xingda International Holdings Limited and Richfield Group Holdings Limited, all of which are listed on the Main Board of the Hong Kong Stock Exchange. From June 2005 to June 2008, Mr. Koo served as an independent non-executive director of Midland IC&I Limited; and from September 2006 to December 2009, he also served as an independent non-executive director of China Communications Construction Company Limited (both companies are listed on the Main Board of the Hong Kong Stock Exchange). Furthermore, from January 2007 to October 2009, he was the Vice Chairman, Chief Financial Officer, Treasurer and Principal Accounting Officer of 2020 ChinaCap Acquirco, Inc. (a company listed on NYSE Amex). Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley in the United States and is a certified public accountant.

**Ms. WANG Ya Fei**, aged 55, is an independent non-executive Director, Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. Ms. Wang joined the Group in January 2003. Ms. Wang has 20 years of experience in management and corporate finance matters. Ms. Wang has been the director and deputy general manager of Beijing Investment Consultants Inc. since 1996. She has also been an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) since 1995. Ms. Wang also serves as a non-executive director of Xueda Education Group which became listed on the New York Stock Exchange in November 2010. She holds a bachelor's degree in international politics from Fudan University (復旦大學) in Shanghai and was an exchange scholar in Maryland University, College Park in the United States. Ms. Wang also holds a M.B.A. degree from University of Lancaster in the United Kingdom.

**Mr. CHAN Chung Bun, Bunny**, aged 53, is an independent non-executive Director and a member of the Audit Committee. Mr. Chan joined the Group in June 2004. Mr. Chan has about 31 years of experience in the garment industry and is currently the chairman of Prospectful Holdings Ltd.. Mr. Chan is active in community affairs in Hong Kong. He is currently the chairman of Kwun Tong District Council of Hong Kong and has been appointed as the chairman of the Commission on Youth of Hong Kong for a term of two years commencing from 1 April 2009. Mr. Chan was appointed as Justice of Peace in 2002 and was awarded the Bronze Bauhinia Star medal in 2004 and Silver Bauhinia Star medal in 2009 by the Hong Kong Government.

## SENIOR MANAGEMENT

### Group Functional Divisions and LI-NING Brand

**Mr. GUO Jian Xin**, aged 41, is a Vice President and Chief Operating Officer of the Group. Mr. Guo joined the Group in October 1997. Mr. Guo is primarily responsible for the overall operation management of the Group, including the sales and operation divisions of LI-NING brand. Mr. Guo has over eight years of experience in logistics and procurement management, and was the Deputy General Manager of the operation division of LI-NING brand. Mr. Guo graduated from South China Normal University (華南師範大學) majoring in mathematics, and completed the "Fly High @ HKUST Executive Diploma in Management" of the Business School of The Hong Kong University of Science and Technology in 2007.

**Mr. FANG Shih Wei**, aged 47, is a Vice President and Chief Marketing Officer of the Group and the General Manager of the marketing division of LI-NING brand. Mr. Fang joined the Group in June 2007. Mr. Fang is primarily responsible for the marketing and communications, public relations, sports marketing, event marketing and digital marketing of LI-NING brand. Prior to joining the Group, Mr. Fang worked in various multinational companies and has extensive experience in marketing and product management. Mr. Fang graduated from Taiwan University (台灣大學) in 1989 with a master's degree in zoology and obtained master's degrees in both journalism and telecommunications from Ohio University in the United States in 1994.

**Mr. HSU Mao Chun, Morrison**, aged 46, is a Vice President and Chief Product Officer of the Group and the General Manager of the apparel products division of LI-NING brand. Mr. Hsu joined the Group in November 2007. Mr. Hsu is primarily responsible for the integration of the apparel products division and the footwear products division, and the product innovation, planning, design and development according to the brand positioning. Prior to joining the Group, Mr. Hsu worked in well-known international sports brand companies and has extensive experience in marketing and product management in Asia Pacific Region. Mr. Hsu graduated from University of California, Berkeley in the United States, with a bachelor's degree in international business marketing.

**Mr. ZHANG Hui**, aged 40, is a Vice President of the Group. Mr. Zhang joined the Group in November 2000. Mr. Zhang is primarily responsible for the Group's new business operation management, strategic planning and analysis system building as well as supply chain project management. Mr. Zhang holds a bachelor's degree from Financial and Banking Institute of China (中國金融學院) and a master's degree in international business management from Tsinghua University (清華大學).

**Ms. DAI Qian**, aged 39, is the General Manager of the human resources division. Ms. Dai joined the Group in June 1997. Ms. Dai is primarily responsible for establishing and improving the strategic human resources system, employee cultivation system, compensation and benefit system, and personnel administration and management. She has more than ten years of experience in human resources management and administration. Ms. Dai holds a bachelor's degree from Beijing University of Science and Technology (北京科技大學) and a master's degree in business management from Renmin University of China (中國人民大學).

**Mr. ZHANG Jun**, aged 42, is the General Manager of the information technology division. Mr. Zhang joined the Group in July 2005. Mr. Zhang is primarily responsible for strategic planning, project development, information operation and resource management of the information technology system of the Group. Prior to joining the Group, he held a management position in a reputable information technology group in the PRC. Mr. Zhang holds a bachelor's degree in communications engineering from Beijing University of Posts and Telecommunications (北京郵電大學).

**Mr. DU Dao Li**, aged 42, is the Financial Controller. Mr. Du joined the Group in September 1996. Mr. Du is primarily responsible for the financial management of the Group. He has over ten years of experience in accounting and financial management. Mr. Du holds a bachelor's degree in accounting from Beijing Information Science and Technology University (北京信息科技大學).

**Mr. CHEN Shao Wen**, aged 39, is the General Manager of the strategic development division. Mr. Chen joined the Group in July 2004. Mr. Chen is primarily responsible for the strategic planning and control as well as establishment of knowledge management system of the Group. Prior to joining the Group, Mr. Chen held management positions in several local and overseas reputable companies. Mr. Chen holds a bachelor's degree in Economics from Tongji University (同濟大学) and a master's degree in business administration from the Stuttgart Institute of Management and Technology in Germany.

**Mr. YANG Hai Wei**, aged 37, is the General Manager of LI-NING brand in the Northern China region. Mr. Yang joined the Group in January 2000. Mr. Yang is primarily responsible for the sales management and operations in the Northern China region. Prior to joining the Group, he held management positions in major state-owned enterprises and listed companies. He has over 15 years of experience in sales management of large-scale enterprises. Mr. Yang graduated from Beijing Materials University (北京物資學院) with a bachelor's degree in management.

**Mr. WANG Xue Jun**, aged 43, is the General Manager of LI-NING brand in the Eastern China region. Mr. Wang joined the Group in January 2000. Mr. Wang is primarily responsible for the sales management and operations in the Eastern China region. Prior to joining the Group, he held management positions in several large-scale sports goods companies. He has over 17 years of experience in management in the sports/clothing industry. Mr. Wang graduated from the profession of Industrial and Enterprise Management from Beijing Union University (北京聯合大學) with a bachelor's degree in engineering.

**Mr. LI Guo Zhang**, aged 47, is the General Manager of LI-NING brand in the Southern China region. Mr. Li joined the Group in August 2009. Mr. Li is primarily responsible for the sales management and operations in the Southern China region. Prior to joining the Group, he held senior management positions in several renowned international brands of clothing and footwear companies. He has over 15 years of experience in management of relevant industries. Mr. Li holds a master's degree in Commerce from University of Wollongong in Australia and a master's degree in business administration from the University of Technology, Sydney.

**Mr. LU Ning**, aged 43, is the General Manager of the sales operation of LI-NING brand. Mr. Lu joined the Group in April 2010. Mr. Lu is primarily responsible for the sales operation and the establishment and implementation of the sales standard of LI-NING brand products. Prior to joining the Group, he was an executive director of a large-scale sports goods retail company. He has over 14 years of experience in senior management. Mr. Lu holds a bachelor's degree in engineering from Beijing Institute of Fashion Technology (北京服裝學院) and a bachelor's degree in economics from Nanjing University (南京大學).

**Mr. DONG Jun**, aged 43, is the General Manager of the supply chain management division of LI-NING brand. Mr. Dong joined the Group in December 2002. Mr. Dong is primarily responsible for the procurement, manufacturing, quality control and logistics management of the LI-NING brand products. Prior to joining the Group, he worked in a number of local and overseas large-scale manufacturing enterprises and has over 15 years of experience in management of large-scale manufacturing enterprises and six years of enterprise resources planning counselling experience. Mr. Dong graduated from the Department of Materials of Central South University of Technology (中南工業大學) with a bachelor's degree in metallic science.

## OTHER BUSINESS UNITS

**Mr. WU Xian Yong**, aged 39, is the General Manager of the Lotto brand business. Mr. Wu joined the Group in February 2004. Mr. Wu is primarily responsible for market development, product planning and design, research and development, comprehensive analysis and sales of Lotto brand products. Mr. Wu has over ten years of experience in marketing and brand management, and was successively the Deputy General Manager of the marketing division and Deputy General Manager of the footwear products division and concurrently the Deputy General Manager of the apparel products division of LI-NING brand. Prior to joining the Group, he held various management positions in charge of several brands of a multinational consumer goods company. He obtained a bachelor's degree from Xi'an Jiaotong University (西安交通大學) and a bachelor's degree in international commerce from Renmin University of China (中國人民大學).

**Mr. HONG Yu Ru**, aged 45, is the General Manager of the indoor sports business of LI-NING brand. Mr. Hong joined the Group in 1990. Mr. Hong is primarily responsible for the formulation of brand strategies and operation management of badminton and table tennis products of LI-NING brand. Prior to joining the Group, Mr. Hong was a professional badminton player.

**Mr. Jay LI**, aged 41, is the General Manager of the international marketing division and the Chief Representative of the US Creativity Centre. Mr. Li joined the Group in December 2007. Mr. Li is primarily responsible for the business development, customer maintenance, authorisation, sales and services of the international market, the operation and day-to-day affairs of the US Creativity Centre as well as the initiation of the trial operation of the business in the United States. Mr. Li was the General Manager of the footwear products division of LI-NING brand. Prior to joining the Group, Mr. Li held a management consulting position in a corporate management consulting company in the United States. Mr. Li holds a bachelor's degree in arts from Middlebury College in the United States.

**Mr. Elson CHANG**, aged 46, is the General Manager of AIGLE brand business. Mr. Chang joined the Group in November 2007. He is responsible for the strategy formulation and operations management of AIGLE brand. Prior to joining the Group, Mr. Chang held senior management positions in the Taiwan subsidiaries of various multinational companies and has over ten years of experience in marketing and product promotion management. Mr. Chang graduated from National Chengchi University, Taiwan (台灣國立政治大學) with a master's degree in marketing.

**Mr. HUANG Yong Wu**, aged 59, is the Chairman of Shanghai Double Happiness Co., Ltd., which has become a non-wholly owned subsidiary of the Group since July 2008. Mr. Huang has been engaged in manufacturing of sports equipment for almost 40 years and has his unique ideas and practical experiences in management relating to the industry. Mr. Huang has experience and understanding in corporate strategic management, brand operation and product promotion strategies particularly. Mr. Huang is qualified as one of the First Batch of National Grade One Professional Managers (國家一級職業經理人) in the PRC.

**Mr. LOU Shi He**, aged 54, is a Director and the General Manager of Shanghai Double Happiness Co., Ltd., which has become a non-wholly owned subsidiary of the Group since July 2008. Mr. Lou has been engaged in manufacturing of sports equipment for more than 30 years and has extensive experience in quality management, marketing, product research and development and public relations. Mr. Lou is qualified as one of the First Batch of National Grade One Professional Managers (國家一級職業經理人) in the PRC.

# Investor Relations Report

## OVERVIEW

Maintaining effective investor relations (IR) has always been a top priority for the Group. The management philosophy of Li Ning Company is predicated on providing consistent and transparent disclosure of information to all stakeholders, including Shareholders, investors and media. The Company strongly believes that helping the investment community fully understand its current position and future direction is vital to its long-term success. The IR Department is, therefore, committed to producing and disseminating a constant flow of timely information regarding long-term development strategies, competitive landscape and financial performance, and maintaining an open, two-way dialogue with the Group's stakeholders.

The Group experienced an unusual year in 2010, the LI-NING brand was taken to the next level via the brand revitalisation, yet the speed at which the market developed and changed was faster than expected; thus, the Group experienced many difficulties and faced various challenges. For this reason, the IR Department had also experienced unusual challenges during the year. As the market was calling for more stringent needs for communication, the Group intensified its communications with investors by organising a variety of IR activities and other initiatives in order to quickly respond to market needs.

The Company proactively arranged many communication programmes to ensure that all parties received the greatest value from available data and learned experiences through the sharing of information as well as the collection and dissemination of valuable feedback from stakeholders. This has given the Company the added benefit of incorporating the comments and suggestions into its future business strategies and directions to ensure it is well prepared as the Company enters a new period of business growth that builds on past successes.

These efforts have reaped many awards for the Company throughout the years, and 2010 was no exception. The Company takes great pride in having received the following honours:

- Titanium Award for "Corporate Governance, Social Responsibility and Investor Relations" by The Asset Corporate Awards 2010

- Wall Street Journal Asia 200

- "SILVER Award" in the category/classification Interior Design: Sports Equipment & Goods for the Company's 2009 Annual Report by ARC Awards, the highest honour in this category

- "Honors Award" in the Design: Interim Report category for the Company's 2010 Interim Report by MERCURY Awards 2010-2011.

These awards were all presented by widely-acclaimed international organisations. Companies are being judged based on their overall business performance, management strategies, corporate governance and transparency as well as quality of investor relations work. The Company relishes these honours as they reflect its sound planning and implementation of the highest standards in IR principles and practices.

## Comprehensive IR Program

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

Given the unique circumstances of 2010, the Company increased the frequency and intensity of its external communications to keep the financial community updated of its activities. The Company utilised a wide range of communication channels to interact with investors and generate greater awareness in its latest developments, on the top of the regular annual and interim results presentations.

### – International roadshows and investment forums:

During 2010, the Company's management actively engaged the investor community through participation in a number of international roadshows and investment forums hosted by leading financial institutions in Asia, the United States and Europe. These events allowed the Company's management to have direct dialogues with investors and to present its latest developments to them personally.

### – Ongoing communication with the investment community

The Company employs a dedicated team of IR professionals to keep investors up to date of its latest developments and business operations via a wide range of investor communication events. Communication materials in the form of press releases or announcements were distributed to investors and to the media in relation to business updates. Telephone conferences were also hosted to engage investors in a more interactive manner. In addition, in January 2011 the Group hosted a management presentation with investors to facilitate their understanding of its future outlook and strategies.

### – Reverse roadshows and store visits

In June 2010, the Group invited a group of investors to attend its brand revitalisation kick-off presentation. There, management provided details of the brand revitalisation project's current status and future plans. In addition, a tour of the Group's sixth generation stores, which incorporate the corporate identity of the Group's new brand positioning, was also organised. In November 2010, the Group invited a group of investors to take part in Q2 2011 trade fair for the LI-NING brand, during which the management also shared with them the Group's latest developments and business updates.

### – Investor opinion survey

Since its listing on the Hong Kong Stock Exchange in 2004, the Company has conducted investor opinion survey annually to gauge from them valuable insights and guidance to help improve its business strategies. From this year's survey, an impressive amount of practical feedback was received from investors regarding the Group's strategy and future developments. They also offered many invaluable suggestions and comments, all of which have been relayed to the management and will serve an instrumental role in the Group's future strategic decisions.

### – Media Relations

Good media relations constitutes an integral part of the Company's IR efforts. The IR Department has made full use of various media channels, including news releases, press conferences and media interviews, to disseminate information to the public. In addition, the Group invited a group of reporters to participate in the brand revitalisation kick-off event in June 2010.

## SUMMARY

During the year under review, management has conducted many IR activities, such as road shows and investor group on-site conferences to enhance investor relations and communications. Details of these activities are as follows:

| Event type | 2010 | 2009 |
|---|---|---|
| Result presentations for investors and media | **2 times** | 2 times |
| Roadshows (including reverse roadshows) | **14 times (total 215 meetings)** | 12 times (total 124 meetings) |
| Investment forums | **10 times (total 95 meetings)** | 8 times (total 59 meetings) |
| Investors group on-site conference | **9 times** | 5 times |
| Media interviews | **4 times** | 3 times |
| Media on-site visit | **1 time** | 0 time |
| Regular face-to-face meetings with investors | **68 times** | 92 times |
| Conference calls with investors | **52 times** | 32 times |
| Visits to the Company's stores | **22 times** | 32 times |
| Sell-side analysts conference-calls | **4 times** | 2 times |
| Investor opinion survey | **1 time** | 1 time |

## CORPORATE WEBSITES

The corporate websites, www.lining.com, www.irasia.com/listco/hk/lining and www.li-ning.com, facilitate the dissemination of the Company's latest information. Extensive presence on the internet offers stakeholders a major source to readily retrieve information on the Group's activities, corporate governance, management, operating and financial performance, latest business developments, as well as share price performance. The websites are also being used as a platform to regularly dispatch the latest Company announcements, interim and annual reports, in addition to other corporate information.

