BUILDING FOR THE FUTURE

Annual Report 2012

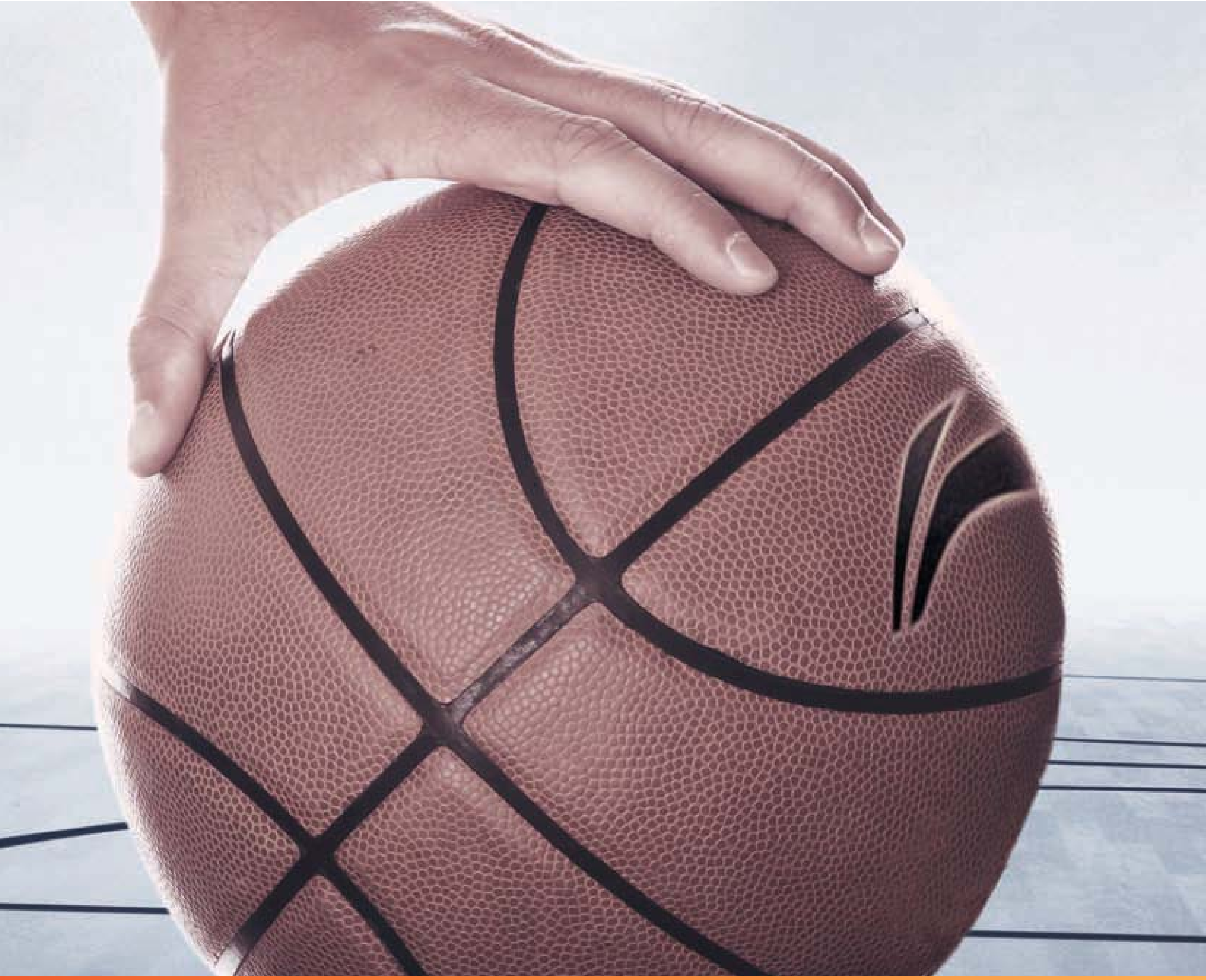
LI-NING

LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)



BUILDING FOR THE FUTURE

About Li Ning Group

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

In addition to its core LI-NING brand, the Group also manufactures, develops, markets, distributes and/or sells sports products under several other brands, including Double Happiness (table tennis), AIGLE (outdoor sports) and Lotto (sports fashion) which are either self-owned by, licensed to or operated through joint ventures.

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

Contents

HIGHLIGHTS OF THE YEAR 2012

JANUARY

Li Ning Company signed investment agreement with TPG, one of the world's leading private equity Investment firms, and the Government of Singapore Investment Corporation Pte Ltd (GIC). TPG and GIC agreed to invest in the Company via the subscription of convertible bonds from the Company. Two TPG-nominated Directors joined the Board of the Company in April 2012.

MARCH

The Li Ning Centre Laboratory passed the quality reassessment and scope expansion onsite assessment conducted by the China National Accreditation Service for Conformity Assessment (CNAS), further improving the laboratory's research capabilities as well as laying a solid foundation to standardize laboratory management. This provides stronger technical support for R&D assessment and quality control for all Li Ning products.

APRIL

Li Ning Company was awarded the highest distinction of "Outstanding Contribution to Quality Standardization Award" at the 3rd National Textile Standardization Technical Committee – Knitwear division's inaugural meeting held in Zhuhai, Guangdong.

MAY

Following his previous honour as final torchbearer at the Opening Ceremony of the Beijing 2008 Olympic Games, Mr. Li Ning, Founder and Executive Chairman of Li Ning Company, once again served as torchbearer for the London 2012 Olympic Games, taking part in the Greek leg and concluding the torch relay across Greece with the final flame handover.

JUNE

Li Ning Company signed a Memorandum of Cooperation with the China Basketball Association (CBA) to become the equipment sponsor for the CBA for five seasons from 2012/2013 through 2016/2017.

Li Ning Company held a press conference in Beijing, with a theme of "Witness the Change, the Dragon Dazzles London" to unveil Olympic sports gear.

JAN FEB MAR APR MAY JUN

JULY

The Company announced key changes to the management team and the appointment of a new independent non-executive Director, along with a transformation plan to improve the Group's financial performance and position Li Ning for profitable, sustainable growth.

AUGUST

Five Chinese national teams sponsored by the Li Ning Brand won 22 gold medals at the 2012 London Olympics.

OCTOBER

Li Ning Company signed a sponsorship agreement with NBA superstar and Miami Heat player, Dwyane Wade.

NOVEMBER

The CBA 2012-2013 season opening was held in Beijing, symbolising the strong return of the LI-NING brand to the basketball and overall sports industry in China. LI-NING brand was also unveiled as the official league sponsor for the first time. The CBA League marked the new Li Ning era.

DECEMBER

The Company's Board of Directors approved the launch of a "Channel Revival Plan" as a key component of the transformation plan announced in July 2012. The plan will accelerate the Group's inventory clearance process and enhance sales channel profitability.

JUL AUG SEP OCT NOV DEC

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. LI Ning *(Executive Chairman)*
Mr. Jin-Goon KIM *(Executive Vice Chairman)*
Mr. ZHANG Zhi Yong

Non-executive Directors

Mr. James Chun-Hsien WEI
Mr. CHEN Yue, Scott

Independent non-executive Directors

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

EXECUTIVE COMMITTEE

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

Chief Advisor
Mr. ZHANG Zhi Yong

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. LI Ning
Mr. CHEN Yue, Scott

COMPANY SECRETARY

Ms. YIM Wai Yin, Lisa

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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8 Argyle Street
Mongkok, Kowloon
Hong Kong
Telephone: +852 3541 6000
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

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
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

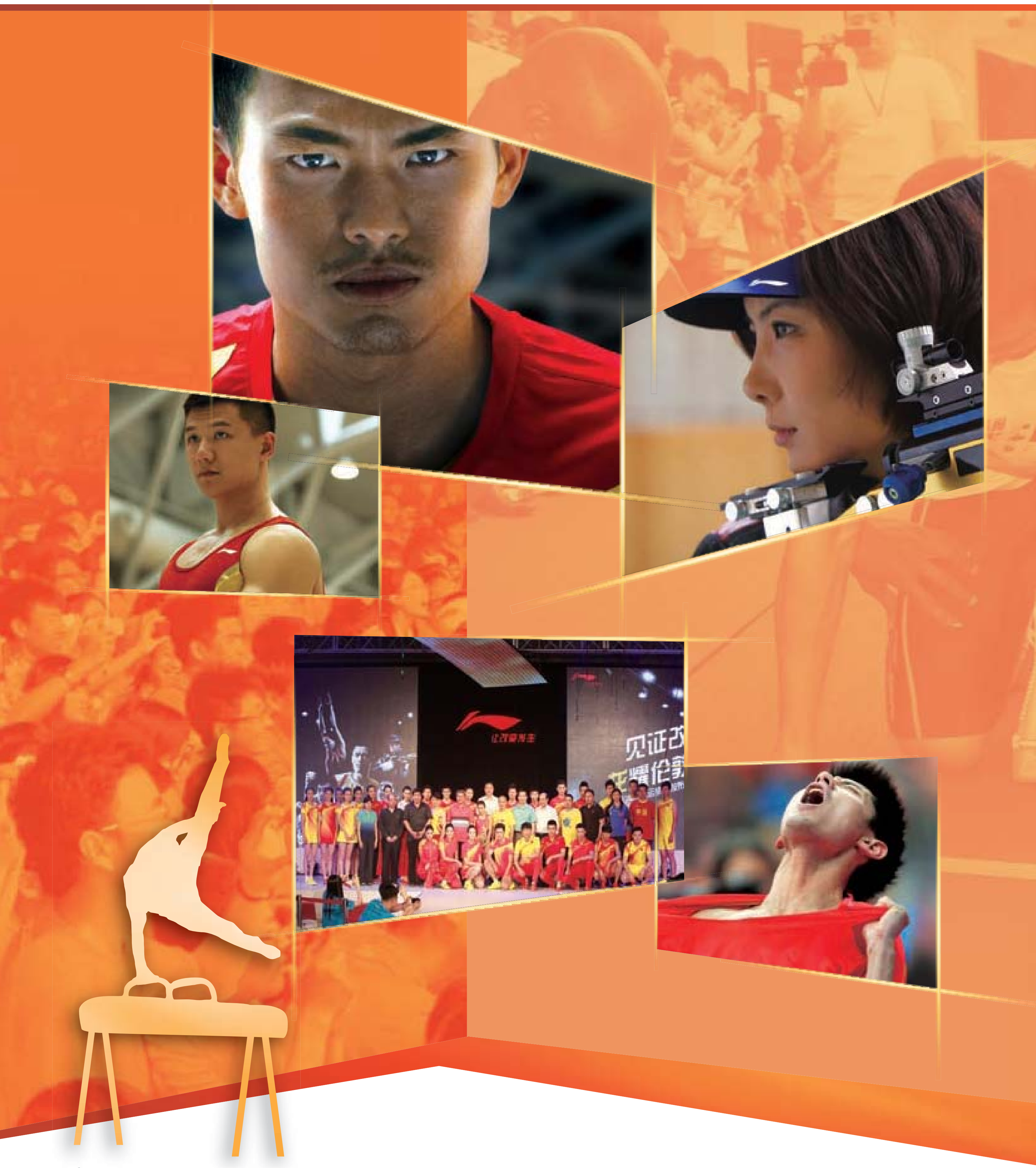
Hong Kong law
Baker & McKenzie

PRC law
All Bright Law Offices

PRINCIPAL BANKERS

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

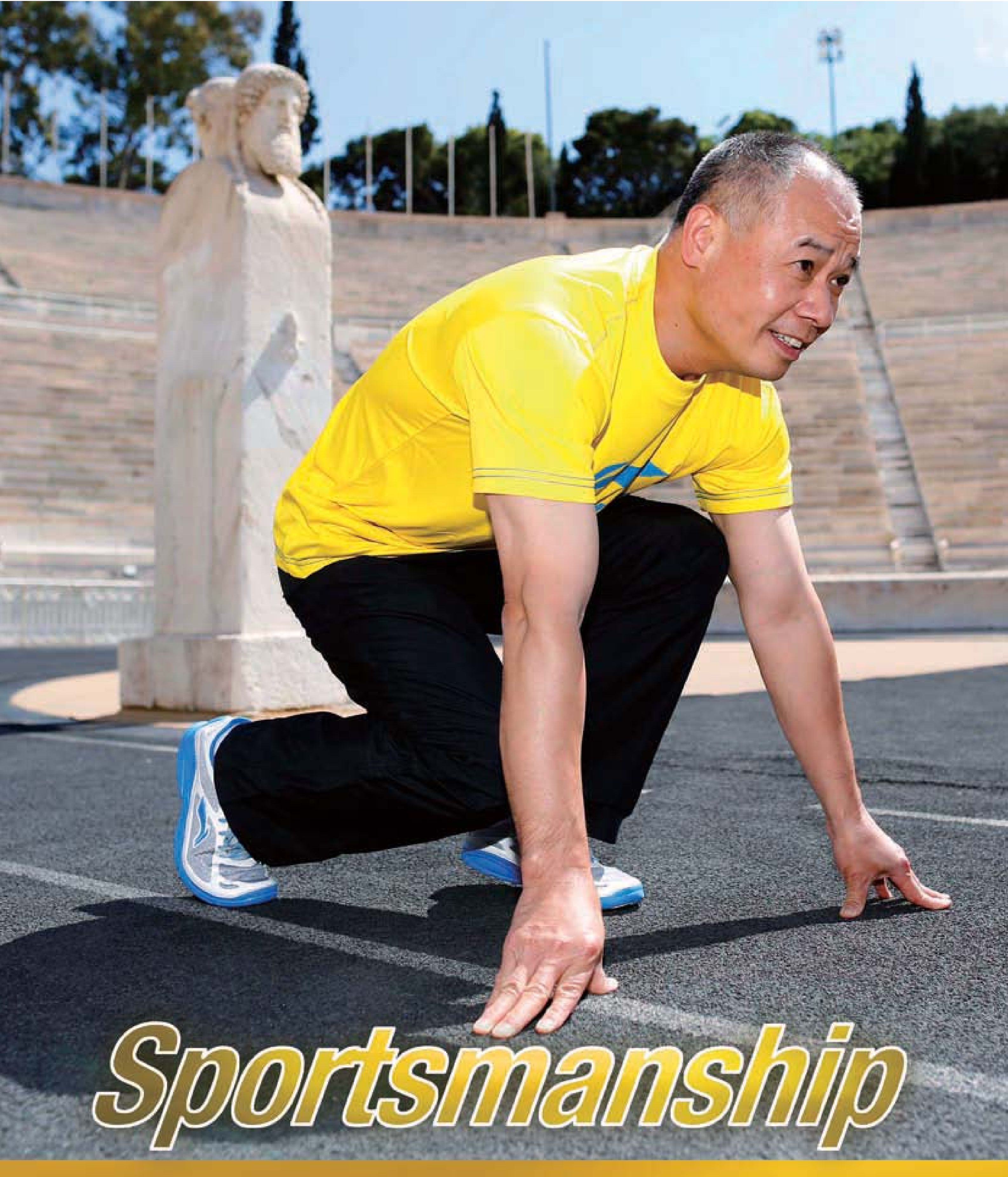
PRC
Industrial & Commercial Bank of China
China Construction Bank
Bank of China
China Merchants Bank
China MinSheng Banking Corporation Limited
Hang Seng Bank (China) Limited
Standard Chartered Bank (China) Limited
DBS Bank (China) Limited



FIVE-YEAR FINANCIAL HIGHLIGHTS

Unit: RMB'000

	2012	2011	2010	2009	2008
Operation results:					
Turnover	**6,738,911**	8,928,526	9,478,527	8,386,910	6,690,073
Operating (loss)/profit	**(1,592,334)**	630,956	1,546,775	1,341,896	960,213
(Loss)/profit before taxation	**(1,805,024)**	547,377	1,509,514	1,283,130	929,238
(Loss)/profit attributable to equity holders	**(1,979,114)**	385,813	1,108,487	944,524	721,267
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**(1,377,003)**	890,732	1,759,192	1,524,911	1,070,516
Assets and liabilities:					
Total non-current assets	**2,105,107**	2,547,218	2,368,205	2,215,895	1,518,985
Total current assets	**3,926,903**	4,781,600	4,193,587	3,161,975	2,817,944
Total current liabilities	**3,276,565**	3,063,067	2,371,642	1,864,928	2,086,843
Net current assets	**650,338**	1,718,533	1,821,945	1,297,047	731,101
Total assets	**6,032,010**	7,328,818	6,561,792	5,377,870	4,336,929
Total assets less total current liabilities	**2,755,445**	4,265,751	4,190,150	3,512,942	2,250,086
Equity attributable to equity holders	**1,613,597**	3,471,843	3,369,302	2,674,508	1,896,413
Key financial indicators:					
Gross profit margin	**37.8%**	45.3%	46.8%	47.3%	47.9%
Margin of (loss)/profit attributable to equity holders	**(29.4%)**	4.3%	11.7%	11.3%	10.8%
EBITDA ratio	**(20.4%)**	10.0%	18.6%	18.2%	16.0%
(Losses)/earnings per share					
– basic (RMB cents)	**(187.96)**	36.70	105.84	90.75	69.63
– diluted (RMB cents)	**(187.96)**	36.56	104.39	89.61	68.64
Dividend per share (RMB cents)	**–**	11.13	42.12	36.12	49.67
Return on equity holders' equity	**(77.8%)**	11.3%	36.7%	41.3%	39.6%
Net tangible assets per share (RMB cents)	**97.40**	241.46	225.25	153.65	138.44



Sportsmanship

LI-NING

CHAIRMAN'S STATEMENT

Mr. LI Ning
Executive Chairman

DEAR SHAREHOLDERS,

Foreword

After years of aggressive expansion, growth in the domestic sportswear industry in China became significantly constrained in recent years. In 2012, competition intensified as a result of market saturation in China, while inventory buildup within the sales channels continued to worsen. These led to the overall decline in profitability for the sportswear industry. Furthermore, against the backdrop of global economic uncertainty and a slower pace of growth in China's domestic economy, many industries, including the consumer sector, were adversely impacted.

Given these market conditions, the management team believes that change is inevitable in the business model and competitive dynamics for the sportswear industry in China. To address the increasing operational bottlenecks, Li Ning Company decided to bring in strategic investors to broaden its management horizon, and to drive a breakthrough to pioneer a second phase of development for the industry.

In January 2012, the Group entered into an investment agreement with TPG, a world-leading private equity investment company, and the Government of Singapore Investment Corporation Pte. Ltd. ("GIC"). TPG has successfully led transformations of retail enterprises in China in the past. The Board believes that the involvement of strategic investor TPG will diversify the board composition and meet the demand for professional management on a strategic level. This plan allows an accurate analysis of future operations and strategy, fully utilizes TPG's expertise and resources, and will guarantee the effective execution of the Group's future development strategies.

Implementation of the Transformation Plan

Following the detailed diagnosis and analysis by the Group and its strategic investors in the first half of 2012, a comprehensive transformation plan was launched in July 2012. It included fundamental improvements to channels, brand and products, the adoption of a retail-oriented business model and a development strategy led by sports marketing. By focusing on end consumers' needs, the Group developed and launched products that are technologically advanced and possess contemporary aesthetics. At the same time, the Company also enhanced brand strength through sponsoring several national and international sporting events and athletes.

Since the launch of the transformation plan, management has continued to fine tune the details of the plan's implementation. We successfully attracted a number of new talents to the Group to take up several key positions and work with the new management team to advance the implementation of transformation plan. I, together with Mr. Jin-Goon Kim, our Executive Vice Chairman, have become more actively involved in the development of the Group's strategy and management of its operations. We hope to fulfill the goals of our transformation plan through leveraging my experience and network in the sporting industry, and Mr. Kim's knowledge of the retail industry and operational expertise.

In December 2012, the Board approved the launch of the "Channel Revival Plan" as a key component of the overall transformation plan. Its successful implementation will accelerate the Group's inventory clearance process and enhance sales channel profitability. The revamp of downstream channels should in turn boost the performance of the Group, allowing it to achieve healthy and sustainable growth.

The overall transformation plan will rebuild and revitalize the LI-NING brand, facilitate better supply chain and retail operations, and optimize the Group's business platform and future development. The Board and I are very satisfied with the current progress and outcomes of the transformation plan.

CHAIRMAN'S STATEMENT

Enhance Product Functionality and Strengthen Brand Value

As part of the transformation plan, Li Ning Company made a strong return to the sporting arena in 2012, mainly in basketball, running and badminton. Focusing on the China market, the Group placed strong emphasis on brand investment and product development.

At the 2012 London Olympics, five national teams sponsored by Li Ning Company won a total of 22 gold medals. In basketball, the Group became the exclusive sponsor for the Chinese Basketball Association (CBA). Li Ning Company anticipates to achieve technology upgrades and increased business opportunities through its CBA sponsorship. It also hopes to support the realization of tremendous development potential of the CBA. We also signed a sponsorship agreement with Dwyane Wade, the star player in the NBA's Miami Heat team. "The Way of Wade" products have become increasingly popular in the market.

Performance

The one-off provision made under the Channel Revival Plan negatively impacted our annual results in FY2012. In FY2012, total revenue was down 24.5% year on year and the Company recorded a loss attributable to equity holders of approximately RMB1.979 billion. In the near term, the Company expects that continued reduction on sell-in will still have an impact on revenue. As a result, the Company's financial performance is expected to remain challenging into at least the first half of 2013.

Outlook

Given the steady growth of China's economy, continuing urbanization and upgrading of consumer demands, we believe there is still huge potential in the sportswear industry in China. We also foresee that the next two to three years will be a time for continued industry restructuring, which could pose challenges for existing players, while also provide opportunities for a new phase of growth.

In order to capture these opportunities, the Board proposed to raise funds by an open offer of convertible securities at the beginning of 2013. The total gross proceeds from the open offer will be used by the Company to fund overall execution of the transformation plan, provide general working capital to the company and to optimize its capital structure. The fundraising plan is supported by major shareholders, who not only displayed their commitment to the Company but also their confidence in the company's future. In a period of executing our transformation plan, shareholders' support is crucial to the Group.

In 2013, under the framework of the transformation plan, we will continue to add new content and value to the LI-NING brand through a differentiated point of view and strong execution. As a China-based sportswear brand, Li Ning Company will also be committed to the development of sports in the community through its expertise and brand strength, and fulfil the Group's social obligation.

As the founder and Executive Chairman of Li Ning Company, I would like to express my appreciation for all shareholders' continued support and trust. Although the transformation and reconstruction of our business model will take time, I hope that Li Ning Company will provide long-term sustainable investment returns to all shareholders.

Li Ning
Executive Chairman

Hong Kong, 25 March 2013


LI-NING
Passion

LI-NING

INTERVIEW WITH EXECUTIVE VICE CHAIRMAN

Mr. Jin-Goon KIM
Executive Vice Chairman

All of China's sportswear companies have been facing the same industry-wide issues in recent years. Why has Li Ning Company initiated a full-scale transformation instead of continuing past practices like its competitors?

Since its peak around the 2008 Beijing Olympics, the sportswear industry in China became increasingly competitive which led to challenges such as over-expansion and excess inventory in the sales channels, against a backdrop of rising costs. The situation was made worse by the wholesale practice common among most leading Chinese apparel businesses, including Li Ning. While this practice had allowed Li Ning to quickly capture market share in the past through aggressive network expansion via its wholesalers, this model meant that the company was not able to respond quickly to the dramatic slowdown and issues facing the industry, which impacted our financial performance.

In response, our management team took decisive action in July 2012, when the Board announced a bold transformation plan to build a more flexible and nimble company and reverse the vicious cycle of chronic channel inventory build-up. While this is painful in the short term for our P&L – we made a conscious decision to take the hit now to definitively address the deterioration in the channels – it is a necessary and critical step to position Li Ning for profitable, sustainable growth long into the future and to ensure the best outcome for all stakeholders.

We believe the Chinese sportswear sector will continue to grow, driven by factors such as China's continuing urbanisation, rising sports participation, and consumers' increasing sophistication and switch to premium brands like Li Ning. The transformation plan uniquely positions our company for success.

How did the management determine the transformation blueprint?

This management team, together with the Company's strategic investors and other senior advisors, has looked into every aspect of operations. The transformation plan is the result of months of hard work, carefully listening to all relevant parties – internally and externally – diagnosing and evaluating the business, identifying the challenges both inside and outside the group, as well as determining where we want it to be in the medium to long term.

In addition, the Company has brought together a highly experienced team with global consumer market experience, as well as China-specific experience in transforming retail businesses. The issues the Chinese sportswear industry is facing are really not that uncommon in more mature markets and this team is equipped with the relevant expertise to address these issues.

INTERVIEW WITH EXECUTIVE VICE CHAIRMAN

What does the transformation plan entail?

We divided the plan into short term priorities and longer term strategic objectives to be implemented in parallel. Our first step involved enhancing management and execution capabilities, and we quickly brought on board additions to the team and began to build a world class management platform. Having evaluated the business situation, the immediate next step is reversing the deterioration in the sales channels. That resulted in the announcement of the Channel Revival Plan, which has led to significant progress on the channels.

In parallel, we are building a long-term plan for a sustainable business. We are looking at the entire retail system and platform, beyond just Li Ning Company itself. These longer term initiatives include improving the Group's supply chain, product mix and marketing, sales network, as well as transitioning to a retail-oriented business model to improve the end consumer experience. This should result in higher retail productivity and profitability, and return on investment.

Why was the Channel Revival Plan needed on top of the transformation plan? How will this plan help restore distributors' and LNC's profitability?

It became clear to our management team that we needed to quickly and definitively address the channel issues that had built up over the last few years in order to effect real change at the company. This is a key component of laying a solid foundation for the overall transformation plan.

We initially launched several pilot schemes to ensure that we were focusing on the right elements to ensure effective change. Following the success of these, the Company is also carrying out its Channel Revival Plan which focuses on optimizing the inventory structure, providing support for channel partners' inventory clearance, one-time inventory buy-back, better management of the sales to the distributors, sales network rationalization and customized programs to restructure the accounts receivables, thereby enhancing the repayment capability of distributors. The Channel Revival Plan will allow channel partners to bring to market a higher mix of new products that better match the demographics of their customers, and will also support channel partners in strengthening their financial position and cash flow for growth. In addition, Li Ning Company has also revamped policies to support channel partners to improve their own retail capabilities.

What has LNC done in terms of business model transformation in particular?

In addition to the Channel Revival Plan, we have begun to make adjustments to the trade fair process to better monitor both the amount ordered as well as merchandising decisions of distributors and sub-distributors. We are updating the current season's best-selling products with next season's trends, and introduced A+ products (best-selling SKUs) as well as fast response product lines based on analysis of market demand data so the right product is in the right location to increase sales. In addition, we have begun to improve our pricing strategy to better cover the full range of our target customers. For example, we developed a number of new shoes series using the Company's existing platform, which were not in the typical LI-NING product price range. We tested them in a small number of stores before rolling out broadly, and these lines have sold better than other shoes the Company has sold before.

Lastly, we started pilot testing a fast retail business model, which combines the traditional asset-light wholesale practice with the operating efficiencies of a direct retail business. By transitioning to a consumer-driven, retail-oriented model with fast retail best practices, including shortened merchandising cycles and more flexible supply chain and logistics, we can have more control over the product assortment, inventory mix and retail operations of our channel partners and also respond more quickly and effectively to market demands.

These initiatives will be rolled out step by step throughout the transformation period, and additional details can be found in the MD&A section of our annual report.

The Company put a lot of resources into sponsorships such as the CBA and Wade while its cash flow was under pressure in 2012. What is management's rationale for overall marketing spending?

Focus and determination have been at the heart of our decision-making in the past year. Despite facing a tough financial situation, effective marketing is still crucial to the success of a consumer product company and we have to make it work. The management has a very clear strategic vision and integrated approach in transforming the management of product development, marketing and supply chain.

The Group's marketing goals have not changed – to launch value-for-money sports products with cutting-edge functionalities via marketing platforms brought about by major sports events to fulfil the increasingly sophisticated demand by our consumers. We seized the opportunities when the CBA and Wade sponsorships became available, and continued to sponsor the five national championship teams, which is consistent with that strategy.

What do you plan to execute and achieve in 2013?

Going forward, we will continue to roll out existing initiatives on a broader scale as well as push forward new initiatives based on our transformation plan.

In a complex operating environment, the repositioning of our business takes time and is not a "quick fix", and our current channel and inventory clearance initiatives will lead to a downsizing of our business in the short term. In the near term, in order to improve channel inventory, profitability and cash flows, store base rationalization and sell-in reduction will continue until we have optimized the company's retail platform.

I want to be very clear that we are on a journey that will take time as we are pioneering solutions and practices to overcome broader industry issues. This is the reason why we took such bold moves transforming this business. We are addressing issues in a systematic and structured manner. We have a strong and experienced management team working hard to drive the transformation process. Despite the near-term challenges, with rigorous execution and the support of our shareholders and other constituents, I'm confident in the future of Li Ning Company as the leading sportswear brand and one of the most successful transformation stories in China.

This is not the first time you have been involved in companies' transformation. How is Li Ning Company different and what drives you in its transformation this time?

Truthfully, the intensity and level of challenges that Li Ning Company was facing was more than I have had with other companies. However, since last July, it has been amazing to see how everyone in the Company aligned immediately on what we needed to do and how much we have accomplished already.

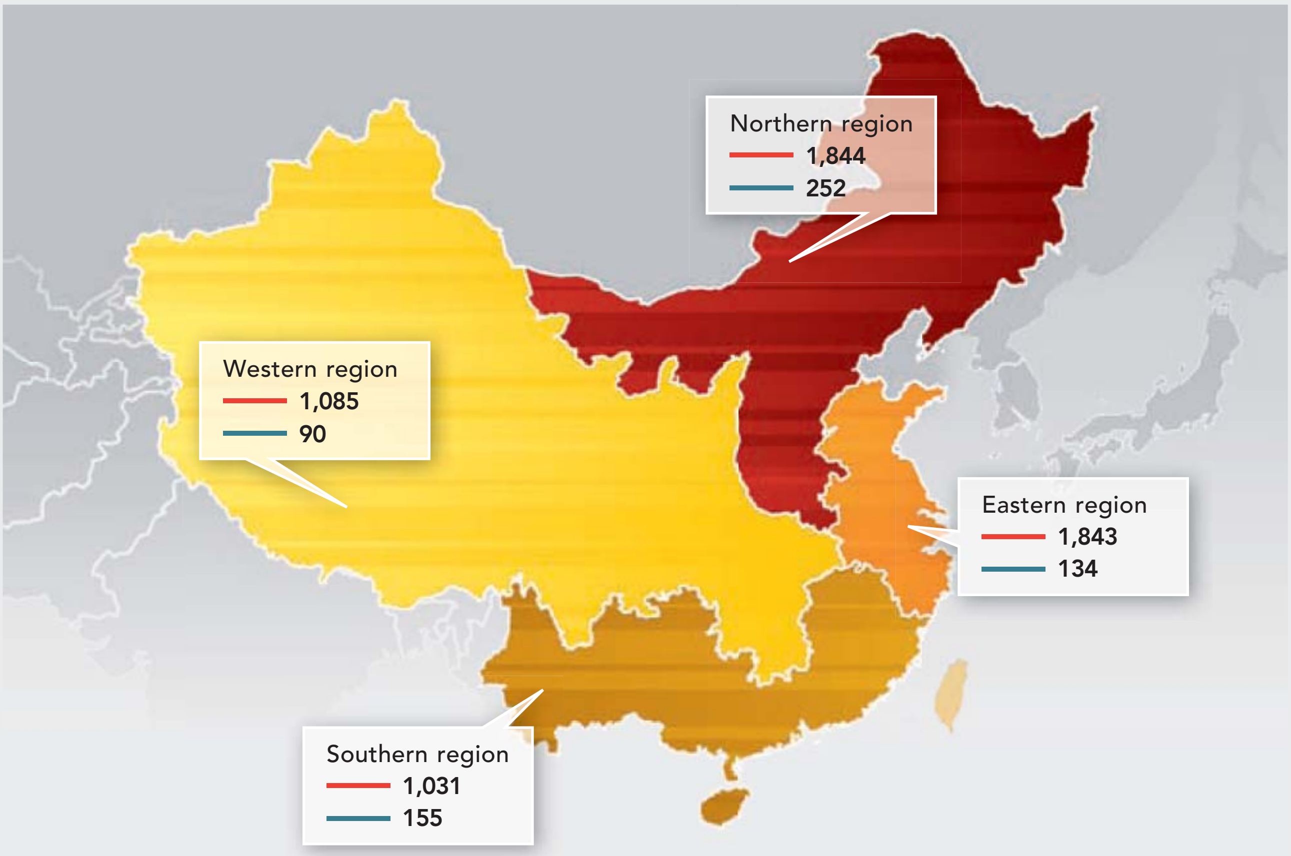
I believe that China deserves to have a local champion in the new retail business dynamic. LI-NING brand has a long heritage and close association with Chinese sports but this is the first time a Chinese company has attempted to revamp and pioneer a business model to adapt to the retail industry undergoing dramatic changes. With my past experiences in turning around Chinese companies in the retail sector, I want to help Li Ning Company to make it happen. Ultimately, we want to build a business and brand with world-class retail capabilities, technologies and products to rival any global consumer company.

MANAGEMENT DISCUSSION AND ANALYSIS

NATIONWIDE DISTRIBUTION AND RETAIL NETWORK

(As at 31 December 2012)

LI-NING brand stores	Franchised retail stores	Directly-operated retail stores	Total number of stores
Eastern region *(Note 1)*	1,843	134	1,977
Northern region *(Note 2)*	1,844	252	2,096
Southern region *(Note 3)*	1,031	155	1,186
Western region *(Note 4)*	1,085	90	1,175
Total	**5,803**	**631**	**6,434**



Notes:

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

OVERVIEW

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

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

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

FINANCIAL REVIEW

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Notes:

1. The loss in respect of the write-down of inventories to their net realisable value has been included in cost of sales in the consolidated income statement for the year ended 31 December 2012 and the comparative figure for the year ended 31 December 2011 has been reclassified as cost of sales to conform to the current year presentation.
2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of (loss)/profit for the year, income tax expense, finance costs - net, depreciation of property, plant and equipment, and amortisation of land use rights and intangible assets.
3. The calculation of basic (losses)/earnings per share is based on the (loss)/profit attributable to equity holders of the Company for the year, divided by the weighted average number of ordinary shares in issue less ordinary shares held for Restricted Share Award Scheme.
4. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year, divided by cost of sales and multiplied by 366 days.
5. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, divided by revenue and multiplied by 366 days.
6. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, divided by total purchases and multiplied by 366 days.
7. The calculation of debt-to-equity ratio is based on total liabilities divided by equity attributable to equity holders of the Company at the end of the year.
8. The calculation of interest-bearing debt-to-equity ratio is based on total interest-bearing bank borrowings and convertible bonds divided by the share capital and reserves attributable to equity holders of the Company at the end of the year.

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

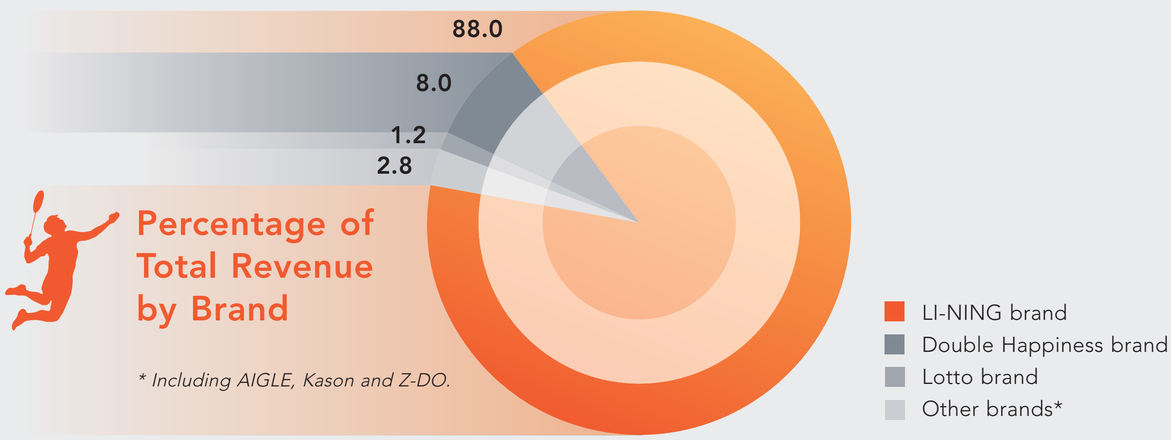
Revenue

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

Revenue breakdown by brand and product category

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

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



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

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

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

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

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

Revenue breakdown of LI-NING brand by geographical location

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

Notes:

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

Cost of Sales and Gross Profit

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

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

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

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

Distribution Costs

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

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

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

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

Administrative Expenses

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

Administrative expenses of LI-NING brand amounted to RMB1,449,918,000 (2011: RMB551,220,000), accounting for 24.5% of LI-NING brand's revenue. This was 17.7 percentage points above the 6.8% for 2011. These expenses mainly comprised of staff costs, management consulting expenses, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses. Given the decline in LI-NING brand's revenue, the Group managed to effectively control and reduce miscellaneous expenses and labour costs. However, the challenging industry backdrop and the downturn of the macro economy led to the decline in repayment capability of distributors, the increase of the turnover days and consequently higher balance of long aging trade receivables. Taking into account the assessment of distributors and the uncertainty of market conditions, the Company made significant provisions for impairment, resulting in a notable increase in administrative expenses as a percentage of LI-NING brand's revenue. The Company is also carrying out its Channel Revival Plan in a bid to optimize the inventory structure, reduce inventories of channels and improve the profitability of channels, thereby enhancing the repayment capability of distributors.

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

Administrative expenses of Lotto brand amounted to RMB143,060,000 (2011: RMB12,324,000), accounting for 170.4% (2011: 10.3%) of Lotto brand's revenue. These expenses comprised mainly of staff costs, basic research and development costs, depreciation and amortisation charges, provision for impairment of trade receivables, provision for impairment of intangible assets and other miscellaneous expenses. During the year, the Group made a total provision of RMB127,838,000 for impairment of intangible assets, based on Lotto brand's license as adjusted under a supplemental agreement entered into with the licensor. Other administrative expenses such as miscellaneous expenses and staff costs remained steady or slightly lower.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

Finance Costs

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

Income Tax Expenses

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

Overall Profitability Indicators

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

Provision for Inventories

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

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

Provision for Doubtful Debts

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

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

Liquidity and Financial Resource

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

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

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

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

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

Foreign Exchange Risk

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

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

Pledge of assets

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

Contingent Liabilities

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

LI-NING Brand

Brand Marketing and Promotion

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

Successful Marketing and Promotions for London 2012 Olympic Games

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

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

MANAGEMENT DISCUSSION AND ANALYSIS


DUCKS
ZHEJIANG LIONS
LI-NING

MANAGEMENT DISCUSSION AND ANALYSIS

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

Expanding Consumer Base through Promoting Basketball Matches and Products

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

Sponsoring CBA, the Top Basketball League in China

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

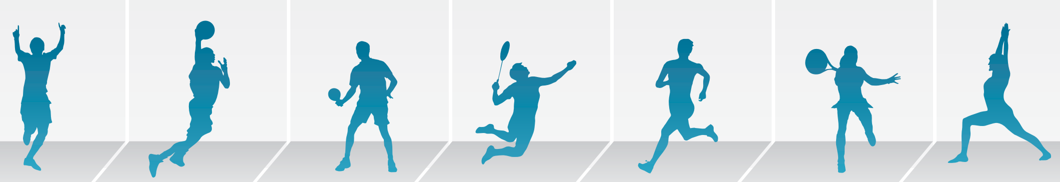
Strengthening the Leading Position in Badminton

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

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

LI-NING Brand Sponsorship Resources

	NATIONAL TEAMS	CORE SPORTS				OTHER SPORTS	
	NATIONAL TEAMS	BASKETBALL	TABLE TENNIS	BADMINTON	TRACK & FIELD/RUNNING	TENNIS	OTHERS
TOP-NOTCH ATHLETES/ SPORTS TEAMS/ SPORTS CLUBS	Chinese National Gymnastics Team	Dwyane Tyrone Wade, Jr.	Chinese National Table Tennis Team	Chinese National Badminton Team	Asafa Powell	Peng Shuai	Lesmills China
	Chinese National Diving Team	Evan Turner	Zhang Jike	Lin Dan	Yelena Isinbaeva	Zheng Saisai	LI-NING Yoga Workshop
	Chinese National Shooting Team	Marcus Williams	Ma Long		Christian Taylor	Marin Cilic	
	Chinese National Badminton Team	Guo Ailun	Li Xiaoxia		Andreas Thorkildsen	Tianjin Tennis Team	
		Xiralijan Muhtar	Guo Yue		Ngonidzashe Makusha	Shanghai Delegation to the National Games	
		Yi Li	Ding Ning		Chinese National Youth Track and Field Team	Ivan Ljubicic	
		Han Shuo	Liu Guoliang				
		Zhao Dapeng	Shi Zhihao				
		Su Ruoyu					
		Chinese Young Men's Basketball Team					
		Jose Calderon					
		Baron Davis					
		Spanish National Basketball Team					
		Argentina National Basketball Team					
TOURNAMENTS		China Basketball Association (CBA)		Badminton China Open	Li-Ning China 10K Road Racing League	ATP	Chinese University Football League
		National Basketball League (NBL)		China Badminton Masters	Beijing International Running Festival		
		China High School Basketball League		China Badminton Club Super League	Chinese Athletic Association Plateau Endurance Event		
				China National Badminton Cup			
				Singapore Open			
OTHER IMPORTANT SPONSORSHIP RESOURCES		Zhou Qi		Shanghai Badminton Team	Eritrea Track & Field National Team	Yang Tsung-Hua	USA Diver David Boudia
		Zhao Jiwei		Bayi Badminton Team	Individual domestic contract athletes (4 persons)	Karolina Pliskova and Kristyna Pliskova (women's doubles)	Swedish Olympic Delegation
		Shan Zhiming		Guangdong Badminton Team	Provincial track and field teams (9 teams)	Co-supplier of China Open official souvenirs	USA Diving Team
		Basketball coach Fan Bin		Qingdao Badminton Club	Top notch domestic marathon sports club (1 club)	Li-Ning Cup International Youth Tennis Ranking Game	Tsinghua University Shooting Team
		Basketball coach Wu Qinglong		Hubei Badminton Team			
		Basketball coach Qu Shaobin		Guangxi Badminton Team			
		Shanghai Sharks Basketball Club		Singapore National Badminton Team			
		Zhejiang Guangsha Basketball Club		Australia National Badminton Team			
				New Zealand National Badminton Team			
				Denmark's professional player Jan Ø. Jørgensen			
				5 Thailand professional players (Porntip Buranaprasertsuk, Busanan Ongbumrungpan, Duanganon Aroonkesorn, Songphon Anugritayawon, Kunchala Voravichitchaikul)			
				9 Indonesian professional players (including Sony Dwi Kuncoro and Simon Santoso)			
				2 Indian professional players (Jwala Gutta and Ashwini Ponnappa)			



MANAGEMENT DISCUSSION AND ANALYSIS

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

Promoting the Running Culture and Enjoying Sports

In respect of competitions, LI-NING cooperated with the Chinese Athletics Association in organizing the "LI-NING China 10K Road Racing League" including the Beijing Long-distance Running Festival, which consisted of four stations. The 2012 "LI-NING China 10K Road Racing League" was held over three separate stations in Xi'an, Shenzhen and Shanghai, with nearly 12,000 participants joining either the 10km or the 5km run.