## FUTURE OUTLOOK

The Company understands that the future will be full of challenges, but it will continue its dedication to providing high value IR services. The Group's long-standing efforts devoted to strengthening communications with the investment community will continue unrelentingly. Through its work, the IR Department hopes more and more investors will discover Li Ning, listen to Li Ning, understand Li Ning, care about Li Ning, and ultimately grow with the Company.

# INFORMATION FOR INVESTORS

## Share Information

Listing: Main Board of the Hong Kong Stock Exchange
on 28 June 2004
Stock code: 2331
Board lot: 500 Shares
Number of issued Shares as at 31 December 2010:
1,052,800,836
Market capitalisation as at 31 December 2010:
approximately HK$17,350,158,000

## Dividends for 2010

Interim dividend: RMB22.15 cents per Share
Proposed final dividend: RMB19.97 cents per Share

## Financial Calendar

Announcement of interim results: 25 August 2010
Announcement of annual results: 16 March 2011
Closure of register of members*: 12 May 2011 – 13 May 2011
Dividend entitlement record date*: 13 May 2011
Annual general meeting: 13 May 2011
Payment date of final dividend: on or about 23 May 2011

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

## Corporate Websites

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

## IR Contact

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Li Ning Company Limited
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258 Zhizaoju Road, Shanghai, PRC
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E-mail: investor@li-ning.com.cn

While strictly complying with commercial ethics, the Group continually endeavours to make contributions to society, practice its belief of being a responsible corporate citizen in every aspect of its operations.


## CARING FOR OUR STAFF

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

The "heartfelt" corporate culture of the Group is forged to enhance team cohesion, where core values of "Live for Dream; Integrity and Commitment; We Culture; Achieving Excellence; Consumer Oriented and Breakthrough" are all consistently promoted. The Group advocates its corporate culture and values through various platforms, including the intranet, internal publications, and senior management e-magazines. At the same time, the Group adopts cross-team training to foster better team-building across its business units and functions, and share cultural experience.

To further promote the well-being of its employees, the Group advocates athleticism and encourages participation in sports. Through sports, the Group hopes to enhance cohesion within the entire organisation. Covering more than 50,000 square meters, the "Li Ning Centre", the Company's headquarters in Beijing, houses gymnasiums for swimming, basketball, badminton and tennis, as well as an outdoor football field, which are open for employees' use, with dedicated coaches to assist them to cultivate their sportsmanship and skills. Many sports clubs for employees are funded and supported by the Group, and various internal and public sports activities, such as sports games, badminton/basketball/tennis tournaments, Sports Day, Beijing Marathon and football league matches for foreign-invested enterprises in Beijing, are held ardently. These activities allow employees to understand and appreciate the Group's corporate values and experience its professional sports products. The Group's unique sport culture, which contributes to the well-being of employees and the improvement of team cohesion, has become one of the key elements for attracting new talents.

The Group cares deeply for its staff in all aspects. The Group operates the employee assistance programme to help staff members cope with pressure in a positive manner and organises Open Day regularly as a platform to allow communication between staff and management. Every year, the Group offers commercial medical insurance to its employees and their children, and arranges free medical check-ups for its employees. Moreover, the Group provides a pleasantly-furnished workplace to ensure a healthy and comfortable working environment.

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

To enhance the leadership skills of management, the Group puts emphasis on improving leadership qualifications. All development and practice of the leadership programmes are in line with the Company's qualification model. Furthermore, an internal lecturing system has been designed, and professionally skilled staff are encouraged to take up more responsibilities as internal lecturers. In line with the Company's strategy in talent development, management staff are encouraged to help advance the potential of their key subordinates so as to promote long-term sustainable development within the Group's talent pool, and ultimately enhance our competitive edge.

In order to build our in-house professional expertise, the Group has revamped the outline of every module in our professional training programme to mirror our long-term strategic focus. The Group has also designed a complete sales structure qualification model and relevant training programmes to improve employees' professional sales skills.

## ENCOURAGING SUPPLIERS TO TAKE UP CORPORATE SOCIAL RESPONSIBILITY

The Group puts the concept of corporate social responsibility (CSR) into action by encouraging our suppliers to adopt CSR initiatives with a view to promote the sense of responsibility in the business environment.

The Group includes criteria such as compliance with the nation's laws and regulations, protection to the natural environment and the maintenance of positive relationship with employees into the principles in selecting its suppliers and other partners. The Group also formulates and implements "The Basic Social Responsibility Requirements for Suppliers of Li Ning Company" (《李寧公司供應商社會責任基準要求》), and enforces these in contracts with its suppliers. In addition, the Group engages training organisations to help educate its strategic suppliers on policies and practices regarding the environment, health, safety and staff relations. An agreement has also been signed with a manufacturer monitoring organisation to research, examine and assess and follow up on the performance of factories owned or utilised by the Group's suppliers. During 2010, the Group's "Ten Years' Management on Environment, Health, Safety and Employee Relation of Factories of the Group's Suppliers" project was officially launched, helping suppliers' factories to improve their policies and operating standards on promoting the environment, health, safety and staff relations.

## PROMOTING EDUCATIONAL DEVELOPMENT

The Group is committed to education and utilises its resources to help in the development of educational programmes for teenagers.

"Let's Do Sports Together" (一起運動) is a programme that the Group launched together with the State Council's Office of Leading Group of Poverty Support and Development (國務院扶貧開發領導小組辦公室) to improve the standards of physical education in impoverished regions. In 2010, the Group continued to support the campaign, in which physical education teachers in Luoyang, Henan Province and Guizhou Province received professional training free-of-charge. By improving the instructors' teaching ability, more children would be able to benefit from, and hence enjoy, the physical and mental well-being brought about by sports. At the end of 2010, the campaign had been in operation for five years, benefitted a number of state-level poverty alleviation and development counties covering more than half of China, and trained over 1,600 teachers.

The Group's sponsored sports stars also acted as ambassadors for promoting the Group's social responsibilities and contributed to China's physical education by various means. During the Guangzhou Asian Games, the new gymnastics champion, Yang Yilin (楊伊琳), visited Li Ning Gymnastics School in Foshan, to personally coach the aspiring athletes while sharing with them the pleasure of gymnastics and encouraging them to hold on to their own sporting dreams. As the Overseas Promotion Ambassador of the Russian Pavilion, pole vault athlete Elena Isinbayeva, also joined "Visit the Expo with Stars" (明星帶你看世博) campaign as a delegate of Li Ning Company.

The Group has long been deeply engaged with high schools in China to show its concern for the development of young people. In 2010, the Group co-organised with Beijing Industrial Promotion Centre (北京工業促進中心) the "Li Ning Prize National Undergraduates Innovative Design Competition" (李寧杯全國大學生創意設計大賽), which provided a practical design platform for contestants. The Group also invited over 1,000 teachers and students of industrial design and related professions from 14 high schools to visit the Group's design and R&D centre and to exchange ideas with top designers.

Through all these activities, the Group encouraged young students to discover and demonstrate their talents and provided them with an opportunity to learn more about the actual work.

## LENDING A HELPING HAND TO SOCIETY

With the standard of good corporate citizenship in mind, the Group places importance on social care. In July 2010, the Company invited Yushu Zere Orphanage's Tibetan children to visit Li Ning Centre where Mr. Li Ning personally received this group of unfortunate children who had been orphaned by the earthquake and showed them passion and warmth.

Mr. Li Ning was the Health Ambassador of the Shanghai World Expo and also attended several activities organised by the World Expo Business Coordination Bureau, actively promoting a greener lifestyle. Led by Mr. Li Ning, children suffering from AIDS from the Fu'ai Association in Fuyang were also invited to visit the Shanghai World Expo, where they were able to immerse themselves in the excitement and happiness brought about by the Shanghai World Expo.

The charitable acts of the founder and leader of the Group, while reflecting corporate social responsibilities of the Group, establishes a benchmark for the Group's public interest values and demonstrates the Group's vision in actively engaging in public welfare across the globe.

In 2010 the Group continued to work with The United Nations World Food Programme (WFP) to actively participate in promoting charity and the building of an international media platform, including the promotion campaign launched with WFP in U.N. Pavilion at the Shanghai World Expo and investment in ourdoor promotion. Moreover, Mr. Li Ning also participated in an international aid campaign in Cambodia at the end of the year, calling on society to show more concern towards the living standards of people in underprivileged regions of the world and to work hand in hand to help fight poverty and starvation.

## IMPLEMENTATION OF ECO-FRIENDLY IDEAS

The Group puts environmental friendly concepts into practice by actively taking initiatives to protect the environment and reduce carbon emissions. Implementation of the Group's environmental friendly beliefs are not only encouraged in our staff members' day-to-day work habits, but also deeply entrenched in our product innovation and promotion.

In 2010, the Group zealously promoted the "Green Life, Low-Carbon Living" scheme, aimed at saving energy for and reduction emission from major energy-consuming equipment and encouraging the bit-by-bit contribution of our staff in their daily work, with a view to saving resources in the office environment in a variety of ways. Policies are in place in the Li Ning Centre, such as switching off lights for one hour every day, adjusting brightness of lights according to time of the day, working overtime in the same area, installing sunlight-blocking curtains in rooftop of buildings, using solar-energy hot water system and advocating reduced use of water and paper and of elevators by putting up notices near lavatories, staircases and photocopiers so as to lower energy consumption. The Group plans to implement paperless facsimile and kick off projects such as contracted energy management in the near future, for further energy saving and emission reduction.

Efforts were made to continuously promote the LI-NING brand environmental friendly Eco-Circle apparel in 2010. Recyclable Eco-Circle materials continued to be used in several LI-NING brand apparels, while recycling of clothing is ongoing. In parallel, LI-NING brand further promoted the Eco-Cut tailoring technique that increases the utilisation of materials.

The Group is consistently putting into practice and promoting environmental awareness in every segment of its footwear products including the choice of materials and formulae for shoe soles. It takes an active role in introducing and using various environmental materials, for example bamboo charcoal fibre and corn fibre, and in adopting various methods to maximise the utilisation of chemical raw materials. Regarding formulae for shoe soles, we try to add various environmental components and actively promote the use of environmental cotton shoe pads. Products entailing environmental ideas as represented by "Master V" (馭帥V) which fully utilises various environmental materials including corn fibre leather and natural bamboo flaps etc. were launched, which better convey the ideas of our environmental friendly products to the consumers.

The Group believes that enterprises are an integral part of the community, and both the natural and the social environment are indispensable to the survival of enterprises. While sustaining constant growth in our business and stepping forward as an international brand, the Group keeps a close eye on the harmonious coexistence between itself, nature and society in the long-term pursuit of sustainable development.

## SOCIAL RECOGNITION

In May 2010, Universum held a competition for the "Ideal Employer for University Students in China" (中國大學生理想僱主評選), which consisted of a survey of 400,000 students and those from the workforce. The results showed that the Company was among the top ten "Enterprises with the Best Corporate Social Responsibility" (最具企業社會責任公司).

In December 2010, the Company was honoured with the title of "China's Best Enterprise Employer in Apparel Industry" (中國服裝行業最佳僱主企業). This award was co-organised by CFW and China Fashion Magazine, assessing candidates based on their company culture, efficiency in communication, staff development and care programme and policy innovation.

In February 2011, the Company was named one of "Best 50 Workplaces" (50佳第一工作場所), for the second year.

The above-mentioned awards demonstrate that the Company is well regarded by the industry and the human resources market as a preferred employer, which is strong recognition of the Company's emphasis on staff development and its people-oriented approach. Encouraged by such social recognition, the Company will continue to practice strict self-restraint, with the aim of giving back to society and contributing to the harmonious and sustainable social development while securing a steady and healthy growth model. The Company is firmly committed to incorporating social responsibility into its multi-level accountability framework for Shareholders, employees, consumers, government, community and the environment.

# REAL SPORTS
## for real sports lovers

The Directors submit their report together with the audited financial statements for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

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

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

## SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and its interest in jointly controlled entities as at 31 December 2010 are set out in notes 10 and 11, respectively, to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 114 of this annual report.

During the year, the Company paid an interim dividend of RMB22.15 cents per Share on 24 September 2010 (2009: RMB13.58 cents per Share).

The Board has recommended the payment of a final dividend of RMB19.97 cents per Share in respect of the year ended 31 December 2010 (2009: RMB22.54 cents per Share). The final dividend will be paid in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 13 May 2011, being the date of the annual general meeting ("AGM") on which the final dividend is proposed to the Shareholders for approval. Subject to approval of Shareholders at the AGM, the final dividend will be paid on or about 23 May 2011 to Shareholders whose names appear on the register of members of the Company on 13 May 2011. For the purpose of determining the entitlement to the final dividend and the right to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 12 May 2011 to Friday, 13 May 2011 (both days inclusive), during which no transfer of Shares will be registered. In order to qualify for the final dividend and be entitled to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 11 May 2011.

## RESERVES

As at 31 December 2010, distributable reserves of the Company amounted to RMB669,559,000 (2009: RMB677,936,000). Details of movements in reserves of the Group during the year are set out in notes 15 and 16 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

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

| | Year ended 31 December | |
|---|---|---|
| | **2010 % of total revenue** | **2009 % of total revenue** |
| The largest customer | **6.0** | 5.5 |
| Five largest customers | **23.2** | 23.3 |

| | **% of total purchases** | **% of total purchases** |
|---|---|---|
| The largest supplier | **8.0** | 10.0 |
| Five largest suppliers | **26.3** | 31.0 |

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

## BANK BORROWINGS

Bank borrowings of the Group as at 31 December 2010 amounted to RMB312,248,000 (2009: RMB259,970,000). Particulars of the borrowings are set out in note 20 to the consolidated financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB665,000 (2009: RMB2,874,000).

## PROPERTY, PLANT AND EQUIPMENT

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

## ORDINARY SHARES

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

## FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on pages 8 and 9 of this annual report.

## PRE-EMPTIVE RIGHTS

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

## DIRECTORS

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

### Executive Directors

Mr. Li Ning *(re-elected on 14 May 2010)*
Mr. Zhang Zhi Yong
Mr. Chong Yik Kay

### Non-executive Directors

Mr. Lim Meng Ann
Mr. Stuart Schonberger
*(ceased to act with effect from 28 June 2010)*
Mr. Chu Wah Hui
Mr. James Chun-Hsien Wei

### Independent non-executive Directors

Mr. Koo Fook Sun, Louis *(re-elected on 14 May 2010)*
Ms. Wang Ya Fei
Mr. Chan Chung Bun, Bunny *(re-elected on 14 May 2010)*

In accordance with article 87 of the Company's articles of association and the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules, Mr. Chu Wah Hui, Mr. James Chun-Hsien Wei and Ms. Wang Ya Fei shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the AGM.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of Directors and senior management of the Group are set out on pages 76 to 81 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTEREST IN CONTRACTS

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

## PENSION SCHEMES

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

The Group also participates in the provident fund plans mandated by the Hong Kong Government, the Singapore Government and the US Government which are defined contribution retirement benefit plans.

None of the Pension Schemes or abovementioned provident fund plans has provision for the forfeiture of contributions made to the provident fund. Contributions to these plans are expensed as incurred. The Group's contributions to retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2010 were RMB49,646,000 (2009: RMB42,309,000).

## MANAGEMENT CONTRACTS

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

## LONG-TERM INCENTIVE SCHEMES

### Share Purchase Scheme

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

Details of movements of the options granted under the Share Purchase Scheme for the year ended 31 December 2010 are set out in note 31 to the consolidated financial statements.

### Pre-IPO Share Option Scheme

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

The Pre-IPO Share Option Scheme was terminated on 5 June 2010 upon the expiry of the exercise period of the options granted under the scheme.

Details of movements of the options granted under the Pre-IPO Share Option Scheme for the period from 1 January 2010 to 5 June 2010 are as follows:

| | | | Number of Shares issuable under the options | | | | | |
|---|---|---|---|---|---|---|---|---|
| Grantees | Date of grant | Exercise price per Share HK$ | as at 01/01/2010 | exercised during the period | lapsed during the period | cancelled during the period | as at 05/06/2010 | Exercise period *(Note 2)* |
| **Employees of the Group** | | | | | | | | |
| In aggregate | 05/06/2004 | 1.8275 | 863,000 | (862,000) *(Note 1)* | (1,000) | – | – | 28/06/2005 – 05/06/2010 |
| | | | 863,000 | (862,000) | (1,000) | – | – | |

*Notes:*

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$27.45.
2. Options granted are subject to a vesting scale in tranches of one-third each on every anniversary date of 28 June 2004, being the date of the listing of Shares on the Hong Kong Stock Exchange, starting from the first anniversary until the third.