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

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

Nanyang Li Ning Sports Park

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

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

Sales Channel Expansion and Management

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

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

Channel Revival Plan

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Sales Channel Streamlining and Rationalisation

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

Number of franchised and directly-operated retail stores

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

Number of retail stores by geographical location

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

Notes:

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

Optimization of Order Fair Model

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

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

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

E-Commerce

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

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

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

Product Design, Research and Development

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Footwear Products

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

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

- Sponsorship of CBA and National Basketball League (NBL) (basketball minor league in China), with exclusive provision of top-notch gear;
- Tailor-made basketball shoes "the Wade Way" (韋德之道) for Dwyane Tyrone Wade;
- Basketball shoes developed for other NBA stars, including "Yushuai VII" (馭帥VII) for Jose Calderon and "Turning Point" (旋機) for Evan Turner;

- Jamaican sprinter Asafa Powell performed impressively wearing the latest LI-NING ultralight spiked shoes at the 2012 IAAF Diamond League, winning the championship at the Shanghai leg held in May 2012;

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

- The world's No.1 pole vault athlete, Yelena Isinbaeva, broke the world record in indoor pole vault while wearing the latest LI-NING sponsored shoes at the XL Galan meeting in Stockholm, Sweden in February 2012. She reclaimed the world champion title at the World Indoor Championships in Istanbul, Turkey held in March. She then won a bronze medal at the 2012 London Olympic Games;

- Wearing "HERO" (貼地飛行) professional badminton products, renowned men's badminton singles player, Lin Dan (林丹), took the champion's title at a number of competitions and successfully defended his title as men's singles champion at the 2012 London Olympic Games; and

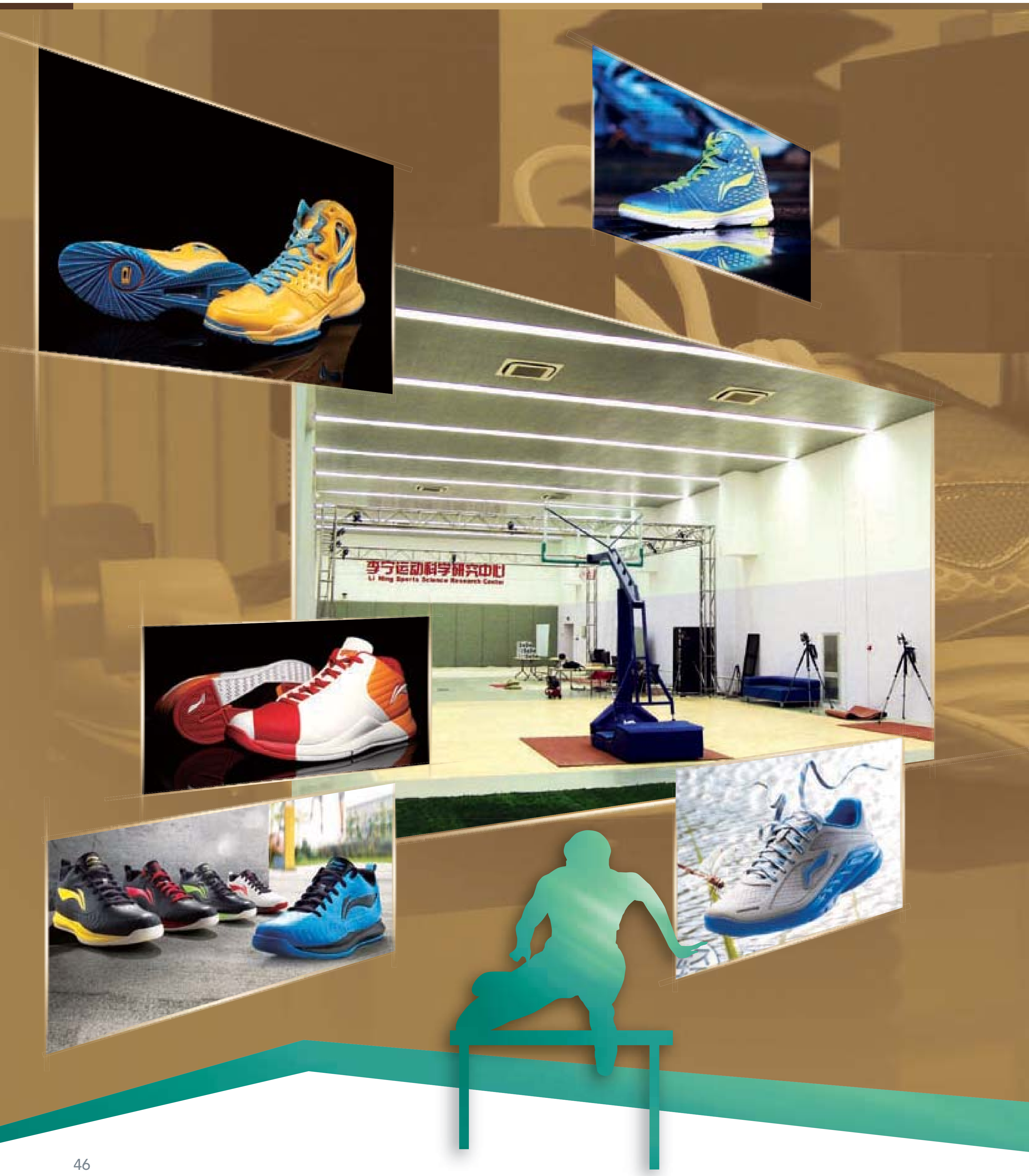
- Other athletes including Zheng Saisai (鄭賽賽), the upcoming women's tennis sensation, currently ranked No. 4 in Chinese tennis women's single; Croatian tennis player Marin Cilic; Danish badminton player Jan Ø. Jørgensen; and Boonsak Ponsana, the No.1 men's badminton singles champion in Thailand.

In addition to developing products for professional athletes, the LI-NING brand also offers a wide range of footwear products for general sports enthusiasts. The Group is actively devoted to footwear research and innovation, focusing on enhancing comfort, shock-absorption, bounce, lightness, personalisation and fitness. The Group has achieved satisfactory results in its research and development initiatives, and has developed a series of new technologies applicable to footwear.

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

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

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

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

- LI-NING 9th generation ultralight running shoes: The shoe surface is constructed with Mono Mesh, a material with superb ventilation. The unique shoe surface structurally supports the "open window" design to enhance ventilation and effectively improve the breathability of the sole. The shoe sole is designed based on ancient Chinese boats using the "Form EVAlite" injection midsole, making the shoes lighter and more comfortable;

- LI-NING ARC (寧弧) running shoes: Utilises a brand new shock-absorption technology via a unified sole with hollowed bow structure as well as a full length flexible sole structure with outstanding anti-shock capability and flexibility, which gives wearers a greater feeling of comfort and helps them exercise more effectively;

- "YuShuai VII" (馭帥VII) basketball shoes: The shoe surface adopts the latest "stitchless" seaming technique and replaces the entire sole previously made of BounSe shock-relieving rubber with Injection Phylon ("IP"). The IP sole is much lighter than BounSe, hence lowering the shoes' overall weight and allowing the wearer to move more flexibly and closer to the ground;

- "Glory 92" (征榮92) Engraved shoes: As part of the "Hail Heroes" (向英雄致敬) series, these shoes were launched based on the shoes worn by the China Olympic Delegates in the award ceremony of the 1992 Barcelona Olympic Games. With the resurgence of the five classic colours of the Olympics symbol, these shoes convey a sense of retro through their material and details;

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

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

Apparel Products

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

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

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

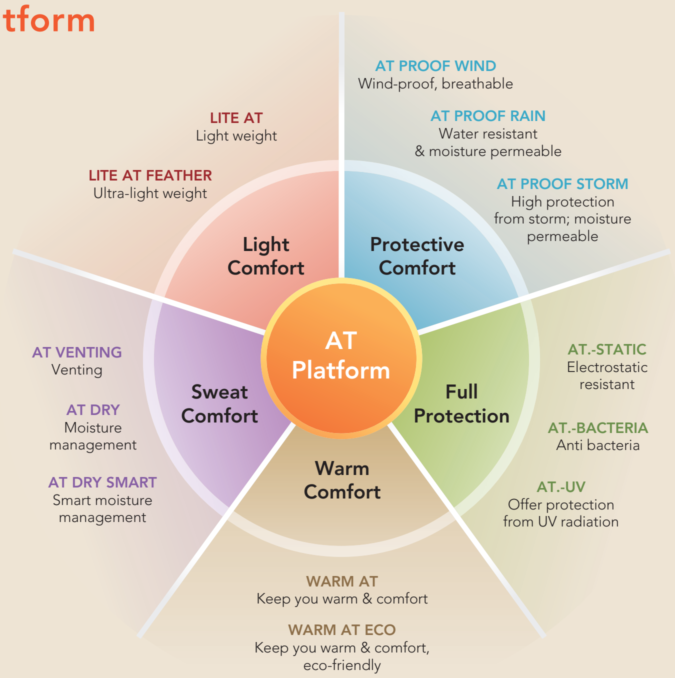
- Using ergonomic analysis, static body measurements were compared with dynamic measurements in the stances of professional badminton players, including the forehand smash, drop shot and net play. Thermoplastic polyurethanes (TPU) materials and special puncturing craftsmanship were adopted to mitigate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

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

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

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

AT Technology Platform of LI-NING Brand Apparel Products



MANAGEMENT DISCUSSION AND ANALYSIS

Badminton Rackets

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

Supply Chain Management

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

- streamlining suppliers to build up bargaining power;
- establishing effective bidding and procurement processes and introducing more cost-competitive suppliers to drive down procurement costs;
- decreasing procurement cost;
- improving versatility of materials, reducing complexity and the number of SKUs, and centralising orders to attain economies of scale; and
- establishing overseas production bases and arranging part of procurement from overseas and mid and west China.

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

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

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

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

Double Happiness Brand

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

During the year, Double Happiness continued to adopt "sponsoring sports stars and sports events" as its core marketing and promotion strategy. In 2012, Double Happiness maintained its endorsement of outstanding table tennis players in China, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞) as image spokespeople for its table tennis products. Double Happiness also actively sponsored various professional tournaments in China and around the world, including table tennis and badminton games at the London Olympic Games, where four table tennis players who are image spokespeople of Double Happiness won Olympic championships. In addition to the Olympic Games, Double Happiness sponsored and provided professional equipment for events including the International Table Tennis Federation ("ITTF") Pro Tour, the 51st Dortmund World Table Tennis Championship, Men's and Women's Table Tennis World Cup and the Chinese Table Tennis Club Super League in 2012.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Lotto Brand

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

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

AIGLE Brand

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

Kason Brand

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

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

ORGANISATIONAL REFORM AND HUMAN RESOURCES

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

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

ISSUE OF CONVERTIBLE BONDS

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

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

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

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

OUTLOOK AND STRATEGIES

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

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

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

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

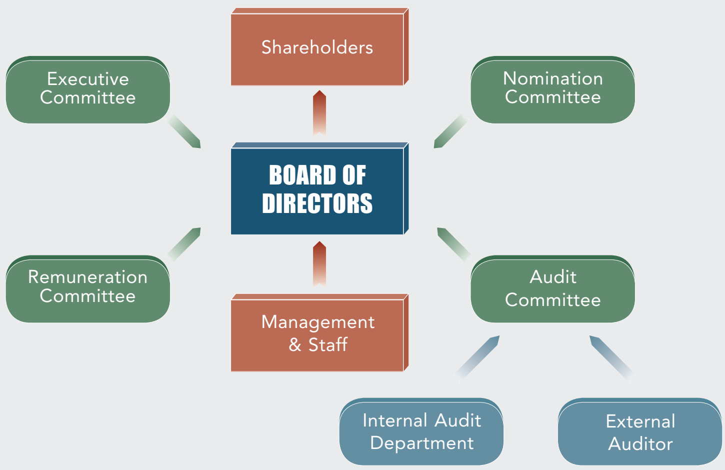
CORPORATE GOVERNANCE REPORT

Adapting and adhering to recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company. The board of directors of the Company (the "Board") believes that good corporate governance safeguard the long-term interest of the shareholders of the Company (the "Shareholders") and enhance the Group's performance. The Board endeavours to uphold a high standard of corporate governance with focuses on internal control, fair disclosure and accountability to all Shareholders.

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") revised the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules") and renamed it as the Corporate Governance Code (the "New Code") effective 1 April 2012. Throughout the year ended 31 December 2012, the Company has complied with the code provisions ("Code Provisions") of the Former Code and the New Code for the relevant periods in which they are in force, except for certain deviations specified with considered reason as explained below.

CORPORATE GOVERNANCE STRUCTURE

The corporate governance structure of the Company is as follows:



The corporate governance functions are performed by the Board. The Company adopted paragraph D.3.1 of the New Code as the duties of the Board in performing its corporate governance functions.

During the year of 2012 the Board has performed the following duties in respect of its corporate governance functions:

a. reviewing the Company's policies and practices on corporate governance;

b. reviewing and monitoring the training and continuous professional development of directors and senior management;

c. reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements;

d. reviewing and monitoring the code of conduct applicable to employees; and

e. reviewing the Company's compliance with the code of disclosure in the Corporate Governance Report.

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

The Board currently comprises nine Directors, with a majority of whom are non-executive Directors (including independent non-executive Directors), of which three are executive Directors, two are non-executive Directors, and four are independent non-executive Directors. During the year of 2012 and up to the date of this report, the composition of the Board had been changed as follows:

Name of Director

Executive Directors

Mr. Li Ning *(Executive Chairman)*
Mr. Jin-Goon Kim
(Executive Vice Chairman, appointed as non-executive Director on 1 April 2012 and re-designated as executive Director on 4 July 2012)
Mr. Zhang Zhi Yong
Mr. Chong Yik Kay *(resigned on 1 November 2012)*

Non-executive Directors

Mr. James Chun-Hsien Wei
Mr. Chen Yue, Scott *(appointed on 1 April 2012)*
Mr. Lim Meng Ann *(resigned on 1 April 2012)*
Mr. Chu Wah Hui *(resigned on 1 January 2013)*

Independent non-executive Directors

Mr. Koo Fook Sun, Louis
Ms. Wang Ya Fei
Mr. Chan Chung Bun, Bunny
Mr. Su Jing Shyh, Samuel *(appointed on 5 July 2012)*

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 in the section headed "Directors and Senior Management" of this annual report.

All Directors have disclosed to the Company the number and nature of offices held in other public companies or organisations and other significant commitments, with the identity of the public companies or organisations, and an indication of the time involved. They are also reminded to notify the Company and confirm to the Company any change of such information in a timely manner. The Board is of the view that each Director has given sufficient time and attention to the affairs of the Company for the year.

Chairman and Chief Executive Officer

According to provision A.2.1 of the New Code, which came into effect on 1 April 2012, the role of the chairman and chief executive of the Company should be separate and should not be performed by the same individual. During the year under review, from 1 January 2012 to 3 July 2012, this requirement has been complied with as the roles of the chairman and the chief executive officer ("CEO") of the Company had been segregated and performed by Mr. Li Ning and Mr. Zhang Zhi Yong ("Mr. Zhang") respectively.

However, since the stepping down of Mr. Zhang as the CEO from 4 July 2012, the Company has not yet identified a suitable candidate to be the CEO. As a result, the day-to-day responsibilities of the CEO have been assumed by Mr. Li Ning, the Executive Chairman, who manages the external affairs and relationships of the Group, and by Mr. Jin-Goon Kim, the Executive Vice Chairman, who manages the internal affairs and the operations of the Group from 4 July 2012 to 31 December 2012 during the year under review. Therefore, there was no separation of the roles of the chairman and the CEO as both of the roles are currently undertaken by the Executive Chairman and/or the Executive Vice Chairman of the Board. Notwithstanding the above, the Board is of the view that the current management structure remains to be effective for the Group's operations and sufficient checks and balances are in place. The operations and management of the Company is constantly subject to the scrutiny and valuable contributions of the independent non-executive Directors. The Board will continue to review the management structure regularly to ensure that it continues to meet these objectives and is in line with industry practices. The Board will also continue to identify suitable candidates to become the CEO.

CORPORATE GOVERNANCE REPORT

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;
- approving major acquisitions and disposals, formation of joint ventures and capital transactions; and
- developing and reviewing the Company's policies and practices on corporate governance, and performing other duties set out in paragraph D3.1 of the New Code.

Directors' Induction and Continuous Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives a comprehensive, formal and tailored induction to ensure that he has a proper understanding of the business and operations of the Group and that he is fully aware of his duties and responsibilities as a director under applicable rules and requirements. Directors are updated on any developments or changes affecting their obligations from time to time. In October 2012, the Company, together with its legal adviser, organized a half-day training session to provide the Directors with an update on the Listing Rules.

According to the records maintained by the Company, the Directors received the following trainings in 2012:

	Attending seminars and/or conferences and/or forums relating to rules and regulations or duties of directors	Reading newspapers, journals and updates relating to the economy and business management and duties of directors
Executive Directors		
Mr. Li Ning *(Executive Chairman)*	✓	✓
Mr. Jin-Goon Kim *(Executive Vice Chairman, appointed as non-executive Director on 1 April 2012 and re-designated as executive Director on 4 July 2012)*	✓	✓
Mr. Zhang Zhi Yong	✓	✓
Mr. Chong Yik Kay *(resigned on 1 November 2012)*	✓	✓
Non-executive Directors		
Mr. James Chun-Hsien Wei	✓	✓
Mr. Chen Yue, Scott *(appointed on 1 April 2012)*	✓	✓
Mr. Lim Meng Ann *(resigned on 1 April 2012)*	✓	✓
Mr. Chu Wah Hui *(resigned on 1 January 2013)*	✓	✓
Independent Non-executive Directors		
Mr. Koo Fook Sun, Louis	✓	✓
Ms. Wang Ya Fei	✓	✓
Mr. Chan Chung Bun, Bunny	✓	✓
Mr. Su Jing Shyh, Samuel *(appointed on 5 July 2012)*	✓	✓

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 (the "Committees") to provide their independent and objective views, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control. They have been appointed for a specific term subject to re-election according to applicable Listing Rules and articles of association of the Company.

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

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. All Directors are subject to retirement by rotation at least once every three years and are eligible for re-election in accordance with the articles of association of the Company. A new Director appointed by the Board is subject to re-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 "Executive Committee"), the nomination committee (the "Nomination Committee"), the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. 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 three members, namely:

Mr. Li Ning *(Chairman of the Committee)*	Executive Chairman & Executive Director
Mr. Jin-Goon Kim	Executive Vice Chairman & Executive Director
Mr. Chen Yue, Scott	Non-executive Director

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

- advising on matters relating to, and overseeing the implementation of the Company's strategic objectives, risk management policies and compliances;
- providing the Board with recommendations on policies and specific operational issues, help developing and endorsing major recommendations made to the Board by management, and supervising the management to implement policies and decisions laid down by the Board in relation to the business and operations of the Group;

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- overseeing and guiding the business and operations of all of the business units of the Group; and
- endorsing proposals to change the Company's capital structure, including any reduction of capital, share buy back or issue of new securities.

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 three Directors:

Mr. Jin-Goon Kim *(Chairman of the Committee)*	Executive Vice Chairman & Executive Director
Mr. Li Ning	Executive Chairman & Executive Director
Mr. Chan Chung Bun, Bunny	Independent non-executive Director

According to the New Code, the chairman of the nomination committee must either be held by the chairman of the board, or an independent non-executive director, and the majority of its members must be independent non-executive directors. In view of the Group currently being amidst a period of reform, the Board hopes to garner greater support from TPG-nominated Directors during this process of reform, and thus has decided to appoint Mr. Jin-Goon Kim as the chairman of the Nomination Committee. The Board also needs the Executive Chairman, Mr. Li Ning, to become more involved with the work of the Nomination Committee. The Board believes this arrangement is necessary for the Company in this current stage.

The primary role of the Nomination Committee is to formulate and execute nomination policies of Board members and the senior management of the Company (the "Senior Management"), to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession planning for Directors in particular, the Chairman, the CEO and the chief financial officer ("CFO") of the Company, to evaluate the structure and organisational strategy of the Group and to assess and identify the appropriate staffing for the Senior Management. 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 shall have sound knowledge, experience and/or expertise in the business operations and development of the Group.

The following is a summary of the major tasks carried out by the Nomination Committee in 2012:

- nomination of Mr. Jin-Goon Kim, Mr. Chen Yue, Scott and Mr. Su Jing Shyh, Samuel to act as the Directors;
- assessment of the independence of each of the independent non-executive Directors;
- identifying candidates for the positions of CEO and CFO for the Group; and
- annual review of the structure, size and composition of the Board; the time involvement, work framework, and duties and responsibilities of the Directors; and keeping records on the information updated by each Director pursuant to Rule 13.51B of the Listing Rules.

The current terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

Remuneration Committee

The Remuneration Committee has been established since the Company listed 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 New Code. The current terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

The Remuneration Committee currently consists of the following three Directors:

Ms. Wang Ya Fei *(Chairman of the Committee)*	Independent non-executive Director
Mr. Chen Yue, Scott	Non-executive Director
Mr. Chan Chung Bun, Bunny	Independent non-executive Director

The primary goal of the Remuneration Committee is to recommend the Board on the policy and structure of the remuneration package for all Directors and the Senior Management and establish a formal and transparent procedure for formulation of remuneration policy with reference to corporate objectives, operating results and the comparable market conditions. The principal elements of the remuneration package of Directors include basic salary, discretionary bonus, participation in the Company's share schemes and other benefits and allowances by taking into account of the duties and responsibilities of the respective Directors.

No Directors participated in decision making for his or her own remuneration. The emoluments of each Director for the year ended 31 December 2012 are set out in note 28 to the consolidated financial statements.

The following is a summary of the major tasks carried out by the Remuneration Committee in 2012:

- review and making suggestion on streamlining the organisational structure of the Group;
- recommendation to the Board on the remuneration packages of all Directors and Senior Management for the year 2012;
- review and setting of key performance indicators and bonus plan for year 2013;
- review and determining of the bonus execution plan for year 2012 according to the key performance indicators for year 2012;
- review and setting of the execution plan of the long-term incentive schemes for year 2012; and
- approval of the terms of executive Directors' service contracts.

To discharge its obligations, the Remuneration Committee consults and seeks advice from the Executive Chairman, the Executive Vice Chairman, and the human resources division of the Company during the review of the remuneration policy and incentive plans. External professional consultants are engaged to provide advice on issues when the Remuneration Committee considers necessary.

Audit Committee

The Audit Committee was established since the Company listed 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 New Code. The current terms of reference are available on the websites of the Company and the Stock Exchange.

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 external auditor, the former CEO, the former CFO or the acting CFO and the heads of the internal audit department (the "Internal Audit Department") and the accounting management department of the Company attended the meetings and provided necessary information to the questions addressed by the Audit Committee.

During the year of 2012, the Audit Committee held three meetings with the external auditor of the Company to discuss issues they considered necessary.

The following is a summary of the work performed by the Audit Committee in 2012:

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

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- review of and recommendation for the Board's approval of the annual results announcement and annual financial statements for the year ended 31 December 2011 and the interim results announcement and interim financial statements for the six months ended 30 June 2012 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 2012 and recommendations and approval of 2012 internal audit plan; and
- review of the effectiveness of the Company's risk management functions and internal control system, including the financial reporting and compliance functions.

Whistleblowing Policy

Whistleblowing policy and system have been established for employees and those who deal with the Company (including suppliers and distributors). They may raise concerns, in confidence, to the Audit Committee about the possible improprieties in any matters related to the Company. A member of the Audit Committee has been appointed as the contact person for channeling any possible irregularities considered by the staff, suppliers and distributors.

Board and Committee Meetings

The Board holds at least four regular Board meetings each 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 sent to the Directors in timely manner and at least 3 days before the date of the meeting in compliance with the New Code.

Directors can at any time access relevant information as requested. 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. For the year ended 31 December 2012, the Executive Chairman of the Company had meetings with the non-executive Directors, including the independent non-executive Directors, without the presence of the Executive Directors.

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

The attendance of the Directors at the meetings of the Board, the Nomination Committee, the Remuneration Committee, and the Audit Committee during the year are as follows:–

Name of Directors	Number of meetings attended/ number of meetings held during the respective tenure in the financial year ended 31 December 2012 Board	Nomination Committee	Remuneration Committee	Audit Committee
Executive Directors				
Mr. Li Ning *(Executive Chairman)*	7/7	3/3	N/A	N/A
Mr. Jin-Goon Kim *(Executive Vice Chairman, appointed as non-executive Director on 1 April 2012 and re-designated as executive Director on 4 July 2012)*	5/5	2/3	N/A	N/A
Mr. Zhang Zhi Yong	5/7	N/A	N/A	N/A
Mr. Chong Yik Kay *(resigned on 1 November 2012)*	6/6	N/A	N/A	N/A
Non-executive Directors				
Mr. James Chun-Hsien Wei	7/7	N/A	N/A	N/A
Mr. Chen Yue, Scott *(appointed on 1 April 2012)*	5/5	N/A	2/2	N/A
Mr. Lim Meng Ann *(resigned on 1 April 2012)*	1/2	N/A	1/1	N/A
Mr. Chu Wah Hui *(resigned on 1 January 2013)*	6/7	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Koo Fook Sun, Louis	7/7	N/A	1/1	3/3
Ms. Wang Ya Fei	7/7	N/A	3/3	3/3
Mr. Chan Chung Bun, Bunny	7/7	3/3	1/2	3/3
Mr. Su Jing Shyh, Samuel *(appointed on 5 July 2012)*	2/3	N/A	N/A	N/A

Note:

Minutes of the foregoing meetings were recorded in sufficient detail of the matters discussed and the decisions made at the meetings, which include the issues raised or dissenting views expressed by Directors. Draft and final version of the minutes are circulated to all Directors for their comments and records within a reasonable time after the relevant meetings.

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ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors, with support from the finance team, acknowledge their responsibilities for preparing the financial statements of the Group and ensure that the financial statements are prepared in accordance with statutory requirements and applicable accounting standards on a going concern basis. The Board also ensures timely publication of the financial statements of the Group.

Prior to commencement of the audit of the Company's accounts for year 2012, 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, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the section headed "Independent Auditor's Report" of this annual report.

During the year of 2012, the management has provided all members of the Board with monthly financial updates for giving a balanced and understandable assessment of the Company's performance, position and prospects.

Internal Control

The Board has the responsibility to review annually the effectiveness of the Group's internal control systems and ensure that the controls are sound and effective to safeguard the Shareholders' investments and the Group's assets. In 2012, the Board, with the support of the Audit Committee, had reviewed the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions of the Company, and their training programmes and budgets.

External Auditor's Remuneration

PricewaterhouseCoopers has been appointed as the external auditor of the Company since the Company listed on the Hong Kong Stock Exchange in 2004. The re-appointment of the 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 Shareholders at forthcoming annual general meeting.

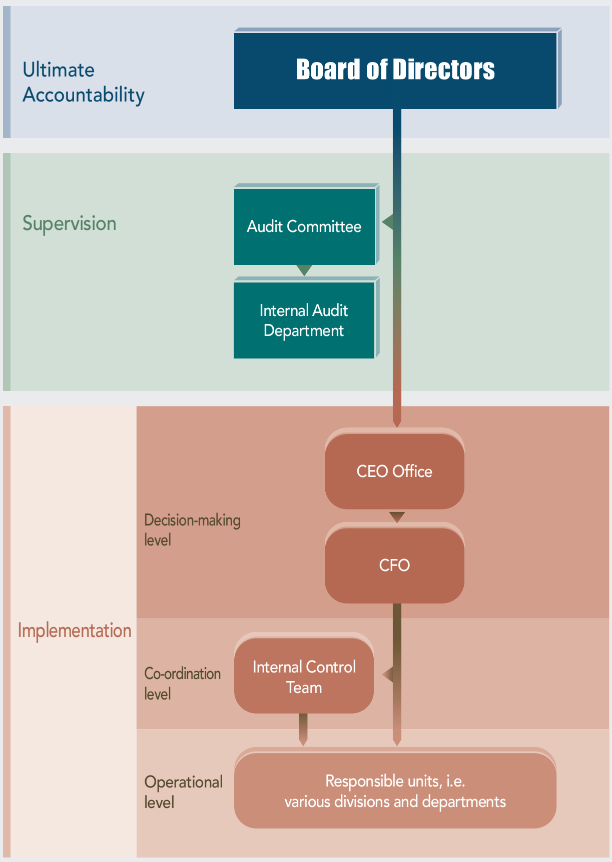
For the year ended 31 December 2012, the fees for the audit services and non-audit services provided by the external auditor are as follows:–

Type of Service	2012	2011
Audit fee for the Group	**RMB3,338,000**	RMB3,510,000
Tax compliance and other advisory services	**RMB1,027,000**	RMB919,000
Total	**RMB4,365,000**	RMB4,429,000

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 organizational structure of internal control set up on the basis of the COSO internal control framework which is depicted as follows:



The Company has established a top-down organizational 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, a coordination body

CORPORATE GOVERNANCE REPORT

(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 and functional divisions.

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

(2) Possession of effective and forward-looking information on strategic management and operation management and financial and accounting management systems to support the supervision of implementation and performance of business strategies and plans. Timely and regular operational reports and monthly financial updates 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 so as to remedy any significant failures or weaknesses.

(3) Ongoing implementation of the Internal Control Manual of Li Ning Company Limited (the "Internal Control Manual"), which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system. The Internal Control Manual currently covers areas comprising the management procedures in respect of sales and trade receivables, procurement and trade payables, inventories, capital, financial reporting, taxation, management functions of the Group, administration and human resources, intellectual property rights, export and fixed assets. Systematic changes to the Internal Control Manual have to be carried out at least once a year, depending on the needs for business changes and procedural refinement, so as to further improve and monitor the effectiveness of the internal control system on a continuing basis. With centralized arrangement and coordination of the Internal Control Team, key items of internal control and the specific control procedures set out in the Internal Control Manual were updated by relevant departments during 2012. Such updated procedures have been implemented during the year.

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

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

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

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

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

(6) During the year, in order to support rapid and healthy development of business diversification of the Group, the Company conducted its annual risk review on a corporate level and assessed risks and risk management controls on the key business aspects based on the "Risk Management Manual of Li Ning Company Limited".

The Company has made huge effort on implementation of internal control and risk management. Internal control and risk management awareness have been promoted by training programmes and regular briefing. Newsletter called "Risk Management Developments" (《風險管理動態》) is issued regularly to share the information with the management staff on the internal control and risk management events in other organizations.

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 Group's internal control system is subject to continuous review and improvement to enable timely responses to any changing risks faced by the Group.

A comprehensive review on the effectiveness of the Group's internal control system is conducted by the Board 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. Colleagues in-charge of each division and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In 2012, the Company continued to improve methods for self-assessment, which included extending the scope of the self-assessment and increasing the number of interviews. The procedural control of self-assessment has been strengthened to cover various divisions or departments in light of the Company's organisational restructuring and business expansion. In addition, members of Senior Management were required to assess the effectiveness of the corporate internal control system according to the outlines of the COSO internal control system, including control environment and risk assessment information and communication. The review process has enabled the colleagues-in-charge to verify whether the internal control system is operated as intended, to identify failures or weaknesses and to take relevant remedial actions. The Internal Audit Department also carried out independent examination and analysis on the reviewing process and the results. The head of Internal Audit Department submitted the control self assessment audit report to the Audit Committee and department heads submitted their declaration to the Board certifying the effectiveness of the Group's internal control system.

The results of the review for the year ended 31 December 2012 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. The areas of the systems and procedures pending further improvement have been identified and remedial actions have either been taken or designated to be taken. No material weaknesses have been identified so far and there were no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board have also received the annual review results with regard to the adequacy of resources, qualifications and experience of the Group's accounting and financial reporting staff, and their training programmes and budget. In accordance with such results, the Audit Committee and the Board are of the view that the Group has adequate workforce to fulfill accounting and financial reporting duties. These personnel possess necessary professional qualification and practicing experience to effectively perform their respective functions, and there have been sufficient training programmes and related budget for the staff. The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the code provisions under the New Code for the year ended 31 December 2012.

INTERNAL AUDIT

The Internal Audit Department was established soon after the Company listed on the Stock Exchange in 2004. The main functions of the Internal Audit Department are reviewing operational and financial conditions of the Group, so as to disclose potential risks, and to follow up with related remedial measures, with a view to on-going enhancement on operation effectiveness and efficiency of the Group. The Internal Audit Department plays an important role in the Group's internal control and risk management framework with an aim to providing objective assurance to the Audit Committee and the Board that an effective internal control system and risk management system is maintained and operated and that the risks associated with the achievement of business objectives are being managed properly and circumvented. The Internal Audit Department reports directly to the CFO and refers matters to the Audit Committee directly if necessary. The head of the Internal Audit Department attended every meeting of the Audit Committee and maintains constructive dialogue with the Company's external auditor during 2012. The Internal Audit Department also collaborates with the external auditor where appropriate.

CORPORATE GOVERNANCE REPORT

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 2012, the Internal Audit Department conducted audits on the product division, sales division, marketing division, retail subsidiaries, supply chain division and human resources division of LI-NING brand, as well as on new business areas, including indoor sports business (including Kason) and e-commerce division, and submitted the relevant audit reports to the Audit Committee, and the management whom include the former CFO or the acting CFO.

For significant 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 2012, various audit findings and risk factors had been properly handled by the management, and there were no material irreparable audit findings and risk factors. The Internal Audit Department planned to carry out audits focusing on brands, products and information technology divisions in 2013.

The Internal Audit Department also plays an important role in 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 2012, the Internal Audit Department participated in reviewing the risk management system and internal control, the implementation of the risk management of sales channels, branding, and the human resources division.

INSIDE INFORMATION

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is fully aware of its obligations under the Listing Rules and the overriding principle that inside information should be announced immediately. The Company reviews from time to time its internal guidelines on inside information or potentially price sensitive information by reference to its own and industry circumstances and the Guide on Disclosure of Inside Information issued by the 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 Executive Chairman, Executive Vice Chairman, and CFO are the key spokespersons of the Company 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 2012.

Employees who are likely to be in possession of unpublished inside 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 2012.

COMPANY SECRETARY

Ms. Yim Wai Yin, Lisa has been the company secretary of the Company (the "Company Secretary") since 15 October 2012 and Ms. Lee Hung was the Company Secretary for the period from 1 January 2012 to 15 October, 2012. They were full time employees in their respective tenures and had day-to-day knowledge of the Company's affairs. During their respective tenures in 2012, Ms. Yim and Ms. Lee reported to the Executive Chairman and/or Chief Executive. In addition, both of them have duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company endeavors a number of formal communication channels to provide its Shareholders with accurate, clear, comprehensive and timely information of the Group. These include interim and annual reports, announcements, circulars and other corporate communication on the websites of the Company and/or the Stock Exchange.

Procedures for Shareholders to convene a general meeting/put forward proposals

Pursuant to the Company's articles of association, any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. Such requisition can be deposited at the Company's principal place of business in Hong Kong at Suites 1,7-15, L45, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Hong Kong for the attention of the Company Secretary, and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Proposing a Person for Election as a Director

As regards to the procedures for proposing a person for election as a Director, please refer to "Procedures for Shareholders to Propose a Person for Election as a Director" under the section of "Corporate Governance" of the Company's website at www.lining.com.

Procedures for Shareholders to send enquiries to the Board

Shareholders may send their written enquiries which require the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong at Suites 1,7-15, L45, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Hong Kong.

For the year 2012, 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.

Since the Company listed in 2004, all resolutions put forward at Shareholders' meeting were voted by poll, of which each fully paid share of the Company entitled to have one vote. The procedures for demanding and conducting a poll are explained at the beginning of the Shareholders' meeting. The results of the poll are published on the websites of the Company and the Stock Exchange.

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.

Board members (including the chairmen of each of the Nomination Committee, the Remuneration Committee and the Audit Committees) and the Company's external auditor were present at the annual general meeting of Company held on 11 May 2012 (the "2012 AGM"). A question-and-answer session was available for the Shareholders to raise questions. No extraordinary general meeting of the Company was held during the year. The next annual general meeting of the Company will be held on 31 May 2013 (the "2013 AGM"). Details of the 2013 AGM and necessary information on issues to be considered are set out in the circular despatched to the Shareholders together with this annual report.

CORPORATE GOVERNANCE REPORT

The attendance record of the Directors at the 2012 AGM is set out below:

Name of Directors	2012 AGM
Executive Directors	
Mr. Li Ning	1
Mr. Jin-Goon Kim *(appointed as non-executive Director on 1 April 2012 and re-designated as executive Director on 4 July 2012)*	1
Mr. Zhang Zhi Yong	1
Mr. Chong Yik Kay *(resigned on 1 November 2012)*	1
Non-executive Directors	
Mr. James Chun-Hsien Wei	1
Mr. Chen Yue, Scott *(appointed on 1 April 2012)*	1
Mr. Lim Meng Ann *(resigned on 1 April 2012)*	N/A
Mr. Chu Wah Hui *(resigned on 1 January 2013)*	–
Independent non-executive Directors	
Mr. Koo Fook Sun, Louis	1
Ms. Wang Ya Fei	1
Mr. Chan Chung Bun, Bunny	1
Mr. Su Jing Shyh, Samuel *(appointed on 5 July 2012)*	N/A

WAY FORWARD

The Board will continue to review and improve its corporate governance with an aim to maintain a high degree of transparency, accountability and responsibility.

By order of the Board

Li Ning
Executive Director & Executive Chairman

Hong Kong, 25 March 2013

DIRECTORS AND SENIOR MANAGEMENT

Biographies of Directors and Senior Management as at the date of this report are as follows:

EXECUTIVE DIRECTORS

Mr. LI Ning, aged 50, is the founder of the LI-NING brand and the Group's Executive Chairman and an executive Director of the Group. Mr. Li also serves as the Chairman of the Executive Committee and a member of the Nomination Committee. He is primarily responsible for formulating the Group's overall corporate strategies and planning.

Mr. Li 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 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 over 20 years to the development of the Group's business, making great contribution to the development of the sporting goods industry in China. Mr. Li also serves as chairman and executive director of Viva China Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Li holds a bachelor's degree in law from School of Law of Peking University (北京大學), an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院), a technical honorary doctorate from Loughborough University in the United Kingdom and a degree of Doctor of Humanities honoris causa of The Hong Kong Polytechnic University. In June 2010, Mr. Li was also conferred honorary fellowship from The Hong Kong University of Science and Technology.

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

Mr. Jin-Goon KIM, aged 45, is the Executive Vice Chairman and an executive Director of the Group, leading the development of the Group's internal affairs and daily operations. Mr. Kim also serves as the Chairman of the Nomination Committee and a member of the Executive Committee. Mr. Kim became a director of the Company in April 2012. Mr. Kim is a partner of TPG and a member of TPG's Operations Group. TPG is a world's leading private equity investment firm. From December 2007 to January of 2011, he was an executive director and interim chief executive officer and he is currently the vice chairman of the board of China Grand Automotive Service Co., Ltd. (廣匯汽車服務股份公司) and built China's leading passenger car retail and service network. As a director of the board, Mr. Kim led the turnaround of UniTrust Finance & Leasing Corporation (恒信金融租賃有限公司), a leading capital equipment leasing company in China. Mr. Kim is also a non-executive director of the board of Daphne International Holdings Limited ("Daphne"), a leading ladies' shoe company in China and a company listed on the Main Board of the Stock Exchange, and has led TPG's operational initiatives to help transform Daphne's core operations and pioneer industry's first fast retail business model. Prior to joining TPG, Mr. Kim worked for Dell Inc. as the managing director of its Korea business from 2002 to 2006. Prior to that from 2000 to 2002, Mr. Kim was vice president of Internet Business Capital Corporation in Cambridge, Massachusetts, a privately funded early-stage venture capital firm and from 1996 to 2000, he was the engagement manager at McKinsey & Company, an international management consulting firm. Mr. Kim received his undergraduate degree in Arts majored in Government and East Asian Studies from Harvard University with High Honors, conducted post graduate research in Nanjing-Hopkins Center in China, and returned to Harvard University to pursue his Master of Public Policy.

Mr. ZHANG Zhi Yong, aged 44, is an executive Director and the chief advisor to the Executive Committee. 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 Stock Exchange in June 2004 to 3 July 2012, Mr. Zhang was the Company's Chief Executive Officer, responsible for the overall strategy of the Group, and promoting

DIRECTORS AND SENIOR MANAGEMENT

the development of human resources, information resources and financial resources in line with the Group's brand development. Since 1992 when he began his career in the sporting goods industry in China, Mr. Zhang has accumulated 20 years of China experience in the industry with thorough understanding of the change of the consumer market in China, the building of brand images and change management for Chinese firms. Mr. Zhang has been appointed as an independent non-executive director of C.banner International Holdings Limited, a company listed on the Main Board of the Stock Exchange, with effect from 15 October 2012. 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).

NON-EXECUTIVE DIRECTORS

Mr. James Chun-Hsien WEI, aged 55, is a non-executive Director. Mr. Wei joined the Group in September 2007. Mr. Wei has been appointed as chief executive officer of KSF Foods Holding effective from 1 January 2013. KSF Foods Holding manages a few food companies that are invested by Tingyi Holding Corp. Previously, Mr. Wei was a senior advisor for CVC Capital Asia Pacific ("CVC") and Beiersdorf Aktiengesellschaft from 1 January 2012 to 31 December 2012. CVC is a world's leading private equity and investment advisory firm. Beiersdorf Aktiengesellschaft is a global skin and beauty care company listed on the German Stock Exchange, for which Mr. Wei served as an executive board member from 1 June 2009 to 31 December 2011. Prior to that, Mr. Wei was the Senior Vice President of Avon Products, Inc., Asia Pacific ("Avon") and had been responsible for Avon's operations in ten markets, including Japan, Taiwan, Australia, Philippines and India from 2003 to May 2009. Before joining Avon, Mr. Wei spent 19 years at Procter & Gamble where he rose to become the Vice President and General Manager of Procter & Gamble Greater China, overseeing the company's health and beauty care business in that region. Mr. Wei holds a B.S.E.E. degree from National Taiwan University and a M.B.A. degree from the University of Chicago in the United States.

Mr. CHEN Yue, Scott, aged 36, is a non-executive Director, a member of the Executive Committee and the Remuneration Committee. Mr. Chen joined the Group in April 2012. TPG Stallion, L.P., which has interests in the convertible bonds and ordinary shares of the Company, is an affiliate of TPG, a world's leading private equity investment firm. Mr. Chen is a managing director of TPG. Mr. Chen focuses on investment opportunities for TPG in Greater China with an emphasis in the consumer and retail as well as technology, media, and telecom industries. Since joining TPG in 2001, Mr. Chen has been based in TPG's Singapore, Hong Kong and Beijing offices and has evaluated and executed private equity transactions across multiple industries spanning across most Asia Pacific countries. He is serving and has served on the boards of companies including UTAC Holdings Ltd. since 2007 and Taishin International Bank Co., Ltd., a Taiwanese bank, from 2008 to 2010. Prior to joining TPG, from 1999 to 2001, Mr. Chen worked as an analyst in the Technology Mergers & Acquisitions Group of Lehman Brothers Holdings Inc. in New York. Mr. Chen graduated from University of Colorado with a Bachelor Degree in Business Administration in 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. KOO Fook Sun, Louis, aged 56, is an independent non-executive Director and Chairman of the Audit 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 Stock Exchange. Mr. Koo also serves currently as an independent non-executive director of 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 Stock Exchange. From 20 October 2003 to 29 June 2012, Mr. Koo served as an independent non-executive director of Weichai Power Co., Limited (a company listed on the Main Board of the Stock Exchange). 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 57, is an independent non-executive Director, Chairman of the Remuneration Committee and a member of the Audit Committee. Ms. Wang joined the Group in January 2003. Ms. Wang has over 20 years of experience in management and corporate finance matters. Ms. Wang has been appointed as chairman of Caelum Asset Management Company with effect from September 2011. She also serves as an independent director of Xueda Education Group, listed on the New York Stock Exchange. Ms. Wang was the director and deputy general manager of Beijing Investment Consultants Inc. from 1996 to September 2011, and an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) from 1995 to September 2011. She holds a bachelor's degree in international politics from Fudan University (復旦大學) in Shanghai and was an exchange scholar in Maryland University, College Park in the United States. Ms. Wang also holds a M.B.A. degree from University of Lancaster in the United Kingdom.

Mr. CHAN Chung Bun, Bunny, aged 55, is an independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Chan joined the Group in June 2004. Mr. Chan has more than 30 years of experience in the garment industry and is currently the chairman of Prospectful Holdings Ltd. Mr. Chan has also served as independent non-executive director respectively of Great Harvest Maeta Group Holdings Limited since September 2010 and of Speedy Global Holdings Limited since December 2012. Both companies are listed on the Main Board of the Stock Exchange. Mr. Chan is active in community affairs in Hong Kong. He is currently the chairman of the Kwun Tong District Council of Hong Kong and has been appointed as the chairman of the Commission on Youth of Hong Kong from 1 April 2009. Mr. Chan was appointed as Justice of Peace in 2002 and was awarded the Bronze Bauhinia Star medal in 2004 and Silver Bauhinia Star medal in 2009 by the Hong Kong Government.

Mr. SU Jing Shyh, Samuel, aged 60, is an independent non-executive Director. Mr. Su joined the Group in July 2012. Mr. Su is the chairman and chief executive officer of the China Division of Yum! Brands, Inc. ("Yum!"), a company listed on the New York Stock Exchange. He also serves as an executive director and the vice chairman on Yum!'s board of directors. Mr. Su earned his undergraduate degree at the National Taiwan University, a M.Sc. degree of Chemical Engineering at Pennsylvania State University and an MBA at the Wharton School. Before joining Yum!, Mr. Su worked with Procter & Gamble in Germany and Taiwan. Mr. Su started his career with Yum! in 1989 as KFC International's director of marketing for the North Pacific region. In 1993, he became vice president of North Asia for both KFC and Pizza Hut. Mr. Su was named president of Greater China for Tricon Global Restaurants International upon Pepsi's spin-off of the restaurant business in 1997. Yum!'s China Division today leads the development of the KFC, Pizza Hut Dine-in Restaurants, Pizza Hut Home Service, East Dawning and Little Sheep brands in mainland China. Mr. Su was a non-executive director of Little Sheep Group Limited from 2 June 2009 to 2 February 2012, which was delisted from the Main Board of the Stock Exchange in February 2012.

SENIOR MANAGEMENT

Mr. Edwin Alexander JONKERS, aged 48, Vice President and Chief Product and Merchandising Officer of the Group, joined the Group in September 2012, and is responsible for product creation, including product marketing, design, research innovation, development and merchandising functions in footwear, apparel and hardware. Mr. Jonkers has over 20 years of experience in sporting goods and fashion industry at retail and brands in product creation and marketing roles. Prior to joining the Group, Mr. Jonkers worked in internationally renowned sports brand companies. He graduated from University of Applied Science TMO in Netherlands with a Bachelor's degree of Arts in Marketing and Business Management.

Mr. DENG Hong Bing, aged 41, Vice President and Chief Supply Chain Officer, joined the Group in August 2012, and is responsible for establishment and optimisation of supply chain management system. Mr. Deng has 19 years of experience in supply chain management. Prior to joining the Group, Mr. Deng worked in Dell for 14 years, holding various key management positions, including executive director for sales operations of small and medium business in Asia-Pacific and Japanese region, executive director for worldwide procurement in Dell, manufacturing operations director in Dell China, procurement and business planning director in Dell China, with senior management experience leading revolutionary transformation. Mr. Deng holds a master's degree in Business Administration from China Europe International Business School.

Ms. Catherine TENG, aged 44, Vice President of the Group and Chief Marketing Officer of LI-NING brand. Ms. Teng joined the Group in October 2012. She is responsible for the marketing and brand development of the Group, including strengthening brand equity, developing growth strategies and innovation pipeline, managing the sports resources. Ms. Teng comes from Taiwan with 20 years of rich experience in brand management across beauty care and food categories. Ms. Teng held key marketing positions from multinational corporations, including P&G and Johnson & Johnson Asia Pacific. Prior to joining the Group, Ms. Teng was the managing director of General Mills Taiwan. Ms. Teng graduated from the National Taiwan University with a bachelor's degree in Foreign Languages and Literatures, and holds two master degrees respectively a master in Journalism from University of Texas at Austin and an EMBA from National Taiwan University.

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INVESTOR RELATIONS REPORT

Mr. Jin-Goon KIM
Executive Vice Chairman

OVERVIEW

The Company and its management has always placed priority in maintaining effective investor relations. By offering professional and ongoing investor relations initiatives, the Company has been in active communication with key stakeholders, including shareholders, investors and the media. This helps investors to understand current developments in the Company's business operations, financial performance and future development strategies in a standardized, timely and transparent manner. It also facilitates valuable feedback from stakeholders, which could help shape the Company's future strategies.