## Post-IPO Share Option Scheme

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

The purpose of the Post-IPO Share Option Scheme is to provide incentives to participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are directors, officers, employees, agents, consultants or representatives of any member of the Group who, as the Board may determine in its absolute discretion, have made valuable contribution to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, industry knowledge and other relevant factors.

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

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

The maximum number of Shares available for issue upon exercise of all options granted and yet to be exercised under the Post-IPO Share Option Scheme and other share option schemes in aggregate shall not exceed 30% of the number of issued shares of the Company from time to time. In addition, subject to the restrictions imposed by the Listing Rules, the total number of Shares which may be available for issue upon exercise of all options to be granted under the Post-IPO Share Option Scheme, together with all options to be granted under any other share option schemes of any member of the Group, must not represent more than 10% of the nominal amount of issued shares of the Company as at 28 June 2004, being the date of the listing of Shares on the Hong Kong Stock Exchange. Therefore, the Company may grant options in respect of up to 98,606,200 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 98,606,200 Shares from time to time) to eligible participants under the Post-IPO Share Option Scheme. As at the date of this report, the total number of Shares available for issue under the scheme, save for those granted and yet to be exercised, amounted to 59,655,632 Shares, representing approximately 5.7% of the issued share capital of the Company as at the date of this report. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be notified by the Board, which must not be more than ten years from the date of grant. Any Share allotted and issued on the exercise of options will rank pari passu with other shares of the Company in issue on the date of allotment.

Details of movements of the options granted under the Post-IPO Share Option Scheme for the year ended 31 December 2010 are as follows:

| | | | Number of Shares issuable under the options | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Grantees | Date of grant | Exercise price per Share HK$ | as at 01/01/2010 | granted during the year | exercised during the year | lapsed during the year | cancelled during the year | as at 31/12/2010 | Exercise period *(Note 15)* |
| **Executive Directors** | | | | | | | | | |
| Zhang Zhi Yong | 04/07/2005 | 3.685 | 730,000 | – | – | – | – | 730,000 | 04/07/2006 – 04/07/2011 |
| | 04/09/2006 | 8.83 | 208,000 | – | – | – | – | 208,000 | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | 121,600 | – | – | – | – | 121,600 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.37 | 4,519,400 | – | – | – | – | 4,519,400 | 19/01/2010 – 19/01/2015 |
| Chong Yik Kay | 01/04/2009 | 13.18 | 688,500 | – | – | – | – | 688,500 | 01/04/2010 – 01/04/2015 |
| **Non-executive Directors** | | | | | | | | | |
| Lim Meng Ann | 04/07/2008 | 17.22 | 51,400 | – | (34,266) *(Note 1)* | – | – | 17,134 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.37 | 263,400 | – | (52,680) *(Note 2)* | – | – | 210,720 | 19/01/2010 – 19/01/2015 |
| Stuart Schonberger *(Note 16)* | 04/07/2005 | 3.685 | 246,000 | – | (246,000) *(Note 3)* | – | – | – | *(Note 16)* |
| | 04/09/2006 | 8.83 | 90,000 | – | (90,000) *(Note 4)* | – | – | – | *(Note 16)* |
| | 04/07/2008 | 17.22 | 51,400 | – | (17,133) *(Note 5)* | (34,267) | – | – | *(Note 16)* |
| | 19/01/2009 | 11.37 | 263,400 | – | (52,680) *(Note 6)* | (210,720) | – | – | *(Note 16)* |
| Chu Wah Hui | 04/07/2008 | 17.22 | 34,267 | – | – | – | – | 34,267 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.37 | 263,400 | – | (52,680) *(Note 7)* | – | – | 210,720 | 19/01/2010 – 19/01/2015 |
| James Chun-Hsien Wei | 04/07/2008 | 17.22 | 51,400 | – | – | – | – | 51,400 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.37 | 263,400 | – | – | – | – | 263,400 | 19/01/2010 – 19/01/2015 |

| Grantees | Date of grant | Exercise price per Share HK$ | Number of Shares issuable under the options as at 01/01/2010 | granted during the year | exercised during the year | lapsed during the year | cancelled during the year | as at 31/12/2010 | Exercise period *(Note 15)* |
|---|---|---|---|---|---|---|---|---|---|
| **Independent non-executive Directors** | | | | | | | | | |
| Koo Fook Sun, Louis | 04/07/2005 | 3.685 | 82,000 | – | – | – | – | 82,000 | 04/07/2006 – 04/07/2011 |
| | 04/09/2006 | 8.83 | 60,000 | – | – | – | – | 60,000 | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | 51,400 | – | – | – | – | 51,400 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.37 | 263,400 | – | – | – | – | 263,400 | 19/01/2010 – 19/01/2015 |
| Wang Ya Fei | 04/07/2005 | 3.685 | 164,000 | – | – | – | – | 164,000 | 04/07/2006 – 04/07/2011 |
| | 04/09/2006 | 8.83 | 90,000 | – | – | – | – | 90,000 | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | 51,400 | – | – | – | – | 51,400 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.37 | 263,400 | – | – | – | – | 263,400 | 19/01/2010 – 19/01/2015 |
| Chan Chung Bun, Bunny | 04/09/2006 | 8.83 | 90,000 | – | (90,000) *(Note 8)* | – | – | – | 04/09/2007 – 04/09/2012 |
| | 04/07/2008 | 17.22 | 51,400 | – | – | – | – | 51,400 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.37 | 263,400 | – | – | – | – | 263,400 | 19/01/2010 – 19/01/2015 |
| **Employees of the Group** | | | | | | | | | |
| In aggregate | 04/07/2005 | 3.685 | 3,041,668 | – | (1,744,168) *(Note 9)* | (4,000) | – | 1,293,500 | 04/07/2006 – 04/07/2011 |
| In aggregate | 03/01/2006 | 5.50 | 13,500 | – | (13,500) *(Note 10)* | – | – | – | 03/01/2007 – 03/01/2012 |
| In aggregate | 04/09/2006 | 8.83 | 849,496 | – | (407,997) *(Note 11)* | – | – | 441,499 | 04/09/2007 – 04/09/2012 |
| In aggregate | 04/07/2008 | 17.22 | 2,249,633 | – | (539,171) *(Note 12)* | (163,927) | – | 1,546,535 | 04/07/2009 – 04/07/2014 |
| In aggregate | 05/12/2008 | 10.94 | 133,200 | – | – | (40,500) | – | 92,700 | 05/12/2009 – 05/12/2014 |
| In aggregate | 19/01/2009 | 11.37 | 7,749,000 | – | (953,800) *(Note 13)* | (877,100) | – | 5,918,100 | 19/01/2010 – 19/01/2015 |
| In aggregate | 22/10/2009 | 21.87 | 5,071,600 | – | (199,260) *(Note 14)* | (486,016) | – | 4,386,324 | *(Note 17)* |
| **Other participants** | | | | | | | | | |
| In aggregate | 20/11/2006 | 9.84 | 300,000 | – | – | – | – | 300,000 | *(Note 18)* |
| In aggregate | 19/07/2007 | 19.68 | 350,000 | – | – | – | – | 350,000 | 19/07/2008 – 19/07/2013 |
| In aggregate | 04/07/2008 | 17.22 | 300,000 | – | – | – | – | 300,000 | 04/07/2009 – 04/07/2014 |
| In aggregate | 22/10/2009 | 21.87 | 300,000 | – | – | – | – | 300,000 | *(Note 17)* |
| | | | 29,634,064 | – | (4,493,335) | (1,816,530) | – | 23,324,199 | |

*Notes:*

1. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$27.33.

2. The closing price per Share immediately before the date of exercise of the options is HK$28.95.

3. The closing price per Share immediately before the date of exercise of the options is HK$21.25.

4. The closing price per Share immediately before the date of exercise of the options is HK$21.25.

5. The closing price per Share immediately before the date of exercise of the options is HK$21.25.

6. The closing price per Share immediately before the date of exercise of the options is HK$21.25.

7. The closing price per Share immediately before the date of exercise of the options is HK$24.40.

8. The closing price per Share immediately before the date of exercise of the options is HK$24.35.

9. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$25.24.

10. The closing price per Share immediately before the dates of exercise of the options is HK$29.70.

11. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$26.08.

12. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$25.80.

13. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$26.70.

14. The weighted average closing price per Share immediately before the dates of exercise of the options is HK$25.90.

15. Unless otherwise stated in notes 17 and 18: (i) options granted in years 2005, 2006, 2007 and 2008 are subject to a vesting scale in tranches of one-third each on every anniversary date of the date of grant starting from the first anniversary date until the third; and (ii) options granted on 19 January 2009 are subject to a vesting scale in tranches of one-fifth each on every anniversary date of the date of grant starting from the first anniversary date until the fifth.

16. Mr. Stuart Schonberger ceased to be a non-executive Director with effect from 28 June 2010. All options granted to Mr. Schonberger which had been vested before 28 June 2010 were exercisable before 28 December 2010. All options granted to Mr. Schonberger which had not been vested before 28 June 2010 became lapsed on 28 June 2010.

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

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

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

| % of the options granted | Vesting date | Exercise period |
|---|---|---|
| 1/3 | 26/07/2007 | 26/07/2007 – 20/11/2012 |
| 1/3 | 26/07/2008 | 26/07/2008 – 20/11/2012 |
| 1/3 | 26/07/2009 | 26/07/2009 – 20/11/2012 |

## Restricted Share Award Scheme

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

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

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

During the year ended 31 December 2010, 3,123,600 Restricted Shares were granted to eligible participants pursuant to the Restricted Share Award Scheme. The total payout, including related expenses, amounted to RMB39,509,000. 1,481,195 Restricted Shares were vested and 160,978 Restricted Shares lapsed during the year. As at 31 December 2010, the number of Restricted Shares granted under the scheme, except for those lapsed, amounted to 8,258,066 Shares, representing approximately 0.8% of the issued shares of the Company as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2010 are as follows:

| | | Number of Restricted Shares | | | | | |
|---|---|---|---|---|---|---|---|
| Date of grant | Fair value per Restricted Share *(Note)* HK$ | as at 01/01/2010 | granted during the year | vested during the year | lapsed during the year | as at 31/12/2010 | Vesting period |
| 08/05/2007 | 15.32 | 3,334 | — | (3,334) | — | — | 08/05/2008 – 08/05/2010 |
| 02/07/2007 | 18.96 | 334,932 | — | (322,758) | (12,174) | — | 02/07/2008 – 02/07/2010 |
| 16/07/2007 | 19.90 | 6,000 | — | (6,000) | — | — | 16/07/2008 – 16/07/2010 |
| 29/08/2007 | 20.85 | 22,000 | — | (22,000) | — | — | 29/08/2008 – 29/08/2010 |
| 07/12/2007 | 26.75 | 333,334 | — | (333,334) | — | — | 07/12/2008 – 07/12/2010 |
| 06/03/2008 | 23.90 | 5,334 | — | (2,666) | — | 2,668 | 06/03/2009 – 06/03/2011 |
| 04/07/2008 | 16.70 | 1,634,672 | — | (782,436) | (138,204) | 714,032 | 04/07/2009 – 04/07/2011 |
| 16/12/2008 | 11.30 | 13,333 | — | (6,667) | — | 6,666 | 16/12/2009 – 16/12/2011 |
| 22/10/2009 | 21.55 | 6,000 | — | (2,000) | — | 4,000 | 01/07/2010 – 01/07/2012 |
| 03/09/2010 | 23.30 | — | 2,074,600 | — | (10,600) | 2,064,000 | 01/07/2011 – 31/08/2013 |
| 03/09/2010 | 23.30 | — | 1,000,000 | — | — | 1,000,000 | 01/07/2011 – 01/07/2016 |
| 30/12/2010 | 16.62 | — | 49,000 | — | — | 49,000 | 30/12/2011 – 28/02/2014 |
| | | 2,358,939 | 3,123,600 | (1,481,195) | (160,978) | 3,840,366 | |

*Note:*

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

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

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, are as follows:

| Name of Director | Number of Shares/ underlying Shares held | *Note* | Capacity | % of issued Shares* |
|---|---|---|---|---|
| Li Ning | 325,820,184 (Long position) | *1* | Interests of controlled corporations | 30.948 |
| | 638,334 (Short position) | *1(c)* | Interests of controlled corporation | 0.061 |
| Zhang Zhi Yong | 11,338,400 (Long position) | *2* | Personal, interest of controlled corporation | 1.078 |
| Chong Yik Kay | 688,500 (Long position) | *3* | Personal | 0.065 |
| Lim Meng Ann | 443,100 (Long position) | *4* | Personal | 0.042 |
| Chu Wah Hui | 398,100 (Long position) | *5* | Personal, family | 0.038 |
| James Chun-Hsien Wei | 349,100 (Long position) | *6* | Personal | 0.033 |
| Koo Fook Sun, Louis | 605,100 (Long position) | *7* | Personal | 0.057 |
| Wang Ya Fei | 605,100 (Long position) | *8* | Personal | 0.057 |
| Chan Chung Bun, Bunny | 441,100 (Long position) | *9* | Personal | 0.042 |

* The percentage has been calculated based on 1,052,800,836 Shares in issue as at 31 December 2010.

*Notes:*

1. Mr. Li Ning is deemed to be interested in an aggregate of 325,820,184 Shares held by Victory Mind Assets Limited ("Victory Mind"), Dragon City Management (PTC) Limited ("Dragon City") and Alpha Talent, respectively, as follows:

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

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

   (c) 2,446,184 Shares are held by Alpha Talent, which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme. Mr. Li Ning is therefore deemed to be interested in the 2,446,184 Shares held by Alpha Talent. Mr. Li Ning is a director of Alpha Talent.

   Mr. Li Ning is deemed to have a short position in 638,334 Shares, among the total of 2,446,184 Shares held by Alpha Talent. When the Share Purchase Scheme was first set up in June 2004, 35,250,000 Shares were held by Alpha Talent. As at 31 December 2010, Alpha Talent had granted options to purchase 35,117,900 Shares pursuant to the Share Purchase Scheme, among which options to purchase for 1,675,750 Shares have been cancelled or lapsed and options to purchase 32,803,816 Shares have been exercised. The total number of outstanding options as at 31 December 2010 is 638,334 Shares.

2. Mr. Zhang Zhi Yong is interested in 5,745,000 Shares, among which 2,495,000 Shares are held as personal interest and 3,250,000 Shares are held by Smart Step Management Limited ("Smart Step") which is 100% owned by Mr. Zhang. Mr. Zhang therefore is deemed to be interested in the 3,250,000 Shares held by Smart Step. Mr. Zhang is a director of Smart Step.

   Mr. Zhang is also taken to be interested as a grantee of options to subscribe for 730,000 Shares at an exercise price of HK$3.685 per Share, 208,000 Shares at an exercise price of HK$8.83 per Share, 121,600 Shares at an exercise price of HK$17.22 per Share and 4,519,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Zhang is also taken to be interested as a grantee of 14,400 restricted shares granted under the Restricted Share Award Scheme.

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

4. Mr. Lim Meng Ann is interested in 209,146 Shares and is taken to be interested as a grantee of options to subscribe for 17,134 Shares at an exercise price of HK$17.22 per Share and 210,720 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Lim is also taken to be interested as a grantee of 6,100 restricted shares granted under the Restricted Share Award Scheme.

5. Mr. Chu Wah Hui is interested in 147,013 Shares, among which 102,013 Shares are held as personal interest and 45,000 Shares are held as family interest. Mr. Chu is also taken to be interested as a grantee of options to subscribe for 34,267 Shares at an exercise price of HK$17.22 per Share and 210,720 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Chu is also taken to be interested as a grantee of 6,100 restricted shares granted under the Restricted Share Award Scheme.

6. Mr. James Chun-Hsien Wei is interested in 28,200 Shares and is taken to be interested as a grantee of options to subscribe for 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Wei is also taken to be interested as a grantee of 6,100 restricted shares granted under the Restricted Share Award Scheme.

7. Mr. Koo Fook Sun, Louis is interested in 142,200 Shares and is taken to be interested as a grantee of options to subscribe for 82,000 Shares at an exercise price of HK$3.685 per Share, 60,000 Shares at an exercise price of HK$8.83 per Share, 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Koo is also taken to be interested as a grantee of 6,100 restricted shares granted under the Restricted Share Award Scheme.