2012 was a challenging year for the sportswear industry in China. The over expansion that occurred resulted in significant overstocking for channel distributors, which consequently impacted their store efficiency, profitability and overall financial performance. Since 2012, there has been significant pressure on clearing excess stock at the retail end, while competition remained fierce among industry players. With higher disposable income and a more mature spending mentality, local consumers' demand on brand and value has greatly increased.

2012 was also a year of reformation for Li Ning Company. At the beginning of 2012, TPG – a world leading private equity investment firm, and GIC invested in the Company and has been supporting its transformation from a wholesale to retail-oriented business model. In order to achieve long-term sustainable development and maintain its industry leading position in China, Li Ning Company made the decisive move to launch the Transformation Plan. As one of the initiatives under the Transformation Plan, the Company enhanced its management team and its execution capabilities, as well as optimized the Board structure.

Against a backdrop of a challenging operating environment and an evolving industry landscape, the Company has been more active in maintaining investor relations. We increased our frequency in communicating with the public, maintained transparent information disclosure, such that all stakeholders could be made aware of the latest updates under the Transformation Plan and understand the latest developments of the Company. We value every opportunity to engage with our investors, in order to understand their concerns and opinions, and to answer their enquiries about the Transformation Plan.

INVESTOR RELATIONS REPORT

ACTIVELY COMMUNICATE WITH THE INVESTORS TO INCREASE CORPORATE TRANSPARENCY

In 2012, the Company maintained frequent communication with the investment community through roadshows, investor forums, investor meetings, shop visits, conference calls, media briefings and other forms of engagement. In addition, the Company increased the number of investors and analysts conferences and briefings to ensure that stakeholders have a good understanding of the Transformation Plan, the Channel Revival Plan and the future strategic developments of the company.

In July 2012, the Company launched its transformation blueprint in three stages. In December, as a key component of the Transformation Plan at its initial stage, the Company launched a one-time Channel Revival Plan to help clear its inventory in the distribution channels and to improve retail profitability. In January 2013, the Company proposed to raise approximately HKD$1.8 billion through convertible securities. The proceeds will be used to optimize its capital structure and support of the smooth implementation of the Transformation Plan. As these initiatives were rolled out, the Company proactively provided updates to investors in a timely and transparent manner. The Company also strictly observed the non-selective disclosure principle to ensure that shareholders, investors and media could be engaged openly, comprehensively and fairly. The feedback that we gathered in the process provided valuable suggestions and insights to help the management in setting the development and operational strategies which will also help the Company to achieve sustainable growth and planning long-term strategy.

To further enhance communications with the market, we started the redesign of our investor relations website (www.lining.com) in 2011 and completed it in 2012. The current version is equipped with better visuals and more information, such as share price chart, corporate social responsibility and a dedicated shareholders page. These will help stakeholders to further understand the Company and provide them with the latest and most comprehensive business and financial data.

SUMMARY

A year in review: details of all investor relations initiatives are listed below:

Type of Initiative	2012	2011
Results Briefing for Investors and Media	**6 times**	2 times
Roadshow (including reverse roadshows	**7 times (total 81 meetings)**	7 times (total 98) meetings)
Investor forums	**1 time (total 12 meetings)**	3 times (total 37 meetings)
Media interviews	**7 times**	2 times
Investor site visits	**1 time**	3 times
Regular 1 on 1 meetings with investors	**59 times**	71 times
Investor Conference calls	**65 times**	52 times
Visits to the Company's stores	**23 times**	23 times
Conference calls with sell-side analysts	**5 times**	5 times
Investor perception audit	**–**	1 time

Future Outlook

Effective investor relations communication is an integral part of the Company's management philosophy. In 2013, the group will continue to implement the Transformation Plan and maintain the high standard of quality communication with investors. Through the IR Department's efforts, we are confident that more and more investors will discover Li Ning, listen to Li Ning, understand Li Ning, care about Li Ning, and, ultimately, flourish with Li Ning.

INFORMATION FOR INVESTORS

Share information

Listing: Main Board of the Hong Kong Stock Exchange on 28 June 2004
Stock code: 2331
Board lot: 500 shares
No. of issued shares as at 31 December 2012: 1,055,907,629
Market capitalization as at 31 December 2012: Approximately HK$5,321,774,000

Dividend for 2012

Interim dividend: Nil
Final dividend: Nil

Financial Calendar

Announcement of interim results: 22 August 2012
Announcement of annual results: 25 March 2013
Annual General Meeting: 31 May 2013

Corporate websites

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

Contact for Investor Relations

3/F, Double Happiness Mansion
258 Zhizaoju Road
Shanghai, PRC
Postal Code: 200023
Department of Investor Relations, Li Ning Company Limited

Phone: +8621 2326 7366
Fax: +8621 2326 7492
Email: investor@li-ning.com.cn

CORPORATE SOCIAL RESPONSIBILITIES

Li Ning Company attaches great importance to corporate social responsibility (CSR) and continuously carries out a variety of practices that encourages compassion in the society. The Group believes that its commitment to being a responsible corporate citizen helps to bring long-term benefit to not only its employees, but also the community and the environment.

CORE VALUES

The Group considers its employees the greatest asset. By maintaining a working environment that helps their physical and psychological well-beings, providing them with skill training and creating career development opportunities, the Group can enhance staff cohesion, create a greater sense of belonging and improve individuals' skills. As a result, the staff grows as the company grows.

In 2012, the Group continued to adhere to the core values that embrace achieving excellence and breakthrough, creating consumer-oriented work ethics with both integrity and commitment, as well as building the Li Ning Company dream and culture. Senior management and staff of the Group had many opportunities to communicate with each other through various internal platforms, including town hall meetings, management workshops, Group intranet, the internal publication – "Sports Ethics" (《運動品格》) – and various training courses. Our staff was greatly encouraged to project their positive energy and develop a sense of ownership of the company, which helped them deliver good performance, inspire innovation and proactively take part in the corporate reform and transformation.

Staff Training

This year, adhering to the principle of being "people-oriented" and based on the well-established system that integrates the perspectives and needs of students, lecturers and curriculum, the Group developed its training programs with the focus on fulfilling the mutual need for development of both the corporation and the staff.

In respect of enhancing leadership skills, the Group designed four standard curriculums tailored for the management, namely Strategy Analysis and Execution, Performance Management, Leadership in Transformation, and Crucial Conversation, to address the needs arising from our corporate transformation. The curriculums cover management techniques and tactics, and provide expertise knowledge and rehearsals to better equip the trainees to face new challenges that may arise during the Group's transformation. These training courses have been carried out continuously to build a unified language of corporate management and enhance the overall management and execution capabilities of the Group.

In view of the distinctive challenges during the period of transformation, the Group provided new teams in each of the business units with solutions to their structure and integration, and initiated new professional courses to support the business model transformation.

Meanwhile, the Group continued to perfect its talent development system, which included orientation camps for new hires, "TOP" training camps for talents with extraordinary potentials, manager training camps for newly promoted personnel and MINI-EMBA courses for outstanding managerial staff. With the application of Key Development Indicator (KDI), managerial staff was also trained to be trainers themselves to nurture highly selective subordinates with great growth potentials. These programs not only helped individuals' development and enhanced teams' strength, but also served to form an internal talent pool consists of people with strong potential and competitiveness.

CORPORATE SOCIAL RESPONSIBILITIES

Working Environment and Culture

The Group strives to maintain a working environment that enhances the physical and psychological well-beings of its employees. Employees are always encouraged to participate in sports activities which provide great bonding opportunities. In the Li-Ning Centre at the Group's Beijing headquarters, many facilities and venues ranging from basketball courts, badminton courts and swimming pools to outdoor football fields are open to the staff. Professional coaches are also hired to cultivate sportsmanship among employees and teach them the proper skills in playing sports. The Group has dedicated internal resources and runs a number of sports clubs for staff, where various internal and external competitions have been held, including general sports games, badminton/basketball/tennis competitions, Beijing marathons, and swimming competitions for foreign-invested enterprises in Beijing. Taking place in these sports activities provided the participants with unique experiences to enhance their appreciation of corporate value. Our unique sports culture helped ensure the physical and psychological well-being of the staff, enhanced team cohesion, and has become one of the important avenues to draw in talented people into the Group.

Taking Care of Staff and Their Families

To extend the company's caring culture to employees' families, the Group also organized a great number of activities during the year, including parent-child gatherings, annual meetings and sports meetings for staff and their families. These activities helped increase employees' sense of belonging to the Group.

Employee Benefits and Welfare

Besides the standard medical insurance, the Group provides additional commercial medical insurance to all employees and their family members, and arranges free medical check-ups for its staff every year. Our workplaces are designed and furnished to create an elegant and soothing space as well as to ensure a healthy and comfortable working environment. In 2012, the Group revised related rules and procedures to optimise our staff welfare system. In addition, the Group established a staff support program to help employees handle stress at work. Regular department meetings were also held to provide additional platforms for communications between the management and staff.

CONTRIBUTING TO THE COMMUNITY

Building Sports Parks to Popularise Physical Education

The Group has been dedicated to advocating sports among the public and leverages its own resources to contribute to the society. We have built sports venues and provided sports facilities as well as guidance on doing sports, which are intended to promote both competitive sports and the popularisation of national fitness. Following the sports park in Nanning, Guangxi and the gymnastics school in Foshan, Guangdong Province, the sports park in Nanyang, Henan Province opened in September 2012 was another critical part of the Group's national fitness campaign. The sports park in Nanyang entered the limelight in the 7th National Peasants' Games held in the same month as the Park's opening in Nanyang, for its full featured and superior facilities. As an important part of the national fitness campaign, the Park will serve to promote sports education, encourage the public to participate in sports activities more actively, enjoy sports while improving their fitness.

"Postal Parcel for Mothers" Project for Impoverished Mothers

The Group proactively takes part in social philanthropy projects, and has become a long-term sponsor and partner of the "Postal Parcel for Mothers" project launched by China Women's Development Foundation. Through this channel, every caring citizen can contribute to the philanthropic support to impoverished mothers. Since its launch in May 2012, the project has successfully delivered "parcels" (financial aid) to mothers in several poverty stricken areas. On 2 December 2012, at the opening ceremony of "Postal Parcel for Mothers" project held in Long'an County in Nanning, Guangxi province, the Group's Chairman Mr. Li Ning donated RMB200,000 and sports clothes to Guangxi Zhuang Autonomous Region, his hometown. At the ceremony, he also called for more attention and contribution from the society to the "Postal Parcel for Mothers" project.

CORPORATE RESPONSIBILITIES AND SUSTAINABLE DEVELOPMENT MANAGEMENT

Environment-Friendly Supply Chains and Occupational Safety and Health

During 2012, the Group issued "Li Ning Supplier Social Compliance Code of Conduct" to address issues including labour rights, occupational safety and health, environment protection and sustainable development along the supply chain.

The assessment of social compliance and performance of suppliers has become an important indicator for establishing and maintaining business relationship with the suppliers.

During the year, the Group continued to conduct on-site compliance audits on labour rights and occupational safety and health among all major suppliers. Moreover, the Group provided the local manufacturing bases with concentrated capability trainings on CSR, so as to offer chances to enhance suppliers' abilities in managing their social responsibilities and raising their performance standards.

Product Safety and Sustainability

The Group consistently and unswervingly provides high-quality and guaranteed safe products that meet international standards to consumers and customers, which has been a key component to the CSR of the Group.

During the year, the Group continued to optimise the management system of product quality and safety. The Group upgraded and improved its own product safety standards in line with the latest industry product safety standards and market demands. Inspections on product appearance quality and laboratory testing of physical and chemical properties interweaved throughout the entire process of product research and development, manufacturing process and quality control of finished goods. All the products of the Group sold on the market have passed the inspection of independent third party testing institutions with national credentials.

During the year, the Group continued to apply the "eco-product" concept and new environment-friendly technologies to the research and development of products. The Group advocated the application of organic cotton and recyclable fabrics, and reduced waste and increased the utilisation of fabrics through innovative designs and the applications of environment-friendly cutting methods. This year, the Group included carbon footprints into its measurements of CSR practice and established data and technology parameters to establish a system for reducing carbon emission during the life cycle of the Group's products.

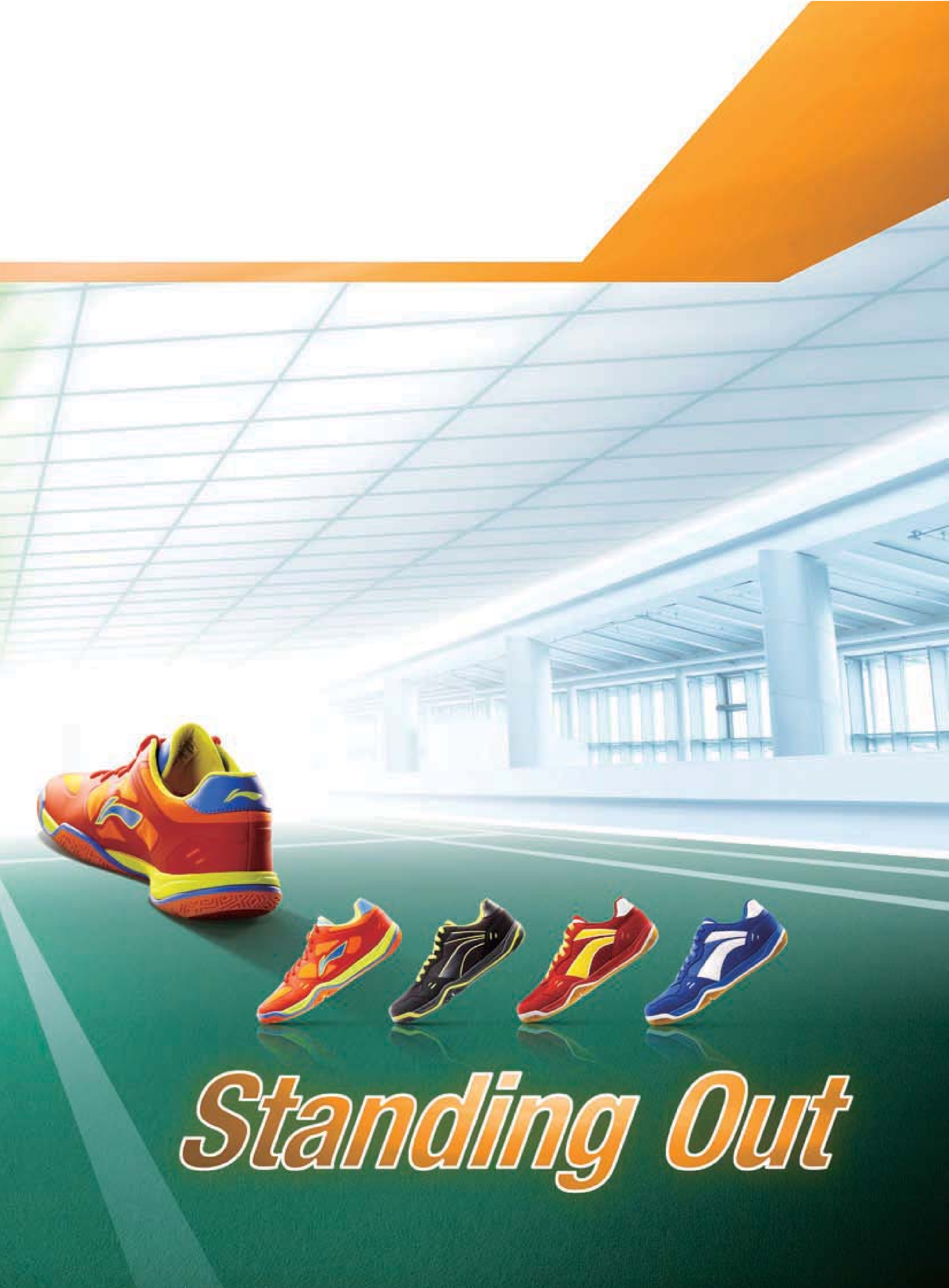
During the year, the licensed brands of the Group also made respective efforts in brand concept innovation, supply chain responsibility and product sustainability.

Stakeholder Communication and Industry Cooperation

In 2012, under the guidance of striving for the sustainable development in terms of commercial returns of the Group, environmental performance and social interests, the Group collaborated with active social groups and civic organizations, and had open dialogues and interactions with them on the basis of equality and mutual benefit, with an aim to establish a stable and long-term communication channel.

During the year, we also teamed up with peer international brands to dedicate ourselves to the environmental protection in relation to products and supply chains and the elimination of harmful chemicals, the progress of which were published quarterly and annually by all parties concerned. Through the cooperation and mutual learning with peer international brands, we came on top among domestic industries in respect of CSR practices and achieving sustainable development.

LI-NING


Standing Out

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

In addition to its core LI-NING brand, the Group also manufactures, develops, markets, distributes and/or sells sports products under several other brands, including Double Happiness (table tennis and other sports equipment), Kason (badminton), AIGLE (outdoor sports) and Lotto (sports fashion) which are either self-owned by, licensed to or operated through joint ventures with third parties of the Group.

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and its interest in jointly controlled entities as at 31 December 2012 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 2012 are set out in the consolidated income statement on page 105 of this annual report.

During the year, the Company did not declare interim dividend for the six months ended 30 June 2012 (2011: RMB11.13 cents per Share). In light of the current operating environment, the Board considers it appropriate to retain cash for the future development of the Group, therefore, it does not recommend the payment of a final dividend in respect of the year ended 31 December 2012 (2011: Nil).

RESERVES

As at 31 December 2012, distributable reserves of the Company amounted to RMB725,626,000 (2011: RMB655,190,000). Details of movements in reserves of the Group during the year are set out in notes 17 and 18 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Year ended 31 December	
	2012	2011
	% of total revenue	of total revenue %
The largest customer	**6.7**	5.9
Five largest customers	**21.4**	21.9

	% of total purchases	% of total purchases
The largest supplier	**13.2**	11.2
Five largest suppliers	**42.1**	36.8

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 2012 amounted to RMB1,447,157,000 (2011: RMB838,059,000). Particulars of the borrowings are set out in note 22 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB201,045 (2011: RMB975,000).

PROPERTY, PLANT AND EQUIPMENT

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

ORDINARY SHARES

Details of movements in ordinary shares of the Company during the year are set out in note 17 to the consolidated financial statements.

CONVERTIBLE BONDS

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

The issue of the Convertible Bonds was completed on 8 February 2012. Convertible Bonds in the principal amount of RMB561,000,000 were issued to TPG Stallion Holdings, L.P. (which is an affiliate of TPG) and Convertible Bonds in the principal amount of RMB189,000,000 were issued to GIC Investor. The net proceeds of the Convertible Bonds issue, after deduction of expenses, was approximately RMB745,691,000 (equivalent to approximately HK$921,000,000), and was used by the Company to continue its investment in the business development of the LI-NING brand, including branding, securing sport sponsorships, roll-out of the sixth-generation stores as well as product design and research and development and as general working capital of the Group.

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

CONVERTIBLE SECURITIES

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

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 page 7 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors

Mr. Li Ning
Mr. Jin-Goon Kim
(appointed as non-executive Director on 1 April 2012, re-elected on 11 May 2012, and re-designated as executive Director on 4 July 2012)
Mr. Zhang Zhi Yong *(re-elected on 11 May 2012)*
Mr. Chong Yik Kay
(re-elected on 11 May 2012 and resigned on 1 November 2012)

Non-executive Directors

Mr. James Chun-Hsien Wei
Mr. Chen Yue, Scott
(appointed on 1 April 2012 and re-elected on 11 May 2012)
Mr. Lim Meng Ann *(resigned on 1 April 2012)*
Mr. Chu Wah Hui *(resigned on 1 January 2013)*

Independent non-executive Directors

Mr. Koo Fook Sun, Louis
Ms. Wang Ya Fei
Mr. Chan Chung Bun, Bunny
Mr. Su Jing Shyh, Samuel *(appointed on 5 July 2012)*

In accordance with article 87 of the articles of association and the Corporate Governance Code set out in Appendix 14 to the Listing Rules, Mr. Li Ning, Mr. Koo Fook Sun, Louis ("Mr. Koo") and Mr. Chan Chung Bun, Bunny ("Mr. Chan") shall retire from the office and, being eligible, offer themselves for re-election as Directors at the annual general meeting to be held on 31 May 2013 ("AGM").

REPORT OF THE DIRECTORS

Mr. Koo Fook Sun, Louis and Mr. Chan Chung Bun, Bunny have served on the Board for approximately nine years. The Board considers Mr. Koo and Mr. Chan to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgment. The Board has assessed and reviewed the annual confirmation of independence based on the criteria set out in Rule 3.13 of the Listing Rules, and affirmed that Mr. Koo and Mr. Chan remain independent. The Board considers that in a long-term, complex and technologically advanced business environment, it is essential that independent non-executive Directors have the opportunity to acquire, over a number of years, the experience and knowledge of the business and the sectors within which the Company operates.

In accordance with article 86(3) of the articles of association, Mr. Su Jing Shyh, Samuel, who has been appointed by the Board as independent non-executive Director with effect from 5 July 2012, shall hold office until the AGM and shall then be eligible for re-election.

In accordance with the service agreement with Mr. Jin-Goon Kim dated 4 July 2012, Mr. Kim shall retire and is subject to re-election at the AGM.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of Directors and Senior Management of the Group are set out under the Section headed "Directors and Senior Management" 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 2012 were RMB49,453,000 (2011: RMB53,316,000).

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, the Executive 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. Currently, there is no option outstanding under the Share Purchase Scheme.

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 Post-IPO Share Option Scheme.

The exercise periods of the options following cessation of entitlement of grantees under certain circumstances under the Post-IPO Share Option Scheme are revised pursuant to resolutions of the Board on 11 October 2012. Such revisions are only applicable to options granted on or after 11 October 2012.

The purpose of the amendments is to allow the Board to have more flexibility in the administration of the Post-IPO Share Option Scheme and to allow the Post-IPO Share Option Scheme to offer better long-term incentive to the grantees.

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 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 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 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 Post-IPO Share Option Scheme, save for those granted and yet to be exercised, amounted to 45,154,016 Shares, representing approximately 4.28% of the issued share capital of the Company as at the date of this report. The total number of Shares issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be notified by the Board, which must not be more than ten years from the date of grant. Any Share allotted and issued on the exercise of options will rank pari passu with other Shares issue on the date of allotment.

REPORT OF THE DIRECTORS

Details of movements of the options granted under the Post-IPO Share Option Scheme for the year ended 31 December 2012 are set out in note 34 to the consolidated financial statements.

Grantees	Date of grant	Exercise price per Share HK$	as at 01/01/2012	granted during the year	exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2012	Vesting period/ vesting date	Exercise period
			Number of Shares issuable under the options							
Executive Directors										
Jin-Goon Kim	20/12/2012	5.36	–	287,450 *(Note 1(b))*	–	–	–	287,450	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Zhang Zhi Yong	04/09/2006	8.83	208,000	–	(208,000) *(Note 2(a))*	–	–	–	04/07/2009 – 04/09/2009	04/09/2007 – 04/09/2012
	04/07/2008	17.22	121,600	–	–	–	–	121,600	04/07/2009 – 04/07/2011	04/07/2009 – 31/12/2015
	19/01/2009	11.37	4,519,400	–	–	–	–	4,519,400	19/01/2010 – 19/01/2014	19/01/2010 – 31/12/2015
	15/07/2011	9.896	836,690	–	–	–	–	836,690	01/07/2012 – 04/07/2014	01/07/2012 – 31/12/2015
	04/07/2012	4.69	–	1,000,000 *(Note 1(a))*	–	–	–	1,000,000	04/07/2013 – 04/07/2015	04/07/2013 – 31/12/2015
Chong Yik Kay (resigned on 01/11/2012)	01/04/2009	13.18	688,500	–	–	(275,400)	–	413,100	01/04/2010 – 01/04/2012	01/04/2010 – 31/01/2014
	15/07/2011	9.896	706,800	–	–	(512,176)	–	194,624	01/07/2012	01/07/2012 – 31/01/2014
Non-executive Directors										
James Chun-Hsien Wei	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	–	–	–	–	209,180	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	5.36	–	287,450 *(Note 1(b))*	–	–	–	287,450	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chen Yue, Scott	20/12/2012	5.36	–	287,450 *(Note 1(b))*	–	–	–	287,450	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chu Wah Hui (resigned on 01/01/2013)	04/07/2008	17.22	34,267	–	–	–	–	34,267	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	11.37	210,720	–	–	–	–	210,720	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	–	–	–	–	209,180	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	5.36	–	287,450 *(Note 1(b))*	–	–	–	287,450	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018

Grantees	Date of grant	Exercise price per Share HK$	Number of Shares issuable under the options as at 01/01/2012	granted during the year	exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2012	Vesting period/ vesting date	Exercise period
Lim Meng Ann (resigned on 01/04/2012)	04/07/2008	17.22	17,134	–	–	–	–	17,134	04/07/2009 – 04/07/2011	04/07/2009 – 01/04/2014
	19/01/2009	11.37	210,720	–	–	(105,360)	–	105,360	19/01/2010 – 19/01/2012	19/01/2010 – 01/04/2014
	15/07/2011	9.896	209,180	–	–	(209,180)	–	–	N/A	N/A
Independent non-executive Directors										
Koo Fook Sun, Louis	04/09/2006	8.83	60,000	–	–	(60,000)	–	–	04/07/2007 – 04/07/2009	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	–	–	–	–	209,180	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	5.36	–	287,450 *(Note 1(b))*	–	–	–	287,450	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Wang Ya Fei	04/09/2006	8.83	90,000	–	–	(90,000)	–	–	04/07/2007 – 04/07/2009	04/09/2007 – 04/09/2012
	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	–	–	–	–	209,180	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	5.36	–	287,450 *(Note 1(b))*	–	–	–	287,450	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chan Chung Bun, Bunny	04/07/2008	17.22	51,400	–	–	–	–	51,400	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	11.37	263,400	–	–	–	–	263,400	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.896	209,180	–	–	–	–	209,180	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	5.36	–	287,450 *(Note 1(b))*	–	–	–	287,450	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Su Jing Shyh, Samuel	20/12/2012	5.36	–	287,450 *(Note 1(b))*	–	–	–	287,450	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018

REPORT OF THE DIRECTORS

Grantees	Date of grant	Exercise price per Share HK$	Number of Shares issuable under the options as at 01/01/2012	granted during the year	exercised during the year	lapsed during the year	cancelled during the year	as at 31/12/2012	Vesting period/ vesting date	Exercise period
Employees of the Group										
In aggregate	04/09/2006	8.83	269,333	–	(16,000) *(Note 2(b))*	(253,333)	–	–	04/07/2007 – 04/07/2009	04/09/2007 – 04/09/2012
In aggregate	04/07/2008	17.22	1,332,532	–	–	(677,500)	–	655,032	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
In aggregate	05/12/2008	10.94	92,700	–	–	–	–	92,700	05/12/2009 – 05/12/2011	05/12/2009 – 05/12/2014
In aggregate	19/01/2009	11.37	3,562,080	–	–	(2,330,000)	–	1,232,080	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
In aggregate	22/10/2009	21.87	3,660,407	–	–	(1,269,605)	–	2,390,802	01/07/2010 – 01/07/2012	01/07/2010 – 22/10/2015
In aggregate	15/07/2011	9.896	3,598,780	–	–	(2,636,093)	–	962,687	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
In aggregate	20/12/2012	5.36	–	16,763,410 *(Note 1(b))*	–	–	–	16,763,410	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Other participants										
In aggregate	20/11/2006	9.84	300,000	–	–	(300,000)	–	–	26/07/2007 – 26/07/2009	26/07/2007 – 20/11/2012
In aggregate	19/07/2007	19.68	350,000	–	–	–	–	350,000	19/07/2008 – 19/07/2010	19/07/2008 – 19/07/2013
In aggregate	04/07/2008	17.22	300,000	–	–	–	–	300,000	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
In aggregate	22/10/2009	21.87	300,000	–	–	–	–	300,000	01/07/2010 – 01/07/2012	01/07/2010 – 22/10/2015
In aggregate	20/12/2012	5.36	–	347,020 *(Note 1(b))*	–	–	–	347,020	15/01/2013 – 15/01/2014	15/01/2013 – 31/12/2014
			23,983,943	20,410,030	(224,000)	(8,718,647)	–	35,451,326		

Notes:

1. a. Unless otherwise stated, the share options granted on 4 July 2012 are subject to vesting schedules in tranches starting from the first anniversary date after the date of grant until 31 December 2015. The closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets immediately before 4 July 2012 is HK$4.55 per Share.

   b. Unless otherwise stated, the share options granted on 20 December 2012 are subject to a vesting scale in tranches starting from the first anniversary date after the date of grant until 31 December 2018. The closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets immediately before 20 December 2012 is HK$5.22 per Share.

2. a. The closing price per Share immediately before the date of exercise of the options is HK$9.41.

   b. The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$9.51.

Details of valuation of the share options granted during the year ended 31 December 2012 under the Post-IPO Share Option Scheme is set out in note 34 to the consolidated financial statements. The fair values are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

Restricted Share Award Scheme

On 14 July 2006 (the "Adoption Date"), the Board adopted a restricted share award scheme (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 Restricted Share Award Scheme is to facilitate the Company's objectives of attracting new and motivating existing talents and retaining both in the Company. The Restricted Share Award Scheme shall be valid for a term of ten years from the Adoption Date and is administered by the administrative committee and the trustee of the scheme.

Pursuant to the Restricted Share Award Scheme, the Company shall transfer cash to the trustee from time to time for the acquisition of Shares to be held upon trust for the benefits of the selected participants. Shares (the "Restricted Shares") granted to the selected participants are subject to restrictions and limitations and will become unrestricted upon vesting at the end of each vesting period. No Restricted Shares will be granted under Restricted Share Award Scheme if the number of Restricted Shares granted at any time during the scheme period has exceeded 5% of the Company's share capital in issue from time to time. 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 Restricted Share Award 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 Restricted Share Award Scheme.

By resolutions of the Board on 4 July 2012, the Restricted Share Award Scheme has been further amended to allow purchases of Shares from the market from time to time (instead of oneoff purchase after each grant) such that sufficient amount of Shares are available for vesting of the relevant Restricted Shares. In addition, the maximum number of Restricted Shares under the Restricted Share Award Scheme has been increased from 2% of issued Shares as at the Adoption Date to 5% of Shares in issue from time to time.

The purpose of the amendments is to allow the Board to have more flexibility in the administration of the scheme and to allow the Restricted Share Award Scheme to offer better long-term incentive to the grantees.

During the year ended 31 December 2012, no Restricted Share was granted to eligible participants pursuant to the Restricted Share Award Scheme. 835,435 Restricted Shares were vested and 930,285 Restricted Shares lapsed during the year. As at 31 December 2012, the number of Restricted Shares granted under the Restricted Share Award Scheme, except for those lapsed, amounted to 8,357,244 Shares, representing approximately 0.80% of the issued Shares as at the Adoption Date. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2012 are as follows:

		Number of Restricted Shares					
Date of grant	Fair value per Restricted Share *(Note)* HK$	as at 01/01/2012	granted during the year	vested during the year	lapsed during the year	as at 31/12/2012	Vesting period
03/09/2010	23.30	900,000	–	(120,000)	–	780,000	01/07/2011 – 01/07/2016
03/09/2010	23.30	1,115,634	–	(404,641)	(341,657)	369,336	01/07/2011 – 31/08/2013
30/12/2010	16.62	24,536	–	(4,532)	(15,468)	4,536	30/12/2011 – 28/02/2014
15/07/2011	8.96	1,499,200	–	(306,262)	(573,160)	619,778	15/07/2012 – 15/07/2014
		3,539,370	–	(835,435)	(930,285)	1,773,650	

Note:

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

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

REPORT OF THE DIRECTORS

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

As at 31 December 2012, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, are as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying shares *(Note 4)*	Total (Long position)	Approximate % of issued Shares*
Li Ning	Interests of controlled corporations	268,181,850 *(Note 1)*	–	268,181,850	25.40
Jin-Goon Kim	Personal interest	–	287,450	287,450	0.03
Zhang Zhi Yong	Personal interest	6,297,400 *(Note 2)*	6,477,690	16,025,090	1.52
	Interest of controlled corporation	3,250,000 *(Note 2)*	N/A	N/A	
James Chun-Hsien Wei	Personal interest	34,300	811,430	845,730	0.08
Chen Yue, Scott	Personal interest	–	287,450	287,450	0.03
Chu Wah Hui *(Resigned on 1 January 2013)*	Personal interest	208,113	741,617	994,730	0.09
	Family interest	45,000 *(Note 3)*	N/A	N/A	
Koo Fook Sun, Louis	Personal interest	230,300	811,430	1,041,730	0.10
Wang Ya Fei	Personal interest	230,300	811,430	1,041,730	0.10
Chan Chung Bun, Bunny	Personal interest	126,300	811,430	937,730	0.09
Su Jing Shyh, Samuel	Personal interest	–	287,450	287,450	0.03

* *The percentage is based on 1,055,907,629 shares in issue as at 31 December 2012.*

Notes:

1. Mr. Li Ning is deemed to be interested in an aggregate of 268,181,850 Shares held by Viva China Holdings Ltd ("Viva China BVI") and Alpha Talent Management Limited ("Alpha Talent") under the SFO as follows:

   (a) Viva China Holdings Limited ("Viva China"), a company incorporated in Cayman Islands whose shares are listed on the Growth Enterprise Market of Stock Exchange, indirectly holds 266,374,000 shares in the Company through its wholly owned subsidiary. Viva China is owned as to approximately 31.8% by Victory Mind Assets Limited ("Victory Mind") and approximately 38.1% by Lead Ahead Limited ("Lead Ahead"). Victory Mind and Lead Ahead are respectively 57% and 60% owned by Ace Leader Holdings Limited (which is 100% owned by a discretionary trust of which Mr. Li is a settlor) and Mr. Li. Mr. Li Ning is therefore deemed to be interested in the shares held by Viva China BVI under the SFO. Mr. Li Ning is a director of Lead Ahead.

(b) 1,807,850 Shares are held by Alpha Talent, which is established and solely owned by Mr. Li for the purpose of holding the relevant Shares under the Share Purchase Scheme. Mr. Li is therefore deemed to be interested in the 1,807,850 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.

2. Mr. Zhang Zhi Yong is interested in aggregate of 9,547,400 Shares, among which 6,297,400 Shares are held as personal interest and 3,250,000 Shares are held by Smart Step Management Limited ("Smart Step") which is 100% owned by Mr. Zhang. Mr. Zhang therefore is deemed to be interested in the 3,250,000 Shares held by Smart Step under the SFO. In addition, Mr. Zhang is granted in aggregate of 6,477,690 share options under the Post-IPO Share Option Scheme adopted on 5 June 2004.

3. Mr. Chu Wah Hui is interested in aggregate of 253,113 Shares, among which 208,113 Shares are held as personal interest and 45,000 Shares are held by his spouse. Mr. Chu therefore is deemed to be interested in the 45,000 Shares held by his spouse under the SFO. In addition, Mr Chu is granted in aggregate of 741,617 share options under the Post-IPO Share Option Scheme adopted on 5 June 2004.

4. Share options were granted pursuant to the Post-IPO Share Option Scheme adopted on 5 June 2004.

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

As at 31 December 2012, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, representing 5% or more of the Company's issued share capital:

Name of shareholders	Capacity	Long/short position	Number of ordinary shares	Number of underlying shares	Total	Approximate % of issued Shares*
Li Ning	Interest of controlled corporation	Long	268,181,850 *(Note 1)*	–	268,181,850	25.40
Li Chun	Interest of controlled corporation	Long	266,374,000 *(Note 2)*	–	266,374,000	25.23
Viva China	Interest of controlled corporation	Long	266,374,000 *(Note 2)*	–	266,374,000	25.23
James G. Coulter	Interest of controlled corporation	Long	53,000,000 *(Note 3)*	89,151,162	142,151,162	13.46
David Bonderman	Interest of controlled corporation	Long	53,000,000 *(Note 3)*	89,151,162	142,151,162	13.46
Genesis Asset Managers, LLP	Investment manager	Long	98,020,000	–	98,020,000	9.28
Minister for Finance Inc	Interest of controlled corporation	Long	54,277,752 *(Note 4)*	30,034,883	84,312,635	7.98
FIL Limited	Investment manager	Long	63,847,000	–	63,847,000	6.05
Dodge & Cox	Investment manager	Long	63,417,700	–	63,417,700	6.01

* *The percentage has been calculated based on 1,055,907,629 Shares in issue as at 31 December 2012.*

1. See note 1 under the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" of this report of Directors.

REPORT OF THE DIRECTORS

2. Viva China Holdings Limited ("Viva China"), a company incorporated in Cayman Islands whose shares are listed on the Growth Enterprise Market of Stock Exchange, indirectly holds 266,374,000 shares in the Company through its wholly owned subsidiary. Viva China is owned as to approximately 31.8% by Victory Mind Assets Limited ("Victory Mind") and approximately 38.1% by Lead Ahead Limited ("Lead Ahead"). Victory Mind is 38% held by Jumbo Top Group Limited, which is owned as to 100% by a discretionary trust of which Mr. Li Chun is a settlor. Lead Ahead Limited is 40% held by Mr. Li Chun. Therefore Mr. Li Chun is deemed to be interested in 266,374,000 Shares.

3. 53,000,000 Shares and convertible bonds with principal amount of RMB561,000,000 entitling the conversion for a total of 89,151,162 convertible securities, subject to revision, are beneficially owned by TPG Stallion Holdings, L.P., which is wholly owned by TPG Asia Advisors V DE. Inc.. TPG Asia Advisors V DE. Inc. is owned as to 50% by Mr. James G. Coulter and as to 50% by Mr. David Bonderman.

4. 39,157,000 Shares and convertible securities with principal amount of RMB189,000,000 entitling the conversion for a total of 30,034,883 Shares are directly held by Tetrad Ventures Pte Ltd, which is in turn wholly held by Government of Singapore Investment Corporation (Ventures) Pte Ltd, which is in turn controlled by GIC Special Investments Pte Ltd, which is in turn wholly owned by Government of Singapore Investment Corporation Pte Ltd ("GIC"). 15,120,752 Shares were held by GIC in the capacity of investment manager. GIC is wholly-owned by Minister for Finance Inc.

Save as disclosed above, as at 31 December 2012, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS WITH VIVA CHINA

As announced on 25 January 2013, the Company proposed to raise not less than approximately HK$1,847.8 million and not more than approximately HK$1,868.6 million (before expenses) by way of open offer of convertible securities on the basis of each convertible securities with the principal amount of HK$3.50 for every two existing Shares held on 19 March 2013 ("Open Offer").

On 23 January 2013, the Company entered into an underwriting agreement ("Underwriting Agreement") with Viva China, pursuant to which Viva China agrees to underwrite 60% of all the convertible securities to be offered under the Open Offer other than the excluded securities in accordance with the terms and conditions to the Underwriting Agreement. The underwriting commission payable to Viva China is 2.5% on the principal amount of convertible securities underwritten by Viva China, which is approximately HK$18.6 million and payable in cash.

Viva China, who indirectly held approximately 25.23% interests in the Company as at 25 January 2013, is a substantial Shareholder and thus a connected person of the Company. Accordingly, the payment of the underwriting commission to Viva China pursuant to the Underwriting Agreement constitutes a connected transaction for the Company. As the percentage ratios (other than the profits ratio) in respect of the underwriting commission payable by the Company to Viva China is more than 0.1% but less than 5%, the payment of the underwriting commission by the Company to Viva China is subject to reporting and announcement but is exempt from the independent Shareholders' approval under the Listing Rules. Please refer to the announcement of the Company dated 25 January 2013 for more details.

CONTINUING CONNECTED TRANSACTIONS WITH VIVA CHINA

On 31 August 2010, the Company and Viva China (Viva China together with its subsidiaries, the "Viva China Group"), entered into a master agreement (the "Master Agreement"), pursuant to which the Viva China Group may provide to the Group services in relation to (i) brand or product endorsement; (ii) sponsorship; and (iii) event management ("Viva China Transactions").

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

For the year ended 31 December 2012, the aggregate service fees payable by the Group in respect of the Viva China Transactions amounted to RMB200,000, which did not exceed the annual cap of RMB100,000,000 for the year ended 31 December 2012. 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. The Master Agreement has expired on 31 December 2012.

On 4 January 2013, the Company and Viva China entered into an agreement to renew the Master Agreement with effect from 4 January 2013 to 31 December 2015 or the day on which Viva China ceases to be a connected person of the Company (whichever is earlier). The annual caps of the services fees payable by the Group to the Viva China Group for the three financial year ending 31 December 2013, 2014 and 2015 are expected to be RMB60,000,000, RMB90,000,000 and RMB90,000,000 respectively. Please refer to the announcement of the Company dated 4 January 2013 for more details.

The Directors (including the independent non-executive Directors) have reviewed the Viva China 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 services by the Group;

(3) on normal commercial terms; and

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

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

(1) have been approved by the Board;

(2) have been in accordance with the pricing policies of the Group for transactions involving the provision of services 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 31 August 2010.

CONTINUING CONNECTED TRANSACTIONS WITH SHANGHAI DOUBLE HAPPINESS

During the year ended 31 December 2012, Shanghai Double Happiness Co., Ltd. ("Shanghai Double Happiness"), a 57.5%-owned subsidiary of the Company, had business transactions ("SDH Transactions") with 上海雙喜日卓乒乓器材有限公司 (Shanghai Double Happiness Nittaku Table Tennis Equipment Co., Ltd.) ("Nittaku"), whose 50% equity interest is held by Shanghai Double Happiness (Group) Co., Ltd. ("DHSG").

DHSG, which holds 33% equity interest in Shanghai Double Happiness, is a substantial shareholder of Company at subsidiary level. Nittaku, being associates of DHSG, is a connected person of the Company under the Listing Rules. The transactions constituted continuing connected transactions for the Company under the Listing Rules by virtue of its relationship with the Company's subsidiary. The applicable percentage ratios for the financial year ended 31 December 2012 in respect of the SDH Transactions did not exceeded 1%. Therefore, it is exempted from reporting, announcement and independent shareholders' approval requirements in accordance with Chapter 14A of the Listing Rules.

For the year ended 31 December 2012, the aggregate revenue generated from selling of finished table tennis equipments by Shanghai Double Happiness to Nittaku amounted to RMB3,773,521.

RELATED-PARTY TRANSACTIONS

The Viva China Transactions and the SDH Transactions also constituted related-party transactions which, among other, are set out in notes 36(a), 36(b) and 36(c) to the consolidated financial statements, respectively.

Apart from the Viva China Transactions and SDH Transactions, other related-party transactions set out in note 36 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

Mr. Li Ning was appointed as the Chairman of the Executive Committee of the Board and a member of the Nomination Committee of the Board, both with effect from 1 April 2012.

REPORT OF THE DIRECTORS

Mr. Chen Yue, Scott was appointed as a member of the Executive Committee of the Board and a member of the Remuneration Committee of the Board, both with effect from 1 April 2012.

Mr. Koo Fook Sun, Louis ceased to be a member of the Nomination Committee of the board and a member of the Remuneration Committee of the Board, both with effect from 1 April 2012.

Ms. Wang Ya Fei ceased to be a member of the Nomination Committee of the Board with effect from 1 April 2012.

Mr. Chan Chung Bun, Bunny was appointed as a member of the Nomination Committee of the Board and a member of the Remuneration Committee of the Board, both with effect from 1 April 2012. Mr. Chan was appointed as an independent non-executive director of Speedy Global Holdings Limited on 24 December 2012, which is a company listed on the Main Board of the Stock Exchange on 15 January 2013.

Mr. James Chun-Hsien Wei has been appointed as Chief Executive Officer of KSF Foods Holding effective 1 January 2013.

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 2012, 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 2012. 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 2012 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

The Stock Exchange of Hong Kong Limited (the "Stock Exchange") revised the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 to the Rules Governing the Listing of Securities of The Stock Exchange (the "Listing Rules") and renamed it as the Corporate Governance Code (the "New Code") effective 1 April 2012. Throughout the year ended 31 December 2012, the Company has applied the code provisions of the Former Code and the New Code for the relevant periods in which they are in force, except for certain deviations specified with considered reason as explained in Corporate Governance Report.

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report of this annual report.

SUBSEQUENT EVENTS

Details of the significant events after the reporting period of the Group are set out in note 37 to the financial statements.

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
Executive Chairman

Hong Kong, 25 March 2013

羅兵咸永道

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

We have audited the consolidated financial statements of Li Ning Company Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 102 to 171, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss 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, 25 March 2013

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CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*6*	**857,616**	831,693
Land use rights	*7*	**362,763**	371,696
Intangible assets	*8*	**423,382**	751,836
Deferred income tax assets	*24*	**364,951**	445,857
Available-for-sale financial assets	*9*	**46,930**	46,930
Investment in associates	*12*	**4,275**	11,303
Other receivables and prepayments	*15*	**45,190**	87,903
Total non-current assets		**2,105,107**	2,547,218
Current assets			
Inventories	*13*	**919,580**	1,132,965
Trade receivables	*14*	**1,487,401**	2,094,440
Other receivables and prepayments – current portion	*15*	**221,248**	344,527
Current income tax recoverable		**36,393**	–
Restricted bank deposits	*16*	**13,688**	13,194
Cash and cash equivalents	*16*	**1,248,593**	1,196,474
Total current assets		**3,926,903**	4,781,600
Total assets		**6,032,010**	7,328,818
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	*17*	**111,622**	111,604
Share premium	*17*	**315,972**	312,379
Shares held for Restricted Share Award Scheme	*17*	**(41,185)**	(52,415)
Other reserves	*18*	**489,485**	370,106
Retained earnings	*18*	**737,703**	2,730,169
		1,613,597	3,471,843
Non-controlling interests in equity		**198,644**	192,816
Total equity		**1,812,241**	3,664,659

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2012 RMB'000	2011 RMB'000
LIABILITIES			
Non-current liabilities			
License fees payable	*21*	**152,518**	458,793
Convertible bonds	*23*	**651,632**	–
Deferred income tax liabilities	*24*	**79,318**	81,269
Deferred income	*25*	**59,736**	61,030
Total non-current liabilities		**943,204**	601,092
Current liabilities			
Trade payables	*19*	**960,982**	1,462,398
Other payables and accruals	*20*	**744,781**	662,480
License fees payable – current portion	*21*	**111,145**	71,649
Current income tax liabilities		**–**	28,481
Borrowings	*22*	**1,447,157**	838,059
Convertible bonds – interest payable	*23*	**12,500**	–
Total current liabilities		**3,276,565**	3,063,067
Total liabilities		**4,219,769**	3,664,159
Total equity and liabilities		**6,032,010**	7,328,818
Net current assets		**650,338**	1,718,533
Total assets less current liabilities		**2,755,445**	4,265,751

Li Ning	**Jin-Goon Kim**
Executive Director & Chairman	*Executive Director & Vice Chairman*

The notes on pages 109 to 171 are an integral part of these financial statements.