8. Ms. Wang Ya Fei is interested in 30,200 Shares and is taken to be interested as a grantee of options to subscribe for 164,000 Shares at an exercise price of HK$3.685 per Share, 90,000 Shares at an exercise price of HK$8.83 per Share, 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Ms. Wang is also taken to be interested as a grantee of 6,100 restricted shares granted under the Restricted Share Award Scheme.

9. Mr. Chan Chung Bun, Bunny is interested in 120,200 Shares and is taken to be interested as a grantee of options to subscribe for 51,400 Shares at an exercise price of HK$17.22 per Share and 263,400 Shares at an exercise price of HK$11.37 per Share under the Post-IPO Share Option Scheme. Mr. Chan is also taken to be interested as a grantee of 6,100 restricted shares granted under the Restricted Share Award Scheme.

Save as disclosed above, so far as was known to any Director, as at 31 December 2010, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2010, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, representing 5% or more of the Company's issued share capital:

| Name of shareholder | Number of Shares held | Note | Capacity | % of issued Shares* |
|---|---|---|---|---|
| Li Ning | 325,820,184 (Long position) | 1 | Interest of controlled corporations | 30.948 |
| | 638,334 (Short position) | 2 | Interest of controlled corporation | 0.061 |
| Li Chun | 323,374,000 (Long position) | 3 | Interest of controlled corporations | 30.716 |
| Victory Mind Assets Limited | 173,374,000 (Long position) | 4 | Beneficial owner | 16.468 |
| Ace Leader Holdings Limited | 173,374,000 (Long position) | 5 | Interest of controlled corporation | 16.468 |
| Jumbo Top Group Limited | 173,374,000 (Long position) | 6 | Interest of controlled corporation | 16.468 |
| Equity Trust Company (Cayman) Ltd. | 173,374,000 (Long position) | 7 | Trustee | 16.468 |
| Dragon City Management (PTC) Limited | 150,000,000 (Long position) | 8 | Trustee | 14.248 |
| Cititrust (Cayman) Limited | 150,000,000 (Long position) | 9 | Trustee | 14.248 |
| JPMorgan Chase & Co. | 116,009,130 (Long position) | 10 | Beneficial owner, investment manager, custodian corporation/ approved lending agent | 11.019 |
| | 3,062,889 (Short position) | 10 | Beneficial owner | 0.291 |
| | 39,966,241 (Lending pool) | 10 | Custodian corporation/ approved lending agent | 3.796 |
| Genesis Asset Managers, LLP | 98,020,000 (Long position) | | Investment manager | 9.310 |
| Commonwealth Bank of Australia | 94,470,000 (Long position) | 11 | Interest of controlled corporation | 8.973 |
| The Capital Group Companies, Inc | 73,603,800(Long position) | 12 | Investment manager | 6.991 |

* The percentage has been calculated based on 1,052,800,836 shares in issue as at 31 December 2010.

*Notes:*

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

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

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

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

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

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

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

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

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

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

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

10. Amongst the total of 116,009,130 Shares held by JPMorgan Chase & Co., 4,126,389 Shares were held as beneficial owner and 3,062,889 Shares of which are held as short position, 71,916,500 Shares were held as investment manager and 39,966,241 Shares were held as custodian corporation/approved lending agent.

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

12. The interest in these Shares was attributable on account of holding through corporations that are wholly-owned by The Capital Group Companies, Inc.

Save as disclosed above, as at 31 December 2010, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the shares and underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

## MASTER AGREEMENT WITH VIVA CHINA

As disclosed in the Company's announcement dated 31 August 2010, the Company and Coolpoint Energy Limited, which has changed its name to Viva China Holdings Limited ("Viva China", together with its subsidiaries, the "Viva China Group") effective from 27 October 2010, entered into a master agreement (the "Master Agreement") on 31 August 2010. Subject to the conditions precedent to the Master Agreement having been fulfilled, member(s) of the Group and member(s) of the Viva China Group may enter into the following transactions (the "Relevant Transactions"), which will constitute continuing connected transactions of the Company:

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

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

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

The Master Agreement is conditional upon the obtaining of the independent shareholders' approval in respect of Viva China and such approval was obtained at the extraordinary general meeting of Viva China held on 27 October 2010. The Master Agreement shall continue in force until 31 December 2012 or the day on which each of the Company and Viva China ceases to be a connected person to the other party (whichever is earlier).

The Relevant Transactions are subject to the annual caps for the three financial periods ending 31 December 2010, 2011 and 2012 as set out below:

| | Year ended/ending 31 December | | |
|---|---|---|---|
| | 2010 | 2011 | 2012 |
| Annual cap (RMB) | 21,500,000 | 100,000,000 | 100,000,000 |

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

There were no Relevant Transactions existed between the Group and the Viva China Group in the period from 27 October 2010 (being the date the Master Agreement was approved by the independent shareholders of Viva China, and the effective date) until 31 December 2010. The Company has complied with the relevant disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS WITH SHANGHAI DOUBLE HAPPINESS

For the year ended 31 December 2010, Shanghai Double Happiness Co., Ltd. ("Shanghai Double Happiness"), a limited liability company established in the PRC and a 57.5%-owned subsidiary of the Company, had the following transactions which constituted continuing connected transactions under the Listing Rules. The Company has complied with the relevant disclosure requirements in respect of such continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

### Sale Transactions

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

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

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

## Purchase Transactions

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

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

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

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

## Comprehensive Products Framework Agreements

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

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

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

The term of each of the comprehensive products framework agreements took effect on 1 January 2009 and will expire on 31 December 2011, but may be renewed upon agreement provided that the requirements of the Listing Rules in relation to continuing connected transactions are complied with.

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

For the year ended 31 December 2010, the aggregate revenue generated from the Sale Transactions and the aggregate expenditure incurred by the Purchase Transactions did not exceed the respective annual caps for the year ended 31 December 2010 as set out below:

| | Amount for the year ended 31 December 2010 (RMB'000) | Annual Cap for the year ended 31 December 2010 (RMB'000) |
|---|---|---|
| ***Sale Transactions*** | | |
| 1. provision of raw materials and semi-finished table tennis rackets by Shanghai Double Happiness to Hwa Hing* | 1,597 | 6,000 |
| 2. provision of finished table tennis equipments by Shanghai Double Happiness to Nittaku | 2,756 | 4,700 |
| ***Purchase Transactions*** | | |
| 1. provision of finished table tennis rackets by Hwa Hing to Shanghai Double Happiness* | 4,306 | 14,000 |
| 2. provision of finished table tennis apparels by Nittaku to Shanghai Double Happiness | 74 | 1,000 |

* The Sale Transactions and the Purchase Transactions with Hwa Hing were terminated since June 2010 due to the cessation of business of Hwa Hing.

## Annual Review

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

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

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

(3) on normal commercial terms; and

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

PricewaterhouseCoopers, the auditor of the Company, was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants and reported their conclusions to the Board that the transactions:

(1) have been approved by the Board;

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

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

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

## RELATED-PARTY TRANSACTIONS

The Sale Transactions and the Purchase Transactions also constituted related-party transactions which, among other transactions, are set out in notes 33(a) and 33(b) to the consolidated financial statements, respectively.

Apart from the Sale Transactions and the Purchase Transactions, other related-party transactions set out in notes 33 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions under Chapter 14A of the Listing Rules.

## CHANGE IN DIRECTOR'S INFORMATION

Ms. Wang Ya Fei, an independent non-executive Director, has acted as a non-executive director of Xueda Education Group since 2008. Xueda Education Group became listed on the New York Stock Exchange on 2 November 2010.

Apart from the above, there is no other change in information on Directors since the date of the interim report of the Company for the six months ended 30 June 2010, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its Shares during the year ended 31 December 2010. Except for the purchase of Shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the Restricted Share Award Scheme rules, neither the Company nor any of its subsidiaries purchased or sold any Shares during the year.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2010 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

## CORPORATE GOVERNANCE

Throughout the year 2010, the Company has complied with all the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules. Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 62 to 75 of this annual report.

## AUDITOR

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

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

Hong Kong, 16 March 2011

# Independent Auditor's Report

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

We have audited the consolidated financial statements of Li Ning Company Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 111 to 177, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Directors' Responsibility for the Consolidated Financial Statements

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

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## Auditor's Responsibility

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

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

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

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Other Matters

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 16 March 2011

# Consolidated Balance Sheet

| | | As at 31 December | |
|---|---|---|---|
| | *Note* | **2010** **RMB'000** | 2009 RMB'000 |
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *6* | **720,578** | 638,181 |
| Land use rights | *7* | **380,550** | 386,705 |
| Intangible assets | *8* | **814,080** | 869,911 |
| Deferred income tax assets | *21* | **297,860** | 193,109 |
| Available-for-sale financial assets | *2.9(b)* | **46,930** | – |
| Other receivables and prepayments | *13* | **108,207** | 127,989 |
| **Total non-current assets** | | **2,368,205** | 2,215,895 |
| **Current assets** | | | |
| Inventories | *9* | **805,598** | 631,528 |
| Trade receivables | *12* | **1,612,690** | 1,069,404 |
| Other receivables and prepayments – current portion | *13* | **302,819** | 194,446 |
| Restricted bank deposits | *14* | **2,045** | 2,254 |
| Cash and cash equivalents | *14* | **1,470,435** | 1,264,343 |
| **Total current assets** | | **4,193,587** | 3,161,975 |
| **Total assets** | | **6,561,792** | 5,377,870 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Ordinary shares | *15* | **111,364** | 110,898 |
| Share premium | *15* | **293,988** | 243,553 |
| Shares held for Restricted Share Award Scheme | *15* | **(64,508)** | (53,239) |
| Other reserves | *16* | **346,647** | 332,378 |
| Retained profits | *16* | | |
| – Proposed final dividend | | **213,827** | 236,049 |
| – Others | | **2,467,984** | 1,804,869 |
| | | **3,369,302** | 2,674,508 |
| **Non-controlling interests in equity** | | **190,080** | 187,603 |
| **Total equity** | | **3,559,382** | 2,862,111 |

| | Note | As at 31 December 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| License fees payable | *19* | **482,936** | 496,812 |
| Deferred income tax liabilities | *21* | **85,508** | 90,401 |
| Deferred income | *22* | **62,324** | 63,618 |
| **Total non-current liabilities** | | **630,768** | 650,831 |
| **Current liabilities** | | | |
| Trade payables | *17* | **1,190,960** | 826,433 |
| Other payables and accruals | *18* | **646,024** | 570,780 |
| License fees payable – current portion | *19* | **70,666** | 59,330 |
| Current income tax liabilities | | **151,744** | 148,415 |
| Borrowings | *20* | **312,248** | 259,970 |
| **Total current liabilities** | | **2,371,642** | 1,864,928 |
| **Total liabilities** | | **3,002,410** | 2,515,759 |
| **Total equity and liabilities** | | **6,561,792** | 5,377,870 |
| **Net current assets** | | **1,821,945** | 1,297,047 |
| **Total assets less current liabilities** | | **4,190,150** | 3,512,942 |

**Zhang Zhi Yong**
*Executive Director & Chief Executive Officer*

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

The notes on pages 118 to 177 are an integral part of these financial statements.

# Balance Sheet

| | Note | As at 31 December 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | *10* | **439,615** | 376,956 |
| **Current assets** | | | |
| Other receivables and prepayments | *13* | **1,495** | 1,495 |
| Dividends receivable | | **585,843** | 593,110 |
| Cash and cash equivalents | *14* | **26,978** | 11,779 |
| | | **614,316** | 606,384 |
| **Total assets** | | **1,053,931** | 983,340 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Ordinary shares | *15* | **111,364** | 110,898 |
| Share premium and other reserves | *15,16* | | |
| – Proposed final dividend | | **213,827** | 236,049 |
| – Others | | **455,732** | 441,887 |
| **Total equity** | | **780,923** | 788,834 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other payables and accruals | *18* | **720** | 796 |
| Borrowings | *20* | **272,288** | 193,710 |
| **Total liabilities** | | **273,008** | 194,506 |
| **Total equity and liabilities** | | **1,053,931** | 983,340 |
| **Net current assets** | | **341,308** | 411,878 |
| **Total assets less current liabilities** | | **780,923** | 788,834 |

**Zhang Zhi Yong**
*Executive Director & Chief Executive Officer*

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

The notes on pages 118 to 177 are an integral part of these financial statements.

# Consolidated Income Statement

| | Note | Year ended 31 December 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| Revenue | 5 | **9,478,527** | 8,386,910 |
| Cost of sales | 23 | **(4,996,928)** | (4,417,046) |
| **Gross profit** | | **4,481,599** | 3,969,864 |
| Distribution costs | 23 | **(2,511,175)** | (2,152,150) |
| Administrative expenses | 23 | **(618,280)** | (602,929) |
| Other income | 24 | **194,631** | 127,111 |
| **Operating profit** | | **1,546,775** | 1,341,896 |
| Finance income | 26 | **14,917** | 7,422 |
| Finance costs | 26 | **(52,178)** | (66,188) |
| Finance costs – net | | **(37,261)** | (58,766) |
| **Profit before income tax** | | **1,509,514** | 1,283,130 |
| Income tax expense | 27 | **(377,378)** | (313,799) |
| **Profit for the year** | | **1,132,136** | 969,331 |
| **Attributable to:** | | | |
| Equity holders of the Company | | **1,108,487** | 944,524 |
| Non-controlling interests | | **23,649** | 24,807 |
| | | **1,132,136** | 969,331 |
| **Earnings per share for profit attributable to equity holders of the Company (RMB cents)** | | | |
| – basic | 28 | **105.84** | 90.75 |
| – diluted | 28 | **104.39** | 89.61 |
| Dividends | 29 | **443,395** | 377,486 |

The notes on pages 118 to 177 are an integral part of these financial statements.

# Consolidated Statement of Comprehensive Income

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| **Profit for the year** | **1,132,136** | 969,331 |
| **Other comprehensive income:** | | |
| Currency translation differences | **1,222** | (28) |
| **Total comprehensive income for the year** | **1,133,358** | 969,303 |
| **Attributable to:** | | |
| Equity holders of the Company | **1,109,709** | 944,496 |
| Non-controlling interests | **23,649** | 24,807 |
| | **1,133,358** | 969,303 |

The notes on pages 118 to 177 are an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

| | Note | Attributable to equity holders of the Company RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|
| **As at 1 January 2009** | | 1,896,413 | 192,535 | 2,088,948 |
| Total comprehensive income for the year | | 944,496 | 24,807 | 969,303 |
| *Transactions with owners:* | | | | |
| Share option schemes: | | | | |
| – value of services provided | *16* | 65,901 | – | 65,901 |
| – proceeds from shares issued | *15* | 23,978 | – | 23,978 |
| Shares purchased for Restricted Share Award Scheme | *15* | (335) | – | (335) |
| Dividends to equity holders of the Company | *16* | (255,945) | – | (255,945) |
| Dividends to non-controlling interests of a subsidiary | | – | (23,319) | (23,319) |
| Acquisition of additional interests in a subsidiary | | – | (6,420) | (6,420) |
| **As at 31 December 2009** | | 2,674,508 | 187,603 | 2,862,111 |
| **As at 1 January 2010** | | **2,674,508** | **187,603** | **2,862,111** |
| Total comprehensive income for the year | | **1,109,709** | **23,649** | **1,133,358** |
| *Transactions with owners:* | | | | |
| Share option schemes: | | | | |
| – value of services provided | *16* | **53,677** | **–** | **53,677** |
| – proceeds from shares issued | *15* | **36,380** | **–** | **36,380** |
| Shares purchased for Restricted Share Award Scheme | *15* | **(39,509)** | **–** | **(39,509)** |
| Dividends to equity holders of the Company | *16* | **(465,463)** | **–** | **(465,463)** |
| Dividends to non-controlling interests of a subsidiary | | **–** | **(22,532)** | **(22,532)** |
| Contribution from non-controlling interests of a subsidiary | | **–** | **1,360** | **1,360** |
| **As at 31 December 2010** | | **3,369,302** | **190,080** | **3,559,382** |

The notes on pages 118 to 177 are an integral part of these financial statements.