BALANCE SHEET

		As at 31 December	
	Note	**2012 RMB'000**	2011 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	10	**1,000,040**	578,351
Current assets			
Dividends receivable		**670,848**	670,765
Cash and cash equivalents	16	**455**	5,958
Total current assets		**671,303**	676,723
Total assets		**1,671,343**	1,255,074
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	17	**111,622**	111,604
Share premium and other reserves	17,18	**725,626**	655,190
Total equity		**837,248**	766,794
LIABILITIES			
Non-current liabilities			
Convertible bonds	23	**651,632**	–
Current liabilities			
Other payables and accruals	20	**7,806**	1,860
Borrowings	22	**162,157**	486,420
Convertible bonds – interest payable	23	**12,500**	–
Total current liabilities		**182,463**	488,280
Total liabilities		**834,095**	488,280
Total equity and liabilities		**1,671,343**	1,255,074
Net current assets		**488,840**	188,443
Total assets less current liabilities		**1,488,880**	766,794

Li Ning
Executive Director & Chairman

Jin-Goon Kim
Executive Director & Vice Chairman

The notes on pages 109 to 171 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Revenue	5	**6,738,911**	8,928,526
Cost of sales	26	**(4,188,977)**	(4,886,440)
Gross profit		**2,549,934**	4,042,086
Distribution costs	26	**(2,635,404)**	(2,909,922)
Administrative expenses	26	**(1,675,656)**	(644,641)
Other income and other gains – net	27	**168,792**	143,433
Operating (loss)/profit		**(1,592,334)**	630,956
Finance income	29	**7,593**	17,179
Finance costs	29	**(208,775)**	(99,231)
Finance costs – net		**(201,182)**	(82,052)
Share of loss of associates	12	**(11,508)**	(1,527)
(Loss)/profit before income tax		**(1,805,024)**	547,377
Income tax expense	30	**(150,375)**	(136,408)
(Loss)/profit for the year		**(1,955,399)**	410,969
Attributable to:			
Equity holders of the Company		**(1,979,114)**	385,813
Non-controlling interests		**23,715**	25,156
		(1,955,399)	410,969
(Losses)/earnings per share for (loss)/profit attributable to equity holders of the Company (RMB cents)			
– basic	31	**(187.96)**	36.70
– diluted	31	**(187.96)**	36.56

The notes on pages 109 to 171 are an integral part of these financial statements.

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Dividends	32	**–**	116,533

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

The notes on pages 109 to 171 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Ordinary shares RMB'000 (Note 17)	Share premium RMB'000 (Note 17)	Shares held for Restricted Share Award Scheme RMB'000 (Note 17)	Other reserves RMB'000 (Note 18)	Retained earnings RMB'000 (Note 18)	Subtotal RMB'000	Non-controlling interests in equity RMB'000	Total equity RMB'000
As at 1 January 2011	111,364	293,988	(64,508)	346,647	2,681,811	3,369,302	190,080	3,559,382
Total comprehensive income for the year	–	–	–	3,762	385,813	389,575	25,156	414,731
Transactions with owners:								
Net proceeds from share issuance pursuant to share option schemes	240	12,170	–	–	–	12,410	–	12,410
Value of services provided under share option schemes	–	–	–	38,890	–	38,890	–	38,890
Transfer of fair value of share options exercised to share premium	–	6,221	–	(6,221)	–	–	–	–
Shares purchased for Restricted Share Award Scheme	–	–	(12,729)	–	–	(12,729)	–	(12,729)
Shares vested under Restricted Share Award Scheme	–	–	24,822	(24,822)	–	–	–	–
Appropriations to statutory reserves	–	–	–	11,850	(11,850)	–	–	–
Dividends to equity holders of the Company	–	–	–	–	(325,605)	(325,605)	–	(325,605)
Dividends to non-controlling interests of a subsidiary	–	–	–	–	–	–	(22,420)	(22,420)
As at 31 December 2011	111,604	312,379	(52,415)	370,106	2,730,169	3,471,843	192,816	3,664,659
As at 1 January 2012	111,604	312,379	(52,415)	370,106	2,730,169	3,471,843	192,816	3,664,659
Total comprehensive (loss)/income for the year	–	–	–	(1,060)	(1,979,114)	(1,980,174)	23,715	(1,956,459)
Transactions with owners:								
Net proceeds from shares issuance pursuant to share option schemes	18	1,586	–	–	–	1,604	–	1,604
Value of services provided under share option schemes	–	–	–	6,929	–	6,929	–	6,929
Transfer of fair value of share options exercised to share premium	–	2,007	–	(2,007)	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	11,230	(11,230)	–	–	–	–
Appropriations to statutory reserves	–	–	–	13,352	(13,352)	–	–	–
Convertible bonds – equity component	–	–	–	113,395	–	113,395	–	113,395
Dividends to non-controlling interests of a subsidiary	–	–	–	–	–	–	(22,887)	(22,887)
Contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	5,000	5,000
As at 31 December 2012	111,622	315,972	(41,185)	489,485	737,703	1,613,597	198,644	1,812,241

The notes on pages 109 to 171 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2012 RMB'000	2011 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	33	**(794,846)**	427,477
Income tax paid		**(136,294)**	(411,907)
Net cash (used in)/generated from operating activities		**(931,140)**	15,570
Cash flows from investing activities			
– purchases of property, plant and equipment		**(124,170)**	(298,021)
– purchases of land use rights		**–**	(150)
– purchases of intangible assets		**(93,173)**	(89,612)
– investment in associates		**(10,090)**	(12,830)
– prepayment for other investment		**–**	(10,000)
– proceeds on disposal of property, plant and equipment and intangible assets		**1,943**	2,069
– interest received		**7,593**	6,198
Net cash used in investing activities		**(217,897)**	(402,346)
Cash flows from financing activities			
– dividends paid to equity holders of the Company		**–**	(325,605)
– dividends paid to non-controlling interests of a subsidiary		**(22,887)**	(22,420)
– proceeds from issuance of ordinary shares		**1,604**	12,410
– contribution from non-controlling interests of a subsidiary		**5,000**	–
– proceeds from bank borrowings		**1,714,472**	2,240,053
– repayments of bank borrowings		**(1,108,028)**	(1,711,422)
– proceeds from issuance of convertible bonds		**745,691**	–
– purchase of shares for Restricted Share Award Scheme		**–**	(12,729)
– interest paid		**(134,782)**	(49,104)
– increase in restricted bank deposits		**(494)**	(11,149)
Net cash generated from financing activities		**1,200,576**	120,034
Net increase/(decrease) in cash and cash equivalents		**51,539**	(266,742)
Cash and cash equivalents at beginning of year		**1,196,474**	1,470,435
Exchange gains/(losses) on cash and cash equivalents		**580**	(7,219)
Cash and cash equivalents at end of year		**1,248,593**	1,196,474

The notes on pages 109 to 171 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.

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

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

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

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

2.1.1 Going concern

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

As stated in the announcement dated 25 January 2013 (the "Announcement"), the Company has executed a plan to issue convertible securities to all shareholders of the Company in order to raise a gross proceeds of about RMB1.5 billion (the "Equity Fund Raising Plan"). Pursuant to the irrevocable undertakings executed in favour of the Company, Viva China, TPG Stallion, L.P. ("TPG") and Tetrad Ventures Pte. Ltd. ("GIC Investor") have undertaken to subscribe for the convertible securities with the aggregate principal amount of approximately RMB508 million. Further, the Company has entered into two underwriting agreements with Viva China and TPG respectively, under which they in aggregate underwrite all of the remaining convertible securities respectively, to the extent unsubscribed by other shareholders. The prospectus is expected to be issued on 27 March 2013, and the Equity Fund Raising Plan is scheduled to be completed in April 2013. Refer to Note 37 subsequent events for more details of this Equity Fund Raising Plan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.1 Basis of preparation *(Continued)*

2.1.1 Going concern *(Continued)*

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

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

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

2.1.2 Changes in accounting policy and disclosures

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

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

(b) *New standards and interpretations not yet adopted*

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

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

- IFRS 11 'Joint arrangements' is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group will adopt IFRS 11 from 1 January 2013. The Group has performed an assessment and concluded the adoption of IFRS 11 does not have a significant impact on the Group.

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

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 2.8). If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

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

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

(b) Transactions with non-controlling interests

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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.

2.3 Associates

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

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

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

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

2.4 Segment reporting

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

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

iii. all resulting exchange differences are recognised in other comprehensive income.

2.6 Property, plant and equipment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.6 Property, plant and equipment *(Continued)*

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

Buildings	20 – 40 years
Leasehold improvement	shorter of 2 years or the remaining lease terms
Mould	2 years
Machinery	10 – 18 years
Office equipment and motor vehicles	3 – 12 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

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

2.7 Land use rights

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

2.8 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Goodwill on acquisitions of subsidiaries, associates and joint ventures is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

2.8 Intangible assets *(Continued)*

(b) License rights

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

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

(c) Computer software

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.10 Financial assets

(a) Classification

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

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

(i) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included within trade receivables, other receivables, restricted bank deposits and cash and cash equivalents in the balance sheets (Notes 2.12 and 2.13).

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

(b) Recognition and measurement

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

At 31 December 2012, the Group's available-for-sale financial assets represent interests in certain unlisted companies which do not have quoted market prices in an active market and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, these investments are carried at cost less accumulated impairment losses.

2.11 Inventories

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

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

2.12 Trade receivables and other receivables

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

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

2.13 Cash and cash equivalents

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

2.14 Ordinary shares

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

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

2.15 Trade payables

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

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

2.16 License fees payable

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.16 License fees payable *(Continued)*

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

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.18 Borrowing costs

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

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

2.19 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in convertible bonds reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

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

2.20 Current and deferred income tax

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

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred income tax

- *Inside basis differences*

  Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

  Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

- *Outside basis differences*

  Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(iii) Offsetting

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.21 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.

2.22 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.

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

2.22 Provisions *(Continued)*

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.

2.23 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 the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

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

(b) Interest income

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

(c) Dividend income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.23 Revenue recognition *(Continued)*

(d) License fee income

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

2.24 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.

2.25 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.

2.26 Dividend distribution

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

3. Financial risk management

3.1 Financial risk factors

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

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

(a) Market risks

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong dollars (HK$), United States dollars (US$), EURO (EUR) or Singapore dollars (SGD) (Note 16). In addition, the Company is required to pay dividends and certain license fees, borrowings and other payables in foreign currencies. Any foreign currency exchange rate fluctuations against RMB may have a financial impact to the Group. The Group did not use any financial instruments to hedge against its foreign currency risk as at 31 December 2012.

As at 31 December 2012 and 2011, 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.

	2012 RMB'000	2011 RMB'000
Post-tax profit increase/(decrease)		
– Strengthened 5%	**8,338**	20,902
– Weakened 5%	**(8,338)**	(20,902)

(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. On 8 February 2012, the Company issued convertible bonds with principal amount of RMB750,000,000 due on 8 February 2017. The convertible bonds are interest-bearing at the fixed interest rate of 4% per annum and payable semi-annually in arrears (Note 23). The Group currently does not hedge its exposure to interest rate risk.

Management does not anticipate significant impact resulting from the changes in interest rates because the borrowings are for the short term and bear fixed interest rates. The weighted average effective interest rates per annum of the borrowings were 6.80% (2011: 6.00%) for bank borrowings denominated in RMB and 2.78% (2011: 2.02%) for bank borrowings denominated in HK$ as disclosed in Note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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.

	2012 RMB'000	2011 RMB'000
Banks*		
Bank A	**369,809**	310,439
Bank B	**226,136**	222,811
Bank C	**145,723**	124,756
	741,668	658,006

* All banks are prominent nationwide 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. In general, most debtors with balances that were 30 days past due are requested to settle all outstanding balances before any further credit is granted. As stated in Note 2 above, the Company has launched a series of plans to manage the credit risk of the customers. Provisions are made for the balances past due when management considers the loss from non-performance by these counterparties is likely.

(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 at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans. As mentioned in Note 2, the Group had total current liabilities of RMB3,277 million as at 31 December 2012 and net operating cash outflow of RMB931 million during the year ended 31 December 2012. The Group has implemented plans to raise equity funding which is expected to be completed in April 2013 (Note 37), and discussing with banks to renew bank borrowings when they are due in 2013 and 2014.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

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 2012				
Borrowings	**1,459,911**	**–**	**–**	**–**
Convertible bonds (a)	**30,000**	**30,000**	**825,000**	**–**
License fees payable	**114,000**	**45,492**	**140,961**	**35,642**
Trade payables	**960,982**	**–**	**–**	**–**
Other payables	**321,057**	**–**	**–**	**–**
	2,885,950	**75,492**	**965,961**	**35,642**
As at 31 December 2011				
Borrowings	848,933	–	–	–
License fees payable	73,822	57,898	127,789	733,800
Trade payables	1,462,398	–	–	–
Other payables	223,972	–	–	–
	2,609,125	57,898	127,789	733,800
Company				
As at 31 December 2012				
Borrowings	**162,299**	**–**	**–**	**–**
Convertible bonds (a)	**30,000**	**30,000**	**825,000**	**–**
Other payables	**7,806**	**–**	**–**	**–**
	200,105	**30,000**	**825,000**	**–**
As at 31 December 2011				
Borrowings	488,899	–	–	–
Other payables	1,860	–	–	–
	490,759	–	–	–

Note:

(a) As stated in Note 23 below, the Company issued convertible bonds on 8 February 2012. Unless early redeemed, converted, or purchased and canceled, these convertible bonds will be redeemed at the outstanding principle amount together with the unpaid interest upon maturity. The annual interest payment is RMB30 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

3. Financial risk management *(Continued)*

3.2 Capital risk management

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

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

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

As at 31 December 2012, the gearing ratio of the Group was 130.8% (including convertible bonds) (2011: 24.1%), and 89.7% (excluding convertible bonds) (2011: 24.1%), respectively.

As indicated in Note 2.1.1 and Note 37, the Company has initiated the Equity Fund Raising Plan in 2013, as a result of which the gearing ratio is expected to decrease upon the completion of the Equity Fund Raising Plan in 2013.

3.3 Fair value estimation

The carrying values less any estimated credit adjustments for the Group's financial assets and liabilities with a maturity of less than one year, including cash at bank and in hand, time deposits, trade receivables and other receivables, trade payables and other payables are assumed to approximate their fair values. The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

4. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill and intangible assets

The Group tests whether goodwill and intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (See Note 8).

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

(b) Net realisable value of inventories

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

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

The Group's management determines the provision for impairment of trade receivables and other receivables in accordance with the accounting policy stated in Note 2.12. Such provision for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Company's estimation of provision for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significantly judgment. The Group's customers mainly are distributors of sports products, and they vary in size and types of products to be distributed. In making the judgment on the provision for impairment, the Company evaluates, among other factors, the historical payment pattern in the past few months and credit-worthiness of each customer, default rates of prior years, aging of receivable balances and latest communication with individual customers. To the extent the financial condition of any customer deteriorates which results in an inability to make payments on time, or the customers significantly exceed their credit term and ask for payment extension, or if the Company incurs more bad debt than their original estimates, additional provision may be required. This assessment is based on the specific facts and circumstances of each customer. Management reassesses the provision at each balance sheet date to ensure the current provision is still appropriate.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. Segment information *(Continued)*

Revenue consists of sales from LI-NING brand, Double Happiness brand, Lotto brand and all other brands, which are RMB5,926,165,000, RMB541,555,000, RMB83,956,000 and RMB187,235,000 for the year ended 31 December 2012 and RMB8,164,794,000, RMB485,026,000, RMB119,641,000 and RMB159,065,000 for the year ended 31 December 2011 respectively.

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

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

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

5. Segment information *(Continued)*

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

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

Geographical information of revenue

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

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

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

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(All amounts in RMB unless otherwise stated)

6. Property, plant and equipment – Group

	Buildings RMB'000	Leasehold improvement RMB'000	Mould RMB'000	Machinery RMB'000	Office equipment and motor vehicles RMB'000	Construction-in-progress RMB'000	Total RMB'000
As at 1 January 2011							
Cost	515,029	120,491	146,331	65,665	178,115	12,998	1,038,629
Accumulated depreciation	(76,901)	(54,299)	(75,360)	(17,322)	(94,169)	–	(318,051)
Net book amount	438,128	66,192	70,971	48,343	83,946	12,998	720,578
Year ended 31 December 2011							
Opening net book amount	438,128	66,192	70,971	48,343	83,946	12,998	720,578
Additions	4,035	43,179	46,015	9,531	24,107	145,115	271,982
Transfer out from construction-in-progress	8,880	–	–	1,853	487	(11,220)	–
Disposals	(42)	(521)	(16)	(828)	(898)	–	(2,305)
Depreciation charge	(21,536)	(52,771)	(50,458)	(6,416)	(27,381)	–	(158,562)
Closing net book amount	429,465	56,079	66,512	52,483	80,261	146,893	831,693
As at 31 December 2011							
Cost	527,748	157,520	192,320	75,419	198,485	146,893	1,298,385
Accumulated depreciation	(98,283)	(101,441)	(125,808)	(22,936)	(118,224)	–	(466,692)
Net book amount	429,465	56,079	66,512	52,483	80,261	146,893	831,693
Year ended 31 December 2012							
Opening net book amount	**429,465**	**56,079**	**66,512**	**52,483**	**80,261**	**146,893**	**831,693**
Additions	**–**	**10,858**	**36,754**	**5,458**	**9,550**	**111,946**	**174,566**
Transfer out from construction-in-progress	**166,398**	**–**	**–**	**57,881**	**8,947**	**(233,226)**	**–**
Disposals	**–**	**(1,006)**	**(341)**	**(1,392)**	**(4,261)**	**–**	**(7,000)**
Depreciation charge	**(24,900)**	**(31,010)**	**(50,818)**	**(9,474)**	**(25,441)**	**–**	**(141,643)**
Closing net book amount	**570,963**	**34,921**	**52,107**	**104,956**	**69,056**	**25,613**	**857,616**
As at 31 December 2012							
Cost	**694,146**	**106,281**	**226,653**	**136,540**	**195,712**	**25,613**	**1,384,945**
Accumulated depreciation	**(123,183)**	**(71,360)**	**(174,546)**	**(31,584)**	**(126,656)**	**–**	**(527,329)**
Net book amount	**570,963**	**34,921**	**52,107**	**104,956**	**69,056**	**25,613**	**857,616**

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB5,454,000 (2011: RMB7,026,000) are built on land which the Group is in the process of applying for the legal title (Note 7).

6. Property, plant and equipment – Group *(Continued)*

Depreciation expenses of RMB57,832,000 (2011: RMB59,389,000) has been charged to cost of sales, RMB51,489,000 (2011: RMB65,776,000) to distribution costs and RMB32,322,000 (2011: RMB33,397,000) to administrative expenses.

As at 31 December 2012, buildings with net book value of RMB18,441,000 (2011: RMB20,190,000) are pledged as securities for the Group's borrowings (Note 22).

7. Land use rights – Group

	RMB'000
As at 1 January 2011	
Cost	403,979
Accumulated amortisation	(23,429)
Net book amount	380,550
Year ended 31 December 2011	
Opening net book amount	380,550
Addition	150
Amortisation charge	(9,004)
Closing net book amount	371,696
As at 31 December 2011	
Cost	404,129
Accumulated amortisation	(32,433)
Net book amount	371,696
Year ended 31 December 2012	
Opening net book amount	**371,696**
Amortisation charge	**(8,933)**
Closing net book amount	**362,763**
As at 31 December 2012	
Cost	**404,129**
Accumulated amortisation	**(41,366)**
Net book amount	**362,763**

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 RMB104,435,000 as at 31 December 2012 (2011: RMB122,685,000).

As at 31 December 2012, land use rights with net book value of RMB14,594,000 (2011: RMB14,934,000) are pledged as securities for the Group's borrowings (Note 22).

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(All amounts in RMB unless otherwise stated)

8. Intangible assets – Group

	Goodwill RMB'000	Trademarks RMB'000	Computer Software RMB'000	License rights RMB'000	Customer relationships & Non-compete agreements RMB'000	Total RMB'000
As at 1 January 2011						
Cost	179,226	118,238	88,081	622,072	41,339	1,048,956
Accumulated amortisation and impairment	–	(23,366)	(39,726)	(162,772)	(9,012)	(234,876)
Net book amount	179,226	94,872	48,355	459,300	32,327	814,080
Year ended 31 December 2011						
Opening net book amount	179,226	94,872	48,355	459,300	32,327	814,080
Additions	–	799	24,165	6,529	–	31,493
Amortisation charge	–	(5,603)	(15,563)	(67,164)	(5,407)	(93,737)
Closing net book amount	179,226	90,068	56,957	398,665	26,920	751,836
As at 31 December 2011						
Cost	179,226	119,037	112,246	628,601	41,339	1,080,449
Accumulated amortisation and impairment	–	(28,969)	(55,289)	(229,936)	(14,419)	(328,613)
Net book amount	179,226	90,068	56,957	398,665	26,920	751,836
Year ended 31 December 2012						
Opening net book amount	**179,226**	**90,068**	**56,957**	**398,665**	**26,920**	**751,836**
Adjustment upon entering into Lotto supplemental license agreement *(Note a)*	**–**	**–**	**–**	**(206,890)**	**–**	**(206,890)**
Additions	**–**	**–**	**16,760**	**65,777**	**–**	**82,537**
Amortisation charge	**–**	**(5,538)**	**(18,824)**	**(46,494)**	**(5,407)**	**(76,263)**
Impairment charge *(Note a)*	**–**	**–**	**–**	**(127,838)**	**–**	**(127,838)**
Closing net book amount	**179,226**	**84,530**	**54,893**	**83,220**	**21,513**	**423,382**
As at 31 December 2012						
Cost	**179,226**	**119,037**	**128,754**	**288,430**	**41,339**	**756,786**
Accumulated amortisation and impairment	**–**	**(34,507)**	**(73,861)**	**(205,210)**	**(19,826)**	**(333,404)**
Net book amount	**179,226**	**84,530**	**54,893**	**83,220**	**21,513**	**423,382**

8. Intangible assets – Group *(Continued)*

Notes:

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

Carrying amounts of intangible asset and license fees payable relating to the original Lotto license right, which amounted to RMB334,728,000 and RMB448,030,000 respectively, were derecognised with a gain of RMB68,302,000 after netting off the RMB45,000,000 consideration payable for entering into the supplemental license agreement. Such gain was recognised in the consolidated income statement as "Other income and other gains – net" (Note 27).

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

Based on latest market condition and the projected business performance of the Lotto brand, an impairment provision of RMB127,838,000 has been made and included in 'Administrative expenses' in the consolidated income statement (Note 26).