# Consolidated Cash Flow Statement

| | Note | Year ended 31 December 2010 RMB'000 | 2009 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | *30* | **1,474,588** | 1,649,776 |
| Income tax paid | | **(483,693)** | (343,108) |
| **Net cash generated from operating activities** | | **990,895** | 1,306,668 |
| **Cash flows from investing activities** | | | |
| – acquisition of subsidiaries, net of cash acquired | | **–** | (112,318) |
| – settlement of payable for acquisition of subsidiaries | | **(16,273)** | – |
| – acquisition of additional interests in a subsidiary | | **–** | (6,420) |
| – purchases of property, plant and equipment | | **(188,872)** | (140,058) |
| – purchases of land use rights | | **(3,250)** | (64,907) |
| – purchases of intangible assets | | **(80,224)** | (67,183) |
| – investments in available-for-sale financial assets | | **(46,930)** | – |
| – proceeds on disposal of property, plant and equipment and intangible assets | | **3,671** | 9,010 |
| – interest received | | **7,507** | 7,422 |
| – government grant received for purchase of a land use right | | **–** | 64,697 |
| **Net cash used in investing activities** | | **(324,371)** | (309,757) |
| **Cash flows from financing activities** | | | |
| – dividends paid to equity holders of the Company | | **(465,463)** | (255,945) |
| – dividends paid to non-controlling interests of a subsidiary | | **(31,568)** | (18,290) |
| – proceeds from issuance of ordinary shares | | **36,380** | 23,978 |
| – contribution from non-controlling interests of a subsidiary | | **1,360** | – |
| – proceeds from bank borrowings | | **382,320** | 457,880 |
| – repayments of bank borrowings | | **(327,082)** | (805,250) |
| – purchase of shares for Restricted Share Award Scheme | | **(39,509)** | (335) |
| – interest paid | | **(10,891)** | (24,954) |
| – decrease in restricted bank deposits | | **209** | 103,421 |
| **Net cash used in financing activities** | | **(454,244)** | (519,495) |
| **Net increase in cash and cash equivalents** | | **212,280** | 477,416 |
| Cash and cash equivalents at beginning of year | | **1,264,343** | 788,040 |
| Exchange losses on cash and cash equivalents | | **(6,188)** | (1,113) |
| **Cash and cash equivalents at end of year** | | **1,470,435** | 1,264,343 |

The notes on pages 118 to 177 are an integral part of these financial statements.

## 1. General information

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 16 March 2011.

## 2. Summary of significant accounting policies

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

### 2.1 Basis of preparation

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

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

*New/revised standards, amendments to standards and interpretations*

The following new/revised standards, amendments to standards and interpretation are mandatory for the first time for the financial year beginning 1 January 2010:

| | |
|---|---|
| IFRS 1 (Revised) | First-time Adoption of IFRSs |
| IFRS 1 (Amendment) | Additional Exemptions for First-time Adopters |
| IFRS 2 (Amendment) | Group Cash-settled Share-based Payment Transaction |
| IFRS 3 (Revised) | Business Combinations |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements |
| IAS 39 (Amendment) | Eligible Hedge Items |
| IFRIC 17 | Distributions of Non-cash Assets to Owners |

In addition, the International Accounting Standards Board also issued a number of amendments to existing standards/interpretations of IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRS 2, IFRS 3, IFRS 5, IFRS 8, IFRIC 9 and IFRIC 16 effective 1 January 2010 under its annual improvement projects.

The adoption of the above new/revised standards, amendments to standards and interpretations are not currently relevant for the Group or do not have any impact to the results and financial position of the Group for the year ended 31 December 2010.

## 2. Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The following new/revised standards, amendments to standards and interpretations have been issued, but are not yet effective for the financial year beginning 1 January 2010 and have not been early adopted:

| | | Effective for accounting periods beginning on or after |
|---|---|---|
| **New or revised standards, amendments to standards and interpretations** | | |
| IAS 32 (Amendment) | Classification of Rights Issue | 1 February 2010 |
| IFRS 1 (Amendment) | Limited exemption from comparative IFRS 7 disclosures for first-time adopters | 1 July 2010 |
| IFRS 9 | Financial Instruments | 1 January 2013 |
| IFRS 24 (Revised) | Related Party Disclosures | 1 January 2011 |
| IFRIC 14 (Amendment) | Prepayments of a Minimum Funding Requirement | 1 January 2011 |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments | 1 July 2010 |
| **Improvements to existing standards** | | |
| IAS 1 | Presentation of Financial Statements | 1 January 2011 |
| IAS 27 | Consolidated and Separate Financial Statements | 1 July 2010 |
| IAS 34 | Interim Financial Reporting | 1 January 2011 |
| IFRS 3 (Revised) | Business Combinations | 1 July 2010 |
| IFRS 7 | Financial instruments: Disclosures | 1 January 2011 |
| IFRIC 13 | Customer Loyalty Programmes | 1 January 2011 |

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

## 2. Summary of significant accounting policies *(continued)*

2.2 Consolidation

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

*(a) Subsidiaries*

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.7). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

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

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

*(b) Transactions with non-controlling interests*

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

## 2. Summary of significant accounting policies *(continued)*

2.2 Consolidation *(continued)*

(c) *Joint ventures*

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

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

2.3 Segment reporting

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

(c) *Group companies*

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

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

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

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

## 2. Summary of significant accounting policies *(continued)*

### 2.5 Property, plant and equipment

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

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

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

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

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

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

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

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

### 2.6 Land use rights

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

## 2. Summary of significant accounting policies *(continued)*

2.7 Intangible assets

(a) *Goodwill*

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

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

(b) *License rights*

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

License rights are amortised using the straight-line method to allocate the cost of the licenses over the period of the respective contractual rights varying from 2 to 20 years.

(c) *Computer software*

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

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

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

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

Separately acquired trademarks, customer relationships and non-compete agreements are shown at historical cost. Trademarks, customer relationships and non-compete agreements acquired in business combination are recognised at fair value at the acquisition date. Trademarks, customer relationships and non-compete agreements that have finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 10 to 20 years, and the cost of customer relationships and non-compete agreements over their estimated useful lives of 3 to 8 years.

## 2. Summary of significant accounting policies *(continued)*

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

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

2.9 Financial assets

*(a) Classification*

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

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

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

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

*(b) Recognition and measurement*

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

At 31 December 2010, the Group's available-for-sale financial assets represent interests in certain unlisted companies which do not have quoted market prices in an active market and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, these investments are carried at cost less accumulated impairment losses.

## 2. Summary of significant accounting policies *(continued)*

### 2.10 Inventories

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

### 2.11 Trade receivables and other receivables

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

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

### 2.12 Cash and cash equivalents

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

### 2.13 Ordinary shares

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

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

### 2.14 Trade payables

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

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

## 2. Summary of significant accounting policies *(continued)*

### 2.15 License fees payable

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

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

### 2.16 Borrowings and borrowing costs

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

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

### 2.17 Current and deferred income tax

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

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

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

## 2. Summary of significant accounting policies *(continued)*

2.18 Director and employee benefits

*(a) Pension obligations*

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

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

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

*(b) Share-based compensation*

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

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

*(c) Other benefits*

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

## 2. Summary of significant accounting policies *(continued)*

2.19 Provisions

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

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

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

2.20 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customers, the type of transactions and specifics of each arrangement.

*(a) Sales of goods*

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

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

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

## 2. Summary of significant accounting policies *(continued)*

2.20 Revenue recognition *(continued)*

*(b) Interest income*

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

*(c) Dividend income*

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

*(d) License fee income*

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

2.21 Operating leases (as the lessee for operating leases)

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

2.22 Government grants

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

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

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

2.23 Dividend distribution

Dividend distribution to the Company's equity holders, excluding those relating to the Company's own shares held under the Li Ning Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme"), is recognised as a liability in the Group and the Company's financial statements in the period in which the dividends are approved by the Company's equity holders in case of final dividend and the Company's directors in case of interim/special dividend.

2.24 Contingent liability

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

## 3. Financial risk management

3.1 Financial risk factors

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

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

(a) *Market risks*

(i) *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled mainly in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong dollars (HK$), United States dollars (US$), EURO (EUR) or Singapore dollars (SGD) (Note 14). In addition, the Company is required to pay dividends and certain license fees, borrowings and other payables in foreign currencies. Any foreign currency exchange rate fluctuations against RMB may have a financial impact to the Group. The Group did not use any financial instruments to hedge against its foreign currency risk as at 31 December 2010.

As at 31 December 2010 and 2009, if RMB strengthened/weakened by 5% against HK$/US$/EUR/SGD with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of HK$, US$, EUR and SGD denominated cash and cash equivalents, borrowings, license fees and other payables.

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Post-tax profit increase/(decrease) | | |
| – Strengthened 5% | **15,046** | 11,987 |
| – Weakened 5% | **(15,046)** | (11,987) |

(ii) *Cash flow/fair value interest rate risk*

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

Management does not anticipate significant impact resulting from the changes in interest rates because the borrowings are for the short term and bear fixed interest rates. The weighted average effective interest rates per annum of the borrowings were 5.32% (2009: 5.17%) for bank borrowings denominated in RMB and 1.23% (2009: 2.04%) for bank borrowings denominated in HK$ as disclosed in Note 20.

## 3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

*(b) Credit risk*

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

The table below shows the balances with the three major banks as at the balance sheet dates.

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Banks* | | |
| Bank A | **325,007** | 271,550 |
| Bank B | **216,364** | 264,025 |
| Bank C | **198,506** | 186,350 |
| | **739,877** | 721,925 |

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

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

## 3. Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

*(c) Liquidity risk*

Cash flow forecasting is performed in the operating entities of the Group and aggregated by management. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 20) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

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

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **As at 31 December 2010** | | | | |
| Borrowings | **313,518** | **–** | **–** | **–** |
| License fees payable | **73,495** | **62,575** | **140,252** | **779,700** |
| Trade payables | **1,190,960** | **–** | **–** | **–** |
| Other payables | **371,484** | **–** | **–** | **–** |
| | **1,949,457** | **62,575** | **140,252** | **779,700** |
| **As at 31 December 2009** | | | | |
| Borrowings | 264,089 | – | – | – |
| License fees payable | 61,923 | 67,616 | 146,720 | 822,000 |
| Trade payables | 826,433 | – | – | – |
| Other payables | 395,257 | – | – | – |
| | 1,547,702 | 67,616 | 146,720 | 822,000 |
| **Company** | | | | |
| **As at 31 December 2010** | | | | |
| Borrowings | **272,655** | **–** | **–** | **–** |
| Other payables | **720** | **–** | **–** | **–** |
| | **273,375** | **–** | **–** | **–** |
| **As at 31 December 2009** | | | | |
| Borrowings | 195,909 | – | – | – |
| Other payables | 796 | – | – | – |
| | 196,705 | – | – | – |

## 3. Financial risk management *(continued)*

3.2 Capital risk management

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

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

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

The gearing ratios of the Group as at 31 December 2010 and 2009 were as follows:

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Total borrowings | **312,248** | 259,970 |
| Equity holder's equity | **3,369,302** | 2,674,508 |
| Gearing ratio | **9.3%** | 9.7% |

The decrease in the gearing ratio as at 31 December 2010 resulted primarily from the net increase in equity holders' equity as a result of net profit attributable to equity holders after dividend payments during the year.

3.3 Fair value estimation

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

## 4. Critical accounting estimates and judgements

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

## 4. Critical accounting estimates and judgements *(continued)*

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

(a) Estimated impairment of goodwill and intangible assets

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

(b) Net realisable value of inventories

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

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

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

(d) Income taxes

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

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

## 5. Segment information

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

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

Revenue consists of sales from LI-NING brand, Double Happiness brand, Lotto brand and all other brands, which are RMB8,734,294,000, RMB458,291,000, RMB90,428,000 and RMB195,514,000 for the year ended 31 December 2010 and RMB7,693,263,000, RMB427,088,000, RMB76,155,000 and RMB190,404,000 for the year ended 31 December 2009 respectively.

## 5. Segment information *(continued)*

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 2010 and 2009 is as follows:

| | **LI-NING brand** | **Double Happiness brand** | **Lotto brand** | **All other brands** | **Total** |
|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Year ended 31 December 2010** | | | | | |
| Total revenue | **8,734,294** | **459,352** | **177,652** | **232,037** | **9,603,335** |
| Inter-segment revenue | **–** | **(1,061)** | **(87,224)** | **(36,523)** | **(124,808)** |
| **Revenue from external customers** | **8,734,294** | **458,291** | **90,428** | **195,514** | **9,478,527** |
| Operating profit/(loss) | **1,602,602** | **71,865** | **(111,941)** | **(15,751)** | **1,546,775** |
| Distribution costs and administrative expenses | **2,784,365** | **113,418** | **144,136** | **87,536** | **3,129,455** |
| Depreciation and amortisation | **164,585** | **20,233** | **20,192** | **7,407** | **212,417** |
| **Year ended 31 December 2009** | | | | | |
| Total revenue | 7,693,263 | 429,448 | 114,396 | 220,037 | 8,457,144 |
| Inter-segment revenue | – | (2,360) | (38,241) | (29,633) | (70,234) |
| **Revenue from external customers** | 7,693,263 | 427,088 | 76,155 | 190,404 | 8,386,910 |
| Operating profit/(loss) | 1,360,526 | 73,435 | (76,913) | (15,152) | 1,341,896 |
| Distribution costs and administrative expenses | 2,496,178 | 92,712 | 97,542 | 68,647 | 2,755,079 |
| Depreciation and amortisation | 141,817 | 16,357 | 19,978 | 4,863 | 183,015 |

## 5. Segment information *(continued)*

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

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| **Operating profit** | **1,546,775** | 1,341,896 |
| Finance income | **14,917** | 7,422 |
| Finance costs | **(52,178)** | (66,188) |
| **Profit before income tax** | **1,509,514** | 1,283,130 |

**Geographical information of revenue**

| | Year ended 31 December | |
|---|---|---|
| | **2010** | 2009 |
| | **RMB'000** | RMB'000 |
| The PRC (including the Hong Kong Special Administrative Region) | **9,313,357** | 8,258,873 |
| Other regions | **165,170** | 128,037 |
| **Total** | **9,478,527** | 8,386,910 |

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

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

## 6. Property, plant and equipment – Group

| | Buildings RMB'000 | Leasehold improvement RMB'000 | Mould RMB'000 | Machinery RMB'000 | Office equipment and motor vehicles RMB'000 | Construction-in-progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2009** | | | | | | | |
| Cost | 507,063 | 45,749 | 83,994 | 36,290 | 123,436 | 4,648 | 801,180 |
| Accumulated depreciation | (42,184) | (20,287) | (46,356) | (8,833) | (54,215) | – | (171,875) |
| Net book amount | 464,879 | 25,462 | 37,638 | 27,457 | 69,221 | 4,648 | 629,305 |
| **Year ended 31 December 2009** | | | | | | | |
| Opening net book amount | 464,879 | 25,462 | 37,638 | 27,457 | 69,221 | 4,648 | 629,305 |
| Additions | 2,092 | 25,817 | 34,527 | 10,245 | 31,220 | 4,417 | 108,318 |
| Acquisition of subsidiaries | – | – | – | 2,180 | 534 | – | 2,714 |
| Transfer out from construction-in-progress | 2,424 | – | – | 220 | 1,660 | (4,304) | – |
| Disposals | (303) | (442) | (3,955) | (1,208) | (1,946) | – | (7,854) |
| Depreciation charge | (16,303) | (21,541) | (28,420) | (4,351) | (23,687) | – | (94,302) |
| Closing net book amount | 452,789 | 29,296 | 39,790 | 34,543 | 77,002 | 4,761 | 638,181 |
| **As at 31 December 2009** | | | | | | | |
| Cost | 506,015 | 63,927 | 101,550 | 46,342 | 151,084 | 4,761 | 873,679 |
| Accumulated depreciation | (53,226) | (34,631) | (61,760) | (11,799) | (74,082) | – | (235,498) |
| Net book amount | 452,789 | 29,296 | 39,790 | 34,543 | 77,002 | 4,761 | 638,181 |
| **Year ended 31 December 2010** | | | | | | | |
| Opening net book amount | **452,789** | **29,296** | **39,790** | **34,543** | **77,002** | **4,761** | **638,181** |
| Additions | **8,581** | **65,233** | **70,163** | **19,015** | **33,262** | **8,946** | **205,200** |
| Transfer out from construction-in-progress | **323** | **–** | **–** | **146** | **240** | **(709)** | **–** |
| Disposals | **–** | **(2,545)** | **(3,910)** | **(188)** | **(1,512)** | **–** | **(8,155)** |
| Depreciation charge | **(23,565)** | **(25,792)** | **(35,072)** | **(5,173)** | **(25,046)** | **–** | **(114,648)** |
| Closing net book amount | **438,128** | **66,192** | **70,971** | **48,343** | **83,946** | **12,998** | **720,578** |
| **As at 31 December 2010** | | | | | | | |
| Cost | **515,029** | **120,491** | **146,331** | **65,665** | **178,115** | **12,998** | **1,038,629** |
| Accumulated depreciation | **(76,901)** | **(54,299)** | **(75,360)** | **(17,322)** | **(94,169)** | **–** | **(318,051)** |
| Net book amount | **438,128** | **66,192** | **70,971** | **48,343** | **83,946** | **12,998** | **720,578** |

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB 10,436,000 (2009: RMB11,415,000) are built on land which the Group is in the process of applying for the legal title (Note 7).

Depreciation expenses of RMB44,725,000 (2009: RMB32,480,000) has been charged to cost of sales, RMB36,779,000 (2009: RMB32,604,000) to distribution costs and RMB33,144,000 (2009: RMB29,218,000) to administrative expenses.

As at 31 December 2010, buildings with net book value of RMB24,239,000 (2009: RMB29,799,000) are pledged as securities for the Group's borrowings (Note 20).

## 7. Land use rights – Group

| | RMB'000 |
|---|---|
| **As at 1 January 2009** | |
| Cost | 330,688 |
| Accumulated amortisation | (5,924) |
| Net book amount | 324,764 |
| **Year ended 31 December 2009** | |
| Opening net book amount | 324,764 |
| Addition | 70,041 |
| Amortisation charge | (8,100) |
| Closing net book amount | 386,705 |
| **As at 31 December 2009** | |
| Cost | 400,729 |
| Accumulated amortisation | (14,024) |
| Net book amount | 386,705 |
| **Year ended 31 December 2010** | |
| Opening net book amount | **386,705** |
| Addition | **3,250** |
| Amortisation charge | **(9,405)** |
| Closing net book amount | **380,550** |
| **As at 31 December 2010** | |
| Cost | **403,979** |
| Accumulated amortisation | **(23,429)** |
| Net book amount | **380,550** |

All the Group's land use rights are located in the PRC and are held under leases for periods varying from 20 to 50 years. The Group is in the process of applying for the legal title for land use rights with net book value of RMB126,696,000 as at 31 December 2010 (2009: RMB129,476,000).

As at 31 December 2010, land use rights with net book value of RMB15,442,000 (2009: RMB39,324,000) are pledged as securities for the Group's borrowings (Note 20).

## 8. Intangible assets – Group

| | Goodwill RMB'000 | Trademarks RMB'000 | Computer Software RMB'000 | License rights RMB'000 | Customer relationships & Non-compete agreements RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **As at 1 January 2009** | | | | | | |
| Cost | 106,839 | 95,314 | 46,740 | 142,250 | – | 391,143 |
| Accumulated amortisation | – | (4,646) | (17,773) | (39,689) | – | (62,108) |
| Net book amount | 106,839 | 90,668 | 28,967 | 102,561 | – | 329,035 |
| **Year ended 31 December 2009** | | | | | | |
| Opening net book amount | 106,839 | 90,668 | 28,967 | 102,561 | – | 329,035 |
| Additions | – | 226 | 20,610 | 466,509 | – | 487,345 |
| Acquisition of subsidiaries | 72,387 | 21,537 | 37 | – | 41,339 | 135,300 |
| Disposal | – | – | (1,156) | – | – | (1,156) |
| Amortisation charge | – | (8,090) | (9,618) | (59,300) | (3,605) | (80,613) |
| Closing net book amount | 179,226 | 104,341 | 38,840 | 509,770 | 37,734 | 869,911 |
| **As at 31 December 2009** | | | | | | |
| Cost | 179,226 | 117,077 | 66,231 | 608,759 | 41,339 | 1,012,632 |
| Accumulated amortisation | – | (12,736) | (27,391) | (98,989) | (3,605) | (142,721) |
| Net book amount | 179,226 | 104,341 | 38,840 | 509,770 | 37,734 | 869,911 |
| **Year ended 31 December 2010** | | | | | | |
| Opening net book amount | **179,226** | **104,341** | **38,840** | **509,770** | **37,734** | **869,911** |
| Additions | **–** | **1,161** | **21,922** | **13,314** | **–** | **36,397** |
| Disposal | **–** | **–** | **(72)** | **–** | **–** | **(72)** |
| Amortisation charge | **–** | **(6,838)** | **(12,335)** | **(63,784)** | **(5,407)** | **(88,364)** |
| Impairment charge | **–** | **(3,792)** | **–** | **–** | **–** | **(3,792)** |
| Closing net book amount | **179,226** | **94,872** | **48,355** | **459,300** | **32,327** | **814,080** |
| **As at 31 December 2010** | | | | | | |
| Cost | **179,226** | **118,238** | **88,081** | **622,072** | **41,339** | **1,048,956** |
| Accumulated amortisation and impairment | **–** | **(23,366)** | **(39,726)** | **(162,772)** | **(9,012)** | **(234,876)** |
| Net book amount | **179,226** | **94,872** | **48,355** | **459,300** | **32,327** | **814,080** |

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

## 8. Intangible assets – Group *(continued)*

Impairment tests for goodwill

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

The recoverable amounts for the CGUs have been determined based on values-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. The weighted average revenue growth rate used for the sixth year to the tenth year for Double Happiness and Kason are 5.3% and 6.7% per annum respectively and a growth rate of zero has been applied from the eleventh year to the twentieth year, which is in accordance with the observed annual growth rate for the related industry combined with management's expectations of declining growth. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGUs operate. The pre-tax discount rates used are 17.29% and 15.63% which reflect specific risks relating to Double Happiness and Kason respectively. Management's assessment of Double Happiness' and Kason's values-in-use exceeds their carrying values, therefore no impairment provision was recorded by management.

## 9. Inventories – Group

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Raw materials | **23,552** | 36,062 |
| Work in progress | **24,857** | 24,191 |
| Finished goods | **872,271** | 643,801 |
| | **920,680** | 704,054 |
| Less: Provision for write-down to net realisable value | **(115,082)** | (72,526) |
| | **805,598** | 631,528 |

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB4,713,032,000 for the year ended 31 December 2010 (2009: RMB4,131,797,000).

The Group realised a loss of approximately RMB42,556,000 for the year ended 31 December 2010 (2009: RMB4,375,000) in respect of the write-down of inventories to their net realisable value. These amounts have been included in administrative expenses in the consolidated income statement.

## 10. Investment in subsidiaries – Company

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Investment in unlisted shares, at cost | **79,568** | 79,568 |
| Loan to subsidiaries | **292,495** | 241,106 |
| Contribution to the Restricted Share Award Scheme Trust | **67,552** | 56,282 |
| | **439,615** | 376,956 |

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

The following is a list of the principal subsidiaries as at 31 December 2010:

| **Name** | **Place of operation/ incorporation, date of incorporation and kind of legal entity** | **Issued share/ paid up capital** | **Effective equity interest held by the Company** | **Principal activities** |
|---|---|---|---|---|
| *Directly held:* | | | | |
| RealSports Pte Ltd. | The British Virgin Islands, 8 October 2002 Limited liability company | US$1,000 | 100% | Investment holding |
| *Indirectly held:* | | | | |
| Li Ning Sports Technology Development (Hong Kong) Co., Ltd. (李寧體育科技發展(香港)有限公司) | Hong Kong, 28 May 2004 Limited liability company | HK$1 | 100% | Research and development |
| Li Ning Sports (Hong Kong) Co., Ltd. (李寧體育(香港)有限公司) | Hong Kong, 19 March 2003 Limited liability company | HK$100 | 100% | Provision of administrative services |
| 李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Co., Ltd.) | The PRC, 25 August 1997 Limited liability company | US$8,000,000 | 100% | Sale of sports goods |
| 上海狐步信息系統有限公司 (Shanghai Hubu Information System Co., Ltd.) | The PRC, 20 April 2000 Limited liability company | RMB2,000,000 | 100% | Provision of information technology service |

## 10. Investment in subsidiaries – Company *(continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/ paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 上海少昊體育用品研發有限公司 (Shanghai Shao Hao Sports Goods Research and Development Co., Ltd.) | The PRC, 18 December 2001 Limited liability company | RMB3,000,000 | 100% | Product design, research and development |
| 上海悦奧體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.) | The PRC, 5 March 2003 Limited liability company | RMB3,000,000 | 100% | Sale of sports goods |
| 佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastic School Services Co., Ltd. ) | The PRC, 31 October 1996 Limited liability company | RMB1,000,000 | 100% | Property management |
| 廣東悦奧體育發展有限公司 (Guangdong Yue Ao Sports Development Co., Ltd.) | The PRC, 13 December 2001 Limited liability company | RMB8,241,000 | 100% | Manufacture of sports goods |
| 李寧(中國)體育用品有限公司 (Li Ning (China) Sports Goods Co., Ltd.) | The PRC, 6 July 2007 Limited liability company | RMB50,000,000 | 100% | Sale of sports goods |
| Li Ning Sports USA, Inc. (李寧體育美國有限公司) | USA, 28 August 2007 Limited liability company | US$1,000 | 100% | Design of athletic shoes and apparel |
| Li Ning Spain, S.L. (李寧西班牙有限公司) | Spain, 16 October 2007 Limited liability company | EUR3,006 | 100% | Sale of sports goods |
| 李寧(北京)體育用品商業有限公司 Li Ning (Beijing) Sports Goods Commercial Co., Ltd. | The PRC, 19 December 2007 Limited liability company | HK$10,000,000 | 100% | Sale of sports goods |
| 上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.) | The PRC, 9 July 2001 Limited liability company | RMB10,000,000 | 100% | Sale of sports goods |

## 10. Investment in subsidiaries – Company *(continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/ paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.) | The PRC, 25 June 1998 Limited liability company | RMB2,750,000 | 100% | Sale of sports goods |
| 廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.) | The PRC, 6 October 1998 Limited liability company | RMB3,200,000 | 100% | Sale of sports goods |
| 瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.) | The PRC, 10 June 1999 Limited liability company | RMB3,000,000 | 100% | Sale of sports goods |
| 濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.) | The PRC, 15 April 2003 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.) | The PRC, 2 June 1999 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.) | The PRC, 4 November 1997 Limited liability company | RMB5,000,000 | 100% | Sale of sports goods |
| 上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.) | The PRC, 8 August 2000 Limited liability company | RMB5,000,000 | 100% | Sale of sports goods |
| 天津一動體育用品銷售有限公司 (Tianjin Edosports Goods Sales Co., Ltd.) | The PRC, 14 December 1999 Limited liability company | RMB3,500,000 | 100% | Sale of sports goods |
| 南京一動體育用品銷售有限公司 (Nanjing Edosports Goods Sales Co., Ltd.) | The PRC, 15 April 2003 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |

## 10. Investment in subsidiaries – Company *(continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/ paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 新疆一動體育用品銷售有限公司 (Xinjiang Edosports Goods Sales Co., Ltd.) | The PRC, 4 February 2005 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 長沙一動體育用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.) | The PRC, 26 August 1998 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.) | The PRC, 29 July 1998 Limited liability company | RMB1,500,000 | 100% | Sale of sports goods |
| 西安一動體育用品銷售有限公司 (Xian Edosports Goods Sales Co., Ltd.) | The PRC, 23 January 2006 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 上海心動體育用品有限公司 (Shanghai Z-DO Sports Goods Co., Ltd.) | The PRC, 14 January 2008 Limited liability company | RMB20,000,000 | 100% | Sale of sports goods |
| 成都一動體育用品銷售有限公司 (Chendu Edosports Goods Sales Co., Ltd.) | The PRC, 4 February 2008 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 昆明一動體育用品銷售有限公司 (Kunming Edosports Goods Sales Co., Ltd.) | The PRC, 24 September 2008 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 深圳一動體育用品銷售有限公司 (Shenzhen Edosports Goods Sales Co., Ltd.) | The PRC, 7 May 2009 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 蘭州一動體育用品銷售有限公司 (Lanzhou Edosports Goods Sales Co., Ltd.) | The PRC, 13 May 2009 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |

## 10. Investment in subsidiaries – Company *(continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/ paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 廈門悦奧商貿有限公司 (Xiamen Yue Ao Trading Co., Ltd.) | The PRC, 26 October 2009 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 大連悦奧商貿有限公司 (Dalian Yue Ao Trading Co., Ltd.) | The PRC, 13 June 2010 Limited liability company | RMB3,000,000 | 100% | Sale of sports goods |
| 杭州悦奧體育用品銷售有限公司 (Hangzhou Yue Ao Sports Goods Sales Co., Ltd.) | The PRC, 17 December 2010 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 上海李寧電子商務有限公司 (Shanghai Lining E-business Co., Ltd.) | The PRC, 27 September 2008 Limited liability company | RMB10,000,000 | 100% | Sale of sports goods |
| Lining Sports Singapore Pte. Ltd. (李寧體育新加坡有限公司) | Singapore, 20 October 2008 Limited liability company | SGD500,000 | 100% | Sale of sports goods |
| 李寧體育(天津)有限公司 (Lining Sports (Tianjin). Co., Ltd.) | The PRC, 19 January 2009 Limited liability company | RMB20,000,000 | 100% | Sale of sports goods |
| 上海紅雙喜股份有限公司 (Shanghai Double Happiness Co., Ltd.) | The PRC, 26 December 1995 Limited liability company | RMB112,000,000 | 57.5% | Manufacture and sale of sports goods |
| 上海紅雙喜體育用品銷售有限公司 (Shanghai Double Happiness Sports Goods Sales Co., Ltd.) | The PRC, 21 August 1996 Limited liability company | RMB15,900,000 | 57.5% | Sale of sports goods |
| 北京紅雙喜體育用品銷售有限公司 (Beijing Double Happiness Sports Goods Sales Co., Ltd.) | The PRC, 27 December 2010 Limited liability company | RMB2,000,000 | 57.5% | Sale of sports goods |

## 10. Investment in subsidiaries – Company *(continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/ paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 上海紅雙喜體育用品蘇州有限公司 (Suzhou Double Happiness Guan Du Sports Goods Co., Ltd.) | The PRC, 10 August 2002 Limited liability company | RMB15,000,000 | 43.1% | Manufacture and sale of sports goods |
| 上海紅冠體育用品有限責任公司 (Shanghai Hong Guan Sports Goods Co., Ltd.) | The PRC, 29 July 1998 Limited liability company | RMB500,000 | 57.5% | Sale of sports goods |
| 樂途體育用品有限公司 (Lotto Sports Goods Co., Ltd.) | The PRC, 19 January 2009 Limited liability company | RMB200,000,000 | 100% | Sale of sports goods |
| 李寧(福建)羽毛球科技發展有限公司 (Li Ning (Fujian) Badminton Technology Development Co., Ltd.) | The PRC, 30 June 2008 Limited liability company | RMB19,577,000 | 100% | Manufacture and sale of sports goods |
| Kason Sports (Hong Kong) Ltd. (凱勝體育(香港)有限公司) | Hong Kong, 15 January 2008 Limited liability company | HK$1 | 100% | Investment holding |
| Li Ning International Trading (Hong Kong) Co., Ltd. (李寧國際貿易(香港)有限公司) | Hong Kong, 27 August 2010 Limited liability company | HK$10,000 | 100% | Sales of sports goods |
| 李寧(湖北)體育用品有限公司 (Li Ning (Hubei) Sports Good Co., Ltd.) | The PRC, 2 November 2010 Limited liability company | RMB20,021,699 | 100% | Manufacture and sale of sports goods |

## 11. Interest in jointly controlled entities – Group

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

The following financial information reflects the Group's 50% share of the consolidated assets and liabilities, and consolidated revenue and results of Li-Ning Aigle Ventures and its subsidiary as at 31 December 2010 and for the year then ended, which have been included in the consolidated balance sheet and consolidated income statement.

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| **Assets** | | |
| Non-current assets | **3,038** | 2,734 |
| Current assets | **16,302** | 15,411 |
| **Total assets** | **19,340** | 18,145 |
| **Liabilities** | | |
| Non-current liabilities | **–** | 6,011 |
| Current liabilities | **22,939** | 14,734 |
| **Total liabilities** | **22,939** | 20,745 |
| **Net liabilities** | **(3,599)** | (2,600) |

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Revenue | **23,137** | 16,560 |
| Expenses | **(24,223)** | (18,488) |
| **Net loss** | **(1,086)** | (1,928) |

As at 31 December 2010 and 2009, the Group did not have any material contingent liabilities in respect of its interest in the jointly controlled entities; nor did the jointly controlled entities have any material contingent liabilities as at 31 December 2010 and 2009.

## 12. Trade receivables – Group

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Accounts receivable | **1,613,155** | 1,028,017 |
| Notes receivable | **917** | 42,571 |
| | **1,614,072** | 1,070,588 |
| Less: provision for impairment of trade receivables | **(1,382)** | (1,184) |
| | **1,612,690** | 1,069,404 |

Customers are normally granted credit terms within 90 days. As at 31 December 2010, trade receivables that were neither past due nor impaired amounted to RMB1,455,532,000 (2009: RMB1,027,215,000). Trade receivables that were past due but not impaired amounted to RMB157,158,000 (2009: RMB42,189,000) which relate to a number of independent customers for whom there is no recent history of default and with outstanding receivables aged from 91 to 180 days as at 31 December 2010.

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

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| 0 – 30 days | **813,082** | 506,049 |
| 31 – 60 days | **344,873** | 314,897 |
| 61 – 90 days | **297,577** | 206,269 |
| 91 – 180 days | **157,158** | 42,189 |
| 181 – 365 days | **387** | 1,000 |
| Over 365 days | **995** | 184 |
| | **1,614,072** | 1,070,588 |

As at 31 December 2010, trade receivables of RMB1,382,000 (2009: RMB1,184,000) were impaired on which full provision of impairment has been made. The impairment was firstly assessed individually for significant or long ageing balances, and the remaining balances were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk.

## 12. Trade receivables – Group *(continued)*

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

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| **As at 1 January** | **1,184** | 5,305 |
| Provision/(reversal of provision) for impairment of receivables | **474** | (2,279) |
| Receivables written off during the year as uncollectible | **(276)** | (1,842) |
| **As at 31 December** | **1,382** | 1,184 |

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

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

## 13. Other receivables and prepayments – Group and Company

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010** **RMB'000** | 2009 RMB'000 | **2010** **RMB'000** | 2009 RMB'000 |
| Advances to suppliers | **10,426** | 14,263 | **–** | – |
| Prepayment for advertising expenses | **47,137** | 68,350 | **–** | – |
| Rental and other deposits | **109,516** | 55,084 | **–** | – |
| Prepaid rentals | **198,315** | 172,067 | **–** | – |
| Staff advances and other payments for employees | **3,302** | 2,471 | **–** | – |
| Others | **42,330** | 10,200 | **1,495** | 1,495 |
| | **411,026** | 322,435 | **1,495** | 1,495 |
| Less: non-current portion | **(108,207)** | (127,989) | **–** | – |
| Current portion | **302,819** | 194,446 | **1,495** | 1,495 |

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

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

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

As at 31 December 2010, the Group had the following cash, cash equivalents and bank deposits mainly held at banks in the PRC (including the Hong Kong Special Administrative Region):

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash at banks and in hand | **1,470,435** | 1,105,343 | **26,978** | 11,779 |
| Short-term bank deposits | **–** | 159,000 | **–** | – |
| Cash and cash equivalents | **1,470,435** | 1,264,343 | **26,978** | 11,779 |
| Restricted bank deposits | **2,045** | 2,254 | **–** | – |
| | **1,472,480** | 1,266,597 | **26,978** | 11,779 |

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Denominated in RMB | **1,413,768** | 1,200,214 | **–** | – |
| Denominated in HK$ | **42,322** | 42,209 | **26,974** | 11,775 |
| Denominated in US$ | **4,880** | 13,032 | **4** | 4 |
| Denominated in EUR | **4,028** | 7,925 | **–** | – |
| Denominated in SGD | **7,482** | 3,217 | **–** | – |
| | **1,472,480** | 1,266,597 | **26,978** | 11,779 |

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

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

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

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

| | Number of shares (Thousands) | Approximate amount HK$'000 |
|---|---|---|
| **Authorised at HK$0.10 each** | | |
| As at 31 December 2010 and 2009 | 10,000,000 | 1,000,000 |

Issued and fully paid

| | Number of share of HK$ 0.10 each (Thousands) | Ordinary shares RMB'000 | Share premium RMB'000 | Shares held for Restricted Share Award Scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **As at 1 January 2009** | 1,036,633 | 110,323 | 200,758 | (84,118) | 226,963 |
| Net proceeds from shares issued pursuant to share option schemes *(Note a)* | 6,525 | 575 | 23,403 | – | 23,978 |
| Transfer of fair value of share options exercised to share premium | – | – | 19,392 | – | 19,392 |
| Shares vested under Restricted Share Award Scheme | 1,749 | – | – | 31,214 | 31,214 |
| Shares purchased for Restricted Share Award Scheme *(Note b)* | (26) | – | – | (335) | (335) |
| **As at 31 December 2009** | 1,044,881 | 110,898 | 243,553 | (53,239) | 301,212 |
| **As at 1 January 2010** | **1,044,881** | **110,898** | **243,553** | **(53,239)** | **301,212** |
| Net proceeds from shares issued pursuant to share option schemes *(Note a)* | **5,355** | **466** | **35,914** | **–** | **36,380** |
| Transfer of fair value of share options exercised to share premium | **–** | **–** | **14,521** | **–** | **14,521** |
| Shares vested under Restricted Share Award Scheme | **1,481** | **–** | **–** | **28,240** | **28,240** |
| Shares purchased for Restricted Share Award Scheme *(Note b)* | **(1,872)** | **–** | **–** | **(39,509)** | **(39,509)** |
| **As at 31 December 2010** | **1,049,845** | **111,364** | **293,988** | **(64,508)** | **340,844** |

*Notes*:

(a) During the year ended 31 December 2010, the Company issued 5,355,000 shares (2009: 6,525,000 shares) of HK$0.10 each to certain directors and employees of the Group at weighted-average issue price of HK$7.72 (2009: HK$4.17) per share pursuant to the Company's share option schemes (see Note 31).

(b) During the year ended 31 December 2010, the Li Ning Company Limited Restricted Share Award Scheme Trust (the "Trust"), a trust established in Hong Kong, purchased 1,872,000 shares (2009: 26,000 shares) of the Company's shares from the open market. The total amount of RMB39,509,000 (2009: RMB335,000) paid to acquire the shares was financed by the Company by way of contributions made to the Trust.

## 16. Reserves – Group and Company

Group

| | Capital reserves (a) RMB'000 | Statutory reserve funds (b) RMB'000 | Share-based compensation reserve RMB'000 | Currency translation differences RMB'000 | Subtotal RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2009** | 45,634 | 147,111 | 64,865 | – | 257,610 | 1,411,840 | 1,669,450 |
| Profit for the year | – | – | – | – | – | 944,524 | 944,524 |
| Value of services provided under share schemes | – | – | 65,901 | – | 65,901 | – | 65,901 |
| Transfer of fair value of share options exercised to share premium | – | – | (19,392) | – | (19,392) | – | (19,392) |
| Shares vested under Restricted Share Award Scheme | – | – | (31,214) | – | (31,214) | – | (31,214) |
| Appropriations to statutory reserves | – | 59,501 | – | – | 59,501 | (59,501) | – |
| Translation difference of foreign currency financial statements | – | – | – | (28) | (28) | – | (28) |
| Dividends paid | – | – | – | – | – | (255,945) | (255,945) |
| **As at 31 December 2009** | 45,634 | 206,612 | 80,160 | (28) | 332,378 | 2,040,918 | 2,373,296 |
| **As at 1 January 2010** | **45,634** | **206,612** | **80,160** | **(28)** | **332,378** | **2,040,918** | **2,373,296** |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **1,108,487** | **1,108,487** |
| Value of services provided under share schemes | **–** | **–** | **53,677** | **–** | **53,677** | **–** | **53,677** |
| Transfer of fair value of share options exercised to share premium | **–** | **–** | **(14,521)** | **–** | **(14,521)** | **–** | **(14,521)** |
| Shares vested under Restricted Share Award Scheme | **–** | **–** | **(28,240)** | **–** | **(28,240)** | **–** | **(28,240)** |
| Appropriations to statutory reserves | **–** | **2,131** | **–** | **–** | **2,131** | **(2,131)** | **–** |
| Translation difference of foreign currency financial statements | **–** | **–** | **–** | **1,222** | **1,222** | **–** | **1,222** |
| Dividends paid | **–** | **–** | **–** | **–** | **–** | **(465,463)** | **(465,463)** |
| **As at 31 December 2010** | **45,634** | **208,743** | **91,076** | **1,194** | **346,647** | **2,681,811** | **3,028,458** |

## 16. Reserves – Group and Company *(continued)*

Company

| | Retained profits<br>RMB'000 | Share-based compensation reserve<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|
| **As at 1 January 2009** | – | 64,865 | 64,865 |
| Profit for the year | 610,168 | – | 610,168 |
| Value of services provided under share schemes | – | 65,901 | 65,901 |
| Transfer of fair value of share options exercised to share premium | – | (19,392) | (19,392) |
| Shares vested under Restricted Share Award Scheme | – | (31,214) | (31,214) |
| Dividends paid | (255,945) | – | (255,945) |
| **As at 31 December 2009** | 354,223 | 80,160 | 434,383 |
| **As at 1 January 2010** | **354,223** | **80,160** | **434,383** |
| Profit for the year | **395,735** | **–** | **395,735** |
| Value of services provided under share schemes | **–** | **53,677** | **53,677** |
| Transfer of fair value of share options exercised to share premium | **–** | **(14,521)** | **(14,521)** |
| Shares vested under Restricted Share Award Scheme | **–** | **(28,240)** | **(28,240)** |
| Dividends paid | **(465,463)** | **–** | **(465,463)** |
| **As at 31 December 2010** | **284,495** | **91,076** | **375,571** |

(a) *Capital reserves*

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

(b) *Statutory reserve funds*

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

Statutory reserve funds include Statutory Surplus Reserve and Reserve Fund.

## 16. Reserves – Group and Company *(continued)*

*(b)* *Statutory reserve funds (continued)*

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

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

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

## 17. Trade payables – Group

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

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| 0 – 30 days | **892,826** | 786,082 |
| 31 – 60 days | **275,566** | 9,340 |
| 61 – 90 days | **11,282** | 18,851 |
| 91 – 180 days | **5,215** | 9,726 |
| 181 – 365 days | **3,347** | 1,053 |
| Over 365 days | **2,724** | 1,381 |
| | **1,190,960** | 826,433 |

## 18. Other payables and accruals – Group and Company

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RMB'000** | 2009 RMB'000 | **2010 RMB'000** | 2009 RMB'000 |
| Accrued sales and marketing expenses | **242,808** | 175,523 | **–** | – |
| Advances from customers | **57,341** | 73,172 | **–** | – |
| Wages and welfare payables | **114,323** | 132,581 | **–** | – |
| Other tax payables | **102,876** | 71,560 | **–** | – |
| Payable for property, plant and equipment | **32,202** | 15,874 | **–** | – |
| Payable for acquisition of subsidiaries | **–** | 16,273 | **–** | – |
| Other payables | **96,474** | 85,797 | **720** | 796 |
| | **646,024** | 570,780 | **720** | 796 |

## 19. License fees payable – Group

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

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

| | RMB'000 |
|---|---|
| As at 1 January 2009 | 110,744 |
| Acquisition of license rights | 452,096 |
| Payment of license fees | (47,243) |
| Amortisation of discount | 40,417 |
| Adjustment for exchange difference | 128 |
| As at 31 December 2009 | 556,142 |
| **As at 1 January 2010** | **556,142** |
| Acquisition of license rights | **13,313** |
| Accruals for royalty fees | **3,901** |
| Payment of license fees | **(58,857)** |
| Amortisation of discount | **41,287** |
| Adjustment for exchange difference | **(2,184)** |
| **As at 31 December 2010** | **553,602** |

## 19. License fees payable – Group *(continued)*

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Analysis of license fees payable: | | |
| Non-current | | |
| – over five years | **316,880** | 320,590 |
| – the second to fifth year | **166,056** | 176,222 |
| Current | **70,666** | 59,330 |
| | **553,602** | 556,142 |

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

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

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Less than 1 year | **73,495** | 61,923 |
| Between 1 and 5 years | **202,827** | 214,336 |
| Over 5 years | **779,700** | 822,000 |
| | **1,056,022** | 1,098,259 |

## 20. Borrowings – Group and Company

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RMB'000** | 2009 RMB'000 | **2010 RMB'000** | 2009 RMB'000 |
| **Current** | | | | |
| Bank borrowings denominated in | | | | |
| – RMB | **39,960** | 66,260 | **–** | – |
| – HK$ | **272,288** | 193,710 | **272,288** | 193,710 |
| | **312,248** | 259,970 | **272,288** | 193,710 |
| **Borrowing** | | | | |
| – secured | **4,500** | 66,260 | **–** | – |
| – unsecured | **307,748** | 193,710 | **272,288** | 193,710 |
| | **312,248** | 259,970 | **272,288** | 193,710 |

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

The weighted average effective interest rates per annum of the borrowings were 5.32% (2009: 5.17%) for bank borrowings denominated in RMB and 1.23% (2009: 2.04%) for bank borrowings denominated in HK$ for the year ended 31 December 2010.

Bank borrowings amounting to RMB4,500,000 (2009: RMB66,260,000) were secured by the Group's land and buildings (Notes 6 and 7).

As at 31 December 2010, the Group had undrawn borrowing facilities within one year amounting to RMB1,157,502,000 (2009: RMB1,396,540,000). These facilities have been arranged to help financing of the Group's working capital.

## 20. Borrowings – Group and Company *(continued)*

Movement in borrowings is analysed as follows:

| | **Group**<br>RMB'000 | **Company**<br>RMB'000 |
|---|---|---|
| As at 1 January 2009 | 607,480 | 176,380 |
| Additions | 457,880 | 105,660 |
| Effect of change in exchange rate | (140) | (140) |
| Repayments | (805,250) | (88,190) |
| As at 31 December 2009 | 259,970 | 193,710 |
| **As at 1 January 2010** | **259,970** | **193,710** |
| Additions | **382,320** | **340,360** |
| Effect of change in exchange rate | **(2,960)** | **(2,960)** |
| Repayments | **(327,082)** | **(258,822)** |
| **As at 31 December 2010** | **312,248** | **272,288** |

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2010**<br>**RMB'000** | 2009<br>RMB'000 | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
| – Less than 6 months | **291,788** | 239,510 | **272,288** | 193,710 |
| – Between 6 and 12 months | **20,460** | 20,460 | **–** | – |
| | **312,248** | 259,970 | **272,288** | 193,710 |

## 21. Deferred income tax – Group

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

| | Provisions | Share Schemes | Unrealised profit on intra-group sales | Fair value gains | Accumulated tax losses | Accruals | Others | Total |
|---|---|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **Deferred income tax assets** | | | | | | | | |
| **As at 1 January 2009** | 14,684 | 11,660 | 41,688 | – | – | – | 1,409 | 69,441 |
| Credited to income statement | 5,848 | 1,021 | 7,213 | – | 37,470 | 66,732 | 5,281 | 123,565 |
| Acquisition of subsidiaries | – | – | – | – | – | – | 103 | 103 |
| **As at 31 December 2009** | 20,532 | 12,681 | 48,901 | – | 37,470 | 66,732 | 6,793 | 193,109 |
| **As at 1 January 2010** | **20,532** | **12,681** | **48,901** | **–** | **37,470** | **66,732** | **6,793** | **193,109** |
| Credited to income statement | **12,424** | **1,557** | **24,919** | **–** | **35,510** | **25,815** | **4,526** | **104,751** |
| **As at 31 December 2010** | **32,956** | **14,238** | **73,820** | **–** | **72,980** | **92,547** | **11,319** | **297,860** |
| **Deferred income tax liabilities** | | | | | | | | |
| **As at 1 January 2009** | – | – | – | (77,490) | – | – | (1,651) | (79,141) |
| Credited to income statement | – | – | – | 7,401 | – | – | 1,477 | 8,878 |
| Acquisition of subsidiaries | – | – | – | (20,138) | – | – | – | (20,138) |
| **As at 31 December 2009** | – | – | – | (90,227) | – | – | (174) | (90,401) |
| **As at 1 January 2010** | **–** | **–** | **–** | **(90,227)** | **–** | **–** | **(174)** | **(90,401)** |
| Credited to income statement | **–** | **–** | **–** | **4,798** | **–** | **–** | **95** | **4,893** |
| **As at 31 December 2010** | **–** | **–** | **–** | **(85,429)** | **–** | **–** | **(79)** | **(85,508)** |

## 21. Deferred income tax – Group *(continued)*

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

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| **Deferred income tax assets** | | |
| – to be recovered within 12 months | **203,032** | 139,602 |
| – to be recovered after more than 12 months | **94,828** | 53,507 |
| | **297,860** | 193,109 |
| **Deferred income tax liabilities** | | |
| – to be recovered within 12 months | **(4,798)** | (3,040) |
| – to be recovered after more than 12 months | **(80,710)** | (87,361) |
| | **(85,508)** | (90,401) |

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB10,388,000 (2009: RMB10,779,000) in respect of tax losses amounting to RMB50,099,000 (2009: RMB71,293,000) that can be carried forward against future taxable income and will expire between 2011 and 2015 as management believes it is more likely than not that such tax losses would not be utilised before they expire.

Deferred income tax liabilities of RMB141,125,000 (2009: RMB103,784,000) have not been recognised for the withholding tax that would be payable on the distributable retained profits of the Company's subsidiaries in the PRC earned after 1 January 2008. Such amounts totalling RMB2,822,502,000 (2009: RMB2,075,671,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

## 22. Deferred income – Group

| | RMB'000 |
|---|---|
| As at 1 January 2009 | – |
| Addition | 64,697 |
| Credited to income statement | (1,079) |
| As at 31 December 2009 | 63,618 |
| **As at 1 January 2010** | **63,618** |
| Credited to income statement | **(1,294)** |
| **As at 31 December 2010** | **62,324** |

During the year ended 31 December 2009, the Group received government grant amounting to RMB64,697,000 for purchase of a land use right in the PRC. Such government grant was recorded as deferred income and would be credited to income statement over the lease period of the corresponding land use right of 50 years using straight-line method. An amount of RMB1,294,000 (2009: RMB1,079,000) has been credited to income statement during the year ended 31 December 2010.

## 23. Expenses by nature

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Cost of inventories recognised as expenses included in cost of sales | **4,713,032** | 4,131,797 |
| Depreciation on property, plant and equipment *(Note a)* | **114,648** | 94,302 |
| Amortisation of land use rights and intangible assets | **97,769** | 88,713 |
| Impairment of intangible assets | **3,792** | – |
| Advertising and marketing expenses | **1,427,130** | 1,290,620 |
| Director and employee benefit expenses | **710,253** | 630,887 |
| Operating lease rentals in respect of land and buildings | **360,078** | 260,075 |
| Research and product development expenses *(Note a)* | **244,749** | 229,806 |
| Transportation and logistics expenses | **149,100** | 123,800 |
| Provision/(reversal of provision) for impairment charge of trade receivables | **474** | (2,279) |
| Write-down of inventories to net realisable value | **42,556** | 4,375 |
| Auditor's remuneration | **3,900** | 4,050 |
| Management consulting expenses | **65,945** | 68,634 |
| Travelling and entertainment expenses | **138,054** | 128,752 |

*Note:*

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

## 24. Other income

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Government grants *(Note a)* | **187,892** | 127,111 |
| License fee income | **6,739** | – |
| | **194,631** | 127,111 |

*Note*:

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

## 25. Employee benefit expenses

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Wages and salaries | **390,740** | 339,040 |
| Contributions to retirement benefit plan *(Note c)* | **49,646** | 42,309 |
| Share options granted to directors and employees | **53,677** | 65,901 |
| Staff quarters and housing benefits | **18,418** | 15,939 |
| Other benefits | **197,772** | 167,698 |
| | **710,253** | 630,887 |

## 25. Employee benefit expenses *(continued)*

(a) Directors' and senior management's emoluments

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

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

The remuneration of each director for the year ended 31 December 2010 is set out below:

| Name of Director | **Fees RMB'000** | **Salary RMB'000** | **Discretionary bonuses RMB'000** | **Other benefits(i) RMB'000** | **Employer's contribution to pension scheme RMB'000** | **Total RMB'000** |
|---|---|---|---|---|---|---|
| Mr. Li Ning | **–** | **2,874** | **960** | **22** | **149** | **4,005** |
| Mr. Zhang Zhi Yong | **–** | **3,666** | **960** | **9,329** | **205** | **14,160** |
| Mr. Chong Yi Kay | **–** | **1,493** | **875** | **2,138** | **121** | **4,627** |
| Ms. Wang Ya Fei | **266** | **–** | **–** | **378** | **–** | **644** |
| Mr. Lim Meng Ann | **266** | **–** | **–** | **466** | **–** | **732** |
| Mr. Stuart Schonberger (ii) | **105** | **–** | **–** | **47** | **–** | **152** |
| Mr. Koo Fook Sun, Louis | **266** | **–** | **–** | **378** | **–** | **644** |
| Mr. Chan Chung Bun, Bunny | **212** | **–** | **–** | **378** | **–** | **590** |
| Mr. Chu Wah Hui | **212** | **–** | **–** | **362** | **–** | **574** |
| Mr. James Chun-Hsien Wei | **212** | **–** | **–** | **362** | **–** | **574** |

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

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

## 25. Employee benefit expenses *(continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three directors for the year ended 31 December 2010 (2009: three directors), and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining two (2009: two) individuals whose emoluments were the highest in the Group for the year are as follows:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Salaries and allowances | **6,696** | 4,446 |
| Other benefits | **2,014** | 4,554 |
| Contributions to retirement benefit scheme | **122** | – |
| | **8,832** | 9,000 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2010** | 2009 |
| Emoluments bands | | |
| RMB3,000,001 to RMB5,000,000 | **2** | 2 |

(c) Pensions – defined contribution plans

The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 5% to 22% of the employees' basic salary dependent upon the applicable local regulations.

## 26. Finance income and costs

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Interest income on bank balances and deposits | 7,507 | 7,422 |
| Net foreign currency exchange gain | 7,410 | – |
| **Finance income** | 14,917 | 7,422 |
| Amortisation of discount – license fees payable *(Note 19)* | (41,287) | (40,417) |
| Interest expense on bank borrowings | (10,891) | (24,954) |
| Net foreign currency exchange loss | – | (817) |
| **Finance costs** | (52,178) | (66,188) |
| **Finance costs – net** | (37,261) | (58,766) |

## 27. Income taxes

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax *(Note b)* | 2,506 | 4,501 |
| – The PRC corporate income tax *(Note c)* | 466,346 | 441,741 |
| – Withholding income tax on dividends distributed from subsidiaries in PRC *(Note d)* | 18,170 | – |
| | 487,022 | 446,242 |
| Deferred income tax | (109,644) | (132,443) |
| | 377,378 | 313,799 |

## 27. Income taxes *(continued)*

*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 2010 (2009: 16.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2009: 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 22% (2009: 20%) 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 2010, 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.

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

| | **2010**<br>**RMB'000** | 2009<br>RMB'000 |
|---|---|---|
| Profit before income tax | **1,509,514** | 1,283,130 |
| Tax calculated at a tax rate of 25% (2009: 25%) | **377,379** | 320,782 |
| Effects of different overseas tax rates | **2,431** | (809) |
| Preferential tax rate on the income of certain subsidiaries | **(1,295)** | (1,835) |
| Tax losses for which no deferred taxation is recognised | **10,915** | 12,039 |
| Expenses not deductible for tax purposes | **9,298** | 17,205 |
| Tax credit granted to subsidiaries | **(34,570)** | (7,060) |
| Income not subject to tax | **(4,950)** | (6,893) |
| Recognition of deferred tax assets for temporary differences of prior years | **–** | (19,630) |
| Withholding tax on dividends from subsidiaries in PRC | **18,170** | – |
| **Taxation charge** | **377,378** | 313,799 |

The effective tax rate is 25.0% for the year ended 31 December 2010 (2009: 24.5%).

## 28. Earnings per share

Basic

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

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Profit attributable to equity holders of the Company | **1,108,487** | 944,524 |
| Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme (in thousands) | **1,047,363** | 1,040,757 |
| Basic earnings per share (RMB cents) | **105.84** | 90.75 |

Diluted

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

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Profit attributable to equity holders of the Company, used to determine diluted earnings per share | **1,108,487** | 944,524 |
| Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme (in thousands) | **1,047,363** | 1,040,757 |
| Adjustment for share options and awarded shares (in thousands) | **14,502** | 13,276 |
| Weighted average number of ordinary shares for diluted earnings per share (in thousands) | **1,061,865** | 1,054,033 |
| Diluted earnings per share (RMB cents) | **104.39** | 89.61 |

## 29. Dividends

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Interim dividend paid of RMB22.15 cents (2009: RMB13.58 cents) per ordinary share | **229,568** | 141,437 |
| Proposed final dividend of RMB19.97 cents (2009: RMB22.54 cents) per ordinary share | **213,827** | 236,049 |
| | **443,395** | 377,486 |

*Note:*

On 17 March 2010, the Board proposed a final dividend of RMB22.54 cents per ordinary share for the year ended 31 December 2009.

On 16 March 2011, the Board proposed a final dividend of RMB19.97 cents per ordinary share totalling RMB213,827,000 for the year ended 31 December 2010. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 December 2011.

## 30. Statement of cash flows

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

| | 2010<br>RMB'000 | 2009<br>RMB'000 |
|---|---|---|
| Profit before income tax | **1,509,514** | 1,283,130 |
| Adjustments for: | | |
| Depreciation | **114,648** | 94,302 |
| Amortisation | **97,769** | 88,713 |
| Provision for impairment charge of intangible assets | **3,792** | – |
| Provision/(reversal of provision) for impairment charge of receivables | **474** | (2,279) |
| Write-down of inventories to net realisable value | **42,556** | 4,375 |
| Share options granted to directors and employees | **53,677** | 65,901 |
| Finance costs – net | **37,261** | 58,766 |
| Amortisation of deferred income | **(1,294)** | (1,079) |
| Operating profit before working capital changes | **1,858,397** | 1,591,829 |
| (Increase)/decrease in inventories | **(216,626)** | 53,263 |
| (Increase)/decrease in trade receivables | **(543,760)** | 23,451 |
| Increase in other receivables and prepayments | **(88,591)** | (12,708) |
| Increase/(decrease) in trade payables | **364,527** | (45,412) |
| Increase in other payables and accruals | **100,641** | 39,353 |
| Cash inflow generated from operations | **1,474,588** | 1,649,776 |

## 31. Share-based compensation

(a) Share Purchase Scheme

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

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

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

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

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Weighted average exercise price (per share) HK$** | **Outstanding options (Thousands)** | Weighted average exercise price (per share) HK$ | Outstanding options (Thousands) |
| **As at 1 January** | **0.86** | **1,724** | 0.68 | 6,936 |
| Exercised | **0.86** | **(1,086)** | 0.62 | (5,212) |
| **As at 31 December** | **0.86** | **638** | 0.86 | 1,724 |
| **Exercisable as at 31 December** | **0.86** | **638** | 0.83 | 1,541 |

## 31. Share-based compensation *(continued)*

(a) Share Purchase Scheme *(continued)*

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| **Expiry date** | **Weighted average exercise price (per share) HK$** | **Share options (Thousands)** | Weighted average exercise price (per share) HK$ | Share options (Thousands) |
| 8 June 2010 | **0.86** | **–** | 0.86 | 439 |
| 11 November 2011 | **0.86** | **75** | 0.86 | 75 |
| 5 July 2012 | **0.86** | **510** | 0.86 | 945 |
| 1 January 2013 | **0.86** | **–** | 0.86 | 100 |
| 2 July 2013 | **0.86** | **–** | 0.86 | 19 |
| 16 November 2013 | **0.86** | **33** | 0.86 | 33 |
| 27 November 2013 | **0.86** | **20** | 0.86 | 113 |
| | | **638** | | 1,724 |

(b) Pre-IPO Share Option Scheme

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

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

## 31. Share-based compensation *(continued)*

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

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Exercise price (per share) HK$** | **Outstanding options (Thousands)** | Exercise price (per share) HK$ | Outstanding options (Thousands) |
| **As at 1 January** | **1.8275** | **863** | 1.8275 | 3,816 |
| Exercised | **1.8275** | **(862)** | 1.8275 | (2,953) |
| Lapsed | **1.8275** | **(1)** | – | – |
| **As at 31 December** | **–** | **–** | 1.8275 | 863 |
| **Exercisable as at 31 December** | **–** | **–** | 1.8275 | 863 |

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| **Expiry date** | **Exercise price (per share) HK$** | **Share options (Thousands)** | Exercise price (per share) HK$ | Share options (Thousands) |
| 5 June 2010 | **–** | **–** | 1.8275 | 863 |

(c) Share Option Scheme

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

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

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

## 31. Share-based compensation *(continued)*

(c) Share Option Scheme *(continued)*

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

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

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

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Weighted average exercise price (per share) HK$** | **Outstanding Options (thousands)** | Weighted average exercise price (per share) HK$ | Outstanding options (thousands) |
| **As at 1 January** | **12.764** | **29,634** | 8.649 | 13,134 |
| Granted | **–** | **–** | 14.228 | 20,172 |
| Exercised | **8.851** | **(4,493)** | 5.831 | (3,572) |
| Lapsed | **14.791** | **(1,817)** | 15.300 | (100) |
| **As at 31 December** | **13.360** | **23,324** | 12.764 | 29,634 |
| **Exercisable as at 31 December** | **12.400** | **8,635** | 6.236 | 6,503 |

## 31. Share-based compensation *(continued)*

(c) Share Option Scheme *(continued)*

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

| Expiry date | **2010** Exercise price (per share) HK$ | **2010** Share options (Thousands) | 2009 Exercise price (per share) HK$ | 2009 Share options (Thousands) |
|---|---|---|---|---|
| 4 July 2011 | **3.685** | **2,269** | 3.685 | 4,264 |
| 3 January 2012 | **5.500** | **–** | 5.500 | 14 |
| 4 September 2012 | **8.830** | **799** | 8.830 | 1,387 |
| 20 November 2012 | **9.840** | **300** | 9.840 | 300 |
| 19 July 2013 | **19.680** | **350** | 19.680 | 350 |
| 4 July 2014 | **17.220** | **2,225** | 17.220 | 3,014 |
| 5 December 2014 | **10.940** | **93** | 10.940 | 133 |
| 19 January 2015 | **11.370** | **11,913** | 11.370 | 14,112 |
| 1 April 2015 | **13.180** | **689** | 13.180 | 689 |
| 22 October 2015 | **21.870** | **4,686** | 21.870 | 5,371 |
| | | **23,324** | | 29,634 |

(d) Fair value of share options

No options under the above schemes were granted during the year ended 31 December 2010.

The fair values of Alpha Talent Option and Post-IPO Option are charged to the consolidated income statement over the vesting period of the options. The amount charged in 2010 were RMB353,000 and RMB33,113,000 respectively (2009: RMB2,504,000 and RMB37,853,000).

(e) Restricted Share Award Scheme

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

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

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

## 31. Share-based compensation *(continued)*

(e) Restricted Share Award Scheme *(continued)*

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

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

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

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Weighted average fair value (per share) HK$** | **Number of Restricted Shares granted (Thousands)** | Weighted average fair value (per share) HK$ | Number of Restricted Shares granted (Thousands) |
| **As at 1 January** | **18.31** | **2,359** | 17.91 | 4,186 |
| Granted | **23.20** | **3,123** | 21.55 | 6 |
| Vested | **19.52** | **(1,481)** | 10.20 | (1,749) |
| Lapsed | **17.28** | **(161)** | 16.87 | (84) |
| **As at 31 December** | **21.97** | **3,840** | 18.31 | 2,359 |

The fair value of Restricted Shares charged to the consolidated income statement was RMB20,211,000 during the year ended 31 December 2010 (2009: RMB25,544,000).

## 32. Commitments

(a) Capital commitments

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010 RMB'000** | 2009 RMB'000 | **2010 RMB'000** | 2009 RMB'000 |
| Contracted for but not paid – property, plant and equipment | **63,453** | – | **–** | – |

There is no capital expenditure authorised but not contracted for by the Group and the Company as at 31 December 2010 and 2009.

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

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

| | **2010 RMB'000** | 2009 RMB'000 |
|---|---|---|
| Not later than 1 year | **245,593** | 220,795 |
| Later than 1 year and not later than 5 years | **548,072** | 505,509 |
| Later than 5 years | **147,721** | 185,329 |
| | **941,386** | 911,633 |

The Company does not have any operating lease commitments as at 31 December 2010 and 2009.

## 33. Related-party transactions

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

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

(a) Sales of goods to:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Related companies of Shanghai Double Happiness (Group) Co., Ltd., all being controlled by a key management personnel of a non-wholly owned subsidiary | **4,374** | 6,657 |

(b) Purchases of goods from:

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Shanghai Double Happiness (Group) Co., Ltd. and related companies | **5,099** | 43,792 |

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

(c) Key management compensation

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

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Salaries and other benefits | **15,852** | 15,838 |
| Contribution to retirement benefit scheme | **475** | 387 |
| Employee share schemes for value of services provided | **10,375** | 20,521 |
| | **26,702** | 36,746 |

## 33. Related-party transactions *(continued)*

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

| | **2010** **RMB'000** | 2009 RMB'000 |
|---|---|---|
| Receivables from related parties: | | |
| Related companies of Shanghai Double Happiness (Group) Co., Ltd. | **–** | 249 |
| Payables to related parties: | | |
| Related companies of Shanghai Double Happiness (Group) Co., Ltd. | **4,600** | 4,137 |

# Glossary

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

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