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

	2012 RMB'000
Other income and other gains – net *(Note 27)*	**68,302**
Administrative expenses *(Note 26)*	**(127,838)**
	(59,536)

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

Impairment tests for goodwill

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

The recoverable amounts for the CGUs have been determined based on values-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. The weighted average revenue growth rate used for the sixth year to the tenth year for Double Happiness and Kason are 2.4% and 5.5% 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 16.0% and 15.1% 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.

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(All amounts in RMB unless otherwise stated)

9. Available-for-sale financial assets – Group

The Group's available-for-sale financial assets include investments in two of private companies. None of the investments is impaired as at 31 December 2012.

	2012 RMB'000	2011 RMB'000
Unlisted investments, at cost	**46,930**	46,930

10. Investment in subsidiaries – Company

	2012 RMB'000	2011 RMB'000
Investment in unlisted shares, at cost	**79,568**	79,568
Loan to subsidiaries	**879,287**	446,368
Contribution to the Restricted Share Award Scheme Trust	**41,185**	52,415
	1,000,040	578,351

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 2012:

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/paid up capital	Effective equity interest held by the 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
上海悦奥體育用品有限公司 (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
廣東悦奥體育發展有限公司 (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
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

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(All amounts in RMB unless otherwise stated)

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

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

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
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 (Chengdu Edosports Goods Sales Co., Ltd.)	The PRC, 4 February 2008 Limited liability company	RMB1,000,000	100%	Sale of sports goods
昆明一動體育用品銷售有限公司 (Kunming Edosports Goods Sales Co., Ltd.)	The PRC, 24 September 2008 Limited liability company	RMB1,000,000	100%	Sale of sports goods
深圳一動體育用品銷售有限公司 (Shenzhen Edosports Goods Sales Co., Ltd.)	The PRC, 7 May 2009 Limited liability company	RMB1,000,000	100%	Sale of sports goods
蘭州一動體育用品銷售有限公司 (Lanzhou Edosports Goods Sales Co., Ltd.)	The PRC, 13 May 2009 Limited liability company	RMB1,000,000	100%	Sale of sports goods
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
合肥一動體育用品銷售有限公司 (Hefei Edosports Goods Sales Co., Ltd.)	The PRC, 21 March 2011 Limited liability company	RMB1,000,000	100%	Sale of sports goods

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(All amounts in RMB unless otherwise stated)

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

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/paid up capital	Effective equity interest held by the Company	Principal activities
福州悦奧體育用品有限公司 (Fuzhou Yue Ao Sports Goods Co., Ltd.)	The PRC, 6 April 2011 Limited liability company	RMB1,000,000	100%	Sale of sports goods
長春一動體育用品銷售有限公司 (Changchun Edosports Goods Sales Co., Ltd.)	The PRC, 2 August 2011 Limited liability company	RMB1,000,000	100%	Sale of sports goods
上海李寧電子商務有限公司 (Shanghai Lining E-business Co., Ltd.)	The PRC, 27 September 2008 Limited liability company	RMB10,000,000	100%	Sale of sports goods
Lining Sports Singapore Pte. Ltd. (李寧體育新加坡有限公司)	Singapore 20 October 2008 Limited liability company	SGD500,000	100%	Sale of sports goods
李寧體育(天津)有限公司 (Lining Sports (Tianjin) Co., Ltd.)	The PRC, 19 January 2009 Limited liability company	RMB20,000,000	100%	Sale of sports goods
上海紅雙喜股份有限公司 (Shanghai Double Happiness Co., Ltd.)	The PRC, 26 December 1995 Limited liability company	RMB112,000,000	57.5%	Manufacture and sale of sports goods
上海紅雙喜體育用品銷售有限公司 (Shanghai Double Happiness Sports Goods Sales Co., Ltd.)	The PRC, 21 August 1996 Limited liability company	RMB15,900,000	57.5%	Sale of sports goods
北京紅雙喜體育用品銷售有限公司 (Beijing Double Happiness Sports Goods Sales Co., Ltd.)	The PRC, 27 December 2010 Limited liability company	RMB2,000,000	57.5%	Sale of sports goods
廣州紅雙喜體育用品銷售有限公司 (Guangzhou Double Happiness Sports Goods Sales Co., Ltd.)	The PRC, 6 May 2011 Limited liability company	RMB2,000,000	57.5%	Sale of sports goods
上海紅雙喜體育用品蘇州有限公司 (Suzhou Double Happiness Guan Du Sports Goods Co., Ltd.)	The PRC, 10 August 2002 Limited liability company	RMB15,000,000	43.1%	Manufacture and sale of sports goods
上海紅冠體育用品有限責任公司 (Shanghai Hong Guan Sports Goods Co., Ltd.)	The PRC, 29 July 1998 Limited liability company	RMB500,000	57.5%	Sale of sports goods

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
上海李寧體育用品電子商務有限公司 (Shanghai Li Ning Sports Goods E-business Co., Ltd)	The PRC, 27 July 2011 Limited liability company	RMB10,000,000	100%	Sale of sports goods
樂途體育用品有限公司 (Lotto Sports Goods Co., Ltd.)	The PRC, 19 January 2009 Limited liability company	RMB200,000,000	100%	Sale of sports goods
樂途(大慶)體育用品有限責任公司 (Lotto (Daqing) Sports Goods Co., Ltd.)	The PRC, 24 January 2011 Limited liability company	RMB5,000,000	100%	Sale of sports goods
樂途(四川)體育用品有限責任公司 (Lotto (Sichuan) Sports Goods Co., Ltd.)	The PRC, 9 September 2011 Limited liability company	RMB5,000,000	100%	Sale of sports goods
樂途(廣東)體育用品有限責任公司 (Lotto (Guangdong) Sports Goods Co., Ltd.)	The PRC, 31 October 2011 Limited liability company	RMB10,000,000	100%	Sale of sports goods
李寧(福建)羽毛球科技發展有限公司 (Li Ning (Fujian) Badminton Technology Development Co., Ltd.)	The PRC, 30 June 2008 Limited liability company	RMB19,577,000	100%	Manufacture and sale of sports goods
Kason Sports (Hong Kong) Ltd. (凱勝體育(香港)有限公司)	Hong Kong, 15 January 2008 Limited liability company	HK$1	100%	Investment holding
Li Ning International Trading (Hong Kong) Co., Ltd. (李寧國際貿易(香港)有限公司)	Hong Kong, 27 August 2010 Limited liability company	HK$10,000	100%	Sales of sports goods
李寧(湖北)體育用品有限公司 (Li Ning (Hubei) Sports Good Co., Ltd.)	The PRC, 2 November 2010 Limited liability company	RMB20,021,699	100%	Manufacture and sale of sports goods
天津李寧投資管理有限公司 (Tianjin Li Ning Investment Management Co., Ltd.)	The PRC, 13 February 2012 Limited liability company	RMB30,000,000	66.7%	Investment management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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 2012 and for the year then ended, which have been included in the consolidated balance sheet and consolidated income statement.

	2012 RMB'000	2011 RMB'000
Assets		
Non-current assets	**3,456**	4,382
Current assets	**39,484**	29,640
Total assets	**42,940**	34,022
Liabilities		
Non-current liabilities	**4,417**	4,887
Current liabilities	**30,544**	27,261
Total liabilities	**34,961**	32,148
Net assets	**7,979**	1,874

	2012 RMB'000	2011 RMB'000
Revenue	**73,412**	48,858
Expenses	**(67,926)**	(43,298)
Net profit	**5,486**	5,560

As at 31 December 2012 and 2011, 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 2012 and 2011. Upon the adoption of IFRS 11 for the period beginning on 1 January 2013, the Group will account for its investment in joint ventures using equity method of accounting, as proportionate consolidation is no longer allowed.

12. Share of loss of/investment in associates – Group

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

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

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

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

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(All amounts in RMB unless otherwise stated)

13. Inventories – Group

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

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

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

14. Trade receivables – Group

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

14. Trade receivables – Group *(Continued)*

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

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

Customers are normally granted credit terms within 90 days. As at 31 December 2012, trade receivables of RMB1,460,255,000 (2011: RMB530,439,000) were past due. As discussed in Note 4(c) above, the Company's estimation of provision for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significantly judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, aging of receivable balances, and latest communication with individual customers. The Group has launched a series of plans to communicate with individual customers and manage the credit risk of the customers. Management will closely monitor and continue to pursue collection of those receivables and a portion of the receivables is expected to be recovered. A provision of RMB937,535,000 has been made as at 31 December 2012 (2011: RMB11,400,000).

The impairment was firstly assessed against individually significant balances, and the remaining balances were grouped for collective assessment according to their ageing groups and historical default rates as these customers were of similar credit risk.

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

	2012 RMB'000	2011 RMB'000
As at 1 January	**11,400**	1,382
Provision for impairment of trade receivables	**933,235**	10,246
Trade receivables written off during the year as uncollectible	**(7,100)**	(228)
As at 31 December	**937,535**	11,400

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.

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(All amounts in RMB unless otherwise stated)

15. Other receivables and prepayments – Group

	2012 RMB'000	2011 RMB'000
Advances to suppliers	**13,422**	22,495
Prepayment for advertising expenses	**8,327**	28,464
Rental and other deposits	**62,883**	126,238
Prepaid rentals	**142,429**	200,879
Staff advances and other payments for employees	**2,770**	3,034
Prepayment for other investment	**–**	10,000
Others	**36,607**	41,320
	266,438	432,430
Less: non-current portion	**(45,190)**	(87,903)
Current portion	**221,248**	344,527

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

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

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

As at 31 December 2012, 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	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Cash and cash equivalents	**1,248,593**	1,196,474	**455**	5,958
Restricted bank deposits	**13,688**	13,194	**–**	–
	1,262,281	1,209,668	**455**	5,958

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

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

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Denominated in RMB	**1,199,726**	1,168,122	**13**	–
Denominated in HK$	**23,944**	19,316	**442**	5,958
Denominated in US$	**23,232**	11,388	**–**	–
Denominated in EUR	**8,319**	1,191	**–**	–
Denominated in SGD	**7,060**	9,651	**–**	–
	1,262,281	1,209,668	**455**	5,958

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 nationwide state-owned banks or PRC branches of international commercial banks with good credit ratings.

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

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

	Number of shares (Thousands)	Approximate amount HK$'000
Authorised at HK$0.10 each		
As at 31 December 2012 and 2011	10,000,000	1,000,000

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

Issued and fully paid

	Number of share of HK$0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
As at 1 January 2011	1,049,845	111,364	293,988	(64,508)	340,844
Net proceeds from shares issued pursuant to share option schemes *(Note a)*	2,883	240	12,170	–	12,410
Transfer of fair value of share options exercised to share premium	–	–	6,221	–	6,221
Shares vested under Restricted Share Award Scheme	1,330	–	–	24,822	24,822
Shares purchased for Restricted Share Award Scheme *(Note b)*	(1,647)	–	–	(12,729)	(12,729)
As at 31 December 2011	1,052,411	111,604	312,379	(52,415)	371,568
As at 1 January 2012	**1,052,411**	**111,604**	**312,379**	**(52,415)**	**371,568**
Net proceeds from shares issued pursuant to share option schemes *(Note a)*	**224**	**18**	**1,586**	**–**	**1,604**
Transfer of fair value of share options exercised to share premium	**–**	**–**	**2,007**	**–**	**2,007**
Shares vested under Restricted Share Award Scheme	**835**	**–**	**–**	**11,230**	**11,230**
As at 31 December 2012	**1,053,470**	**111,622**	**315,972**	**(41,185)**	**386,409**

Notes:

(a) During the year ended 31 December 2012, the Company issued 224,000 shares (2011: 2,883,000 shares) of HK$0.10 each to certain directors and employees of the Group at weighted-average issue price of HK$8.83 (2011: HK$5.17) per share pursuant to the Company's share option schemes (see Note 34).

(b) During the year ended 31 December 2012, the Li Ning Company Limited Restricted Share Award Scheme Trust (the "Trust"), a trust established in Hong Kong, purchased no shares (2011: 1,647,000 shares) of the Company's shares from the open market. During the year ended 31 December 2011, the total amount of RMB12,729,000 was paid to acquire the shares was financed by the Company by way of contributions made to the Trust.

18. Reserves – Group and Company

Group

	Capital reserves RMB'000	Statutory reserve funds RMB'000	Share-based compensation reserve RMB'000	Convertible bonds reserve RMB'000	Currency translation difference RMB'000	Subtotal RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2011	45,634	208,743	91,076	–	1,194	346,647	2,681,811	3,028,458
Profit for the year	–	–	–	–	–	–	385,813	385,813
Value of services provided under share schemes	–	–	38,890	–	–	38,890	–	38,890
Transfer of fair value of share options exercised to share premium	–	–	(6,221)	–	–	(6,221)	–	(6,221)
Share options lapsed	3,874	–	(3,874)	–	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	(24,822)	–	–	(24,822)	–	(24,822)
Appropriations to statutory reserves	–	11,850	–	–	–	11,850	(11,850)	–
Translation difference of foreign currency financial statements	–	–	–	–	3,762	3,762	–	3,762
Dividends paid	–	–	–	–	–	–	(325,605)	(325,605)
As at 31 December 2011	49,508	220,593	95,049	–	4,956	370,106	2,730,169	3,100,275
As at 1 January 2012	**49,508**	**220,593**	**95,049**	**–**	**4,956**	**370,106**	**2,730,169**	**3,100,275**
Loss for the year	–	–	–	–	–	–	(1,979,114)	(1,979,114)
Value of services provided under share schemes	–	–	6,929	–	–	6,929	–	6,929
Transfer of fair value of share options exercised to share premium	–	–	(2,007)	–	–	(2,007)	–	(2,007)
Share options lapsed	14,667	–	(14,667)	–	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	(11,230)	–	–	(11,230)	–	(11,230)
Appropriations to statutory reserves	–	13,352	–	–	–	13,352	(13,352)	–
Issuance of convertible bonds – equity component *(Note 23)*	–	–	–	113,395	–	113,395	–	113,395
Translation difference of foreign currency financial statements	–	–	–	–	(1,060)	(1,060)	–	(1,060)
As at 31 December 2012	**64,175**	**233,945**	**74,074**	**113,395**	**3,896**	**489,485**	**737,703**	**1,227,188**

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

Company

	Retained profits RMB'000	Share-based compensation reserve RMB'000	Convertible bonds reserve RMB'000	Total RMB'000
As at 1 January 2011	284,495	91,076	–	375,571
Profit for the year	288,872	–	–	288,872
Value of services provided under share schemes	–	38,890	–	38,890
Transfer of fair value of share options exercised to share premium	–	(6,221)	–	(6,221)
Share options lapsed	–	(3,874)	–	(3,874)
Shares vested under Restricted Share Award Scheme	–	(24,822)	–	(24,822)
Dividends paid	(325,605)	–	–	(325,605)
As at 31 December 2011	247,762	95,049	–	342,811
As at 1 January 2012	**247,762**	**95,049**	**–**	**342,811**
Loss for the year	**(25,577)**	**–**	**–**	**(25,577)**
Value of services provided under share schemes	**–**	**6,929**	**–**	**6,929**
Transfer of fair value of share options exercised to share premium	**–**	**(2,007)**	**–**	**(2,007)**
Share options lapsed	**–**	**(14,667)**	**–**	**(14,667)**
Shares vested under Restricted Share Award Scheme	**–**	**(11,230)**	**–**	**(11,230)**
Issuance of convertible bonds – equity component *(Note 23)*	**–**	**–**	**113,395**	**113,395**
As at 31 December 2012	**222,185**	**74,074**	**113,395**	**409,654**

(a) Capital reserves

Capital reserves comprised the aggregate of contribution by the shareholders of the Group and the merger reserve arose during the reorganisation in preparation for listing of the Company's shares on The Stock Exchange of Hong Kong Limited in 2004.

(b) Statutory reserve funds

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

Statutory reserve funds include Statutory Surplus Reserve and Reserve Fund.

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

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

(b) Statutory reserve funds *(Continued)*

Pursuant to applicable PRC laws and regulations, PRC Companies incorporated under the "Law of the PRC on 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.

19. Trade payables – Group

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

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

20. Other payables and accruals – Group and Company

	Group		Company	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Accrued sales and marketing expenses	**257,786**	318,695	**–**	–
Advances from customers	**87,314**	70,416	**–**	–
Wages and welfare payables	**105,293**	102,031	**–**	–
Other tax payables	**4,780**	8,277	**–**	–
Payable for property, plant and equipment	**63,949**	22,914	**–**	–
Other payables	**225,659**	140,147	**7,806**	1,860
	744,781	662,480	**7,806**	1,860

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(All amounts in RMB unless otherwise stated)

21. License fees payable – Group

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

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

	RMB'000
As at 1 January 2011	553,602
Acquisition of license rights	6,529
Payment of license fees	(64,648)
Amortisation of discount *(Note 29)*	40,389
Adjustment for exchange difference	(5,430)
As at 31 December 2011	530,442
As at 1 January 2012	**530,442**
Acquisition of license rights	**65,777**
Adjustment upon entering into Lotto supplemental license agreement *(Note 8 (a))*	**(320,192)**
Consideration payable for entering into Lotto supplemental license agreement *(Note 8 (a))*	**45,000**
Payment of license fees	**(76,413)**
Amortisation of discount *(Note 29)*	**19,035**
Adjustment for exchange difference	**14**
As at 31 December 2012	**263,663**

	2012 RMB'000	2011 RMB'000
Analysis of license fees payable:		
Non-current		
– over five years	**17,636**	310,355
– the second to fifth year	**134,882**	148,438
Current	**111,145**	71,649
	263,663	530,442

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

21. License fees payable – Group *(Continued)*

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

	2012 **RMB'000**	2011 RMB'000
Less than 1 year	**114,000**	73,822
Between 1 and 5 years	**186,453**	185,687
Over 5 years	**35,642**	733,800
	336,095	993,309

22. Borrowings – Group and Company

	Group		Company	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Current				
Bank borrowings denominated in				
– RMB	**1,285,000**	351,639	**–**	–
– HK$	**162,157**	486,420	**162,157**	486,420
	1,447,157	838,059	**162,157**	486,420
– secured	**3,000**	14,500	**–**	–
– unsecured	**1,444,157**	823,559	**162,157**	486,420
	1,447,157	838,059	**162,157**	486,420

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

The weighted average effective interest rates per annum of the borrowings were 6.80% (2011: 6.00%) for bank borrowings denominated in RMB and 2.78% (2011: 2.02%) for bank borrowings denominated in HK$ for the year ended 31 December 2012.

Bank borrowings amounting to RMB3,000,000 (2011: RMB14,500,000) were secured by the Group's land and buildings (Notes 6 and 7).

As at 31 December 2012, the Group had undrawn borrowing facilities within one year amounting to RMB58,000,000 (2011: RMB931,070,000). These facilities have been arranged to help financing of the Group's working capital.

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

Movement in borrowings is analysed as follows:

	Group RMB'000	Company RMB'000
As at 1 January 2011	312,248	272,288
Additions	2,240,053	1,071,414
Effect of change in exchange rate	(2,820)	(2,820)
Repayments	(1,711,422)	(854,462)
As at 31 December 2011	838,059	486,420
As at 1 January 2012	**838,059**	**486,420**
Additions	**1,714,472**	**324,472**
Effect of change in exchange rate	**2,654**	**2,654**
Repayments	**(1,108,028)**	**(651,389)**
As at 31 December 2012	**1,447,157**	**162,157**

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	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
– Less than 6 months	**1,429,157**	728,059	**162,157**	486,420
– Between 6 and 12 months	**18,000**	110,000	**–**	–
	1,447,157	838,059	**162,157**	486,420

23. Convertible bonds – Group and Company

On 8 February 2012, the Company issued convertible bonds (the "CB") in the aggregate principal amount of RMB750,000,000 to TPG and the GIC Investor (existing shareholders of the Company). The CB bears a minimum interest rate of 4% per annum and due on 7 February 2017 (the "Maturity Date"). The initial conversion price is HK$7.74 per ordinary share of the Company (subject to anti-dilutive adjustments).

The CB cannot be redeemed prior to maturity, unless due to events of default, upon which the holders have the right to require early redemption at 130% of the outstanding principal amount of the CB plus any unpaid interests. As at 31 December 2012, the holders have released the Company from several clauses which may create future financial constraints on the Company.

The initial fair value of the liability component and the equity conversion component was determined based on net proceeds at issuance. The fair value of the liability component was calculated by using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, was included in shareholders' equity as other reserves (Note 18).

23. Convertible bonds – Group and Company *(Continued)*

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

	Group and Company RMB'000
Face value of convertible bonds issued on 8 February 2012	750,000
Issuing expenses related to liability component	(4,309)
Net proceeds for the issuance of the convertible bonds	745,691
Allocation upon initial recognition:	
Equity component credited to the equity *(Note 18)*	113,395
Liability component at issuance	632,296
Net proceeds for the issuance of the convertible bonds	745,691
Liability component at issuance	632,296
Payment of interest	(15,000)
Accumulated interest expenses up to 31 December 2012 *(Note 29)*	46,836
Liability component at 31 December 2012	664,132
Less: Interest payable due within one year	(12,500)
Non-current portion	651,632

The face value of the CB as at 31 December 2012 is RMB750,000,000. No part of the CB was converted to ordinary shares of the Company during the year or subsequent to 31 December 2012 and before the approval date of the consolidated financial statements. The carrying value of the liability component is calculated using cash flows discounted at an initial risk adjusted market interest rate of 8.18% per annum. The carrying value of the liability component approximates its fair value as of 31 December, 2012.

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24. Deferred income tax – Group

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

	Provisions RMB'000	Share Schemes RMB'000	Unrealised profit on intra-group sales RMB'000	Fair value gains RMB'000	Accumulated tax losses RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
Deferred income tax assets								
As at 1 January 2011	32,956	14,238	73,820	–	72,980	92,547	11,319	297,860
Credited/(charged) to income statement	18,912	481	(40,655)	–	86,777	66,428	16,054	147,997
As at 31 December 2011	51,868	14,719	33,165	–	159,757	158,975	27,373	445,857
As at 1 January 2012	**51,868**	**14,719**	**33,165**	**–**	**159,757**	**158,975**	**27,373**	**445,857**
(Charged)/credited to income statement	**(15,802)**	**(12,700)**	**(28,489)**	**–**	**(64,349)**	**45,338**	**(4,904)**	**(80,906)**
As at 31 December 2012	**36,066**	**2,019**	**4,676**	**–**	**95,408**	**204,313**	**22,469**	**364,951**
Deferred income tax liabilities								
As at 1 January 2011	–	–	–	(85,429)	–	–	(79)	(85,508)
Credited to income statement	–	–	–	4,168	–	–	71	4,239
As at 31 December 2011	–	–	–	(81,261)	–	–	(8)	(81,269)
As at 1 January 2012	**–**	**–**	**–**	**(81,261)**	**–**	**–**	**(8)**	**(81,269)**
Credited/(charged) to income statement	**–**	**–**	**–**	**4,103**	**–**	**–**	**(2,152)**	**1,951**
As at 31 December 2012	**–**	**–**	**–**	**(77,158)**	**–**	**–**	**(2,160)**	**(79,318)**

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

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

	2012 RMB'000	2011 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	**239,990**	306,095
– to be recovered after more than 12 months	**124,961**	139,762
	364,951	445,857
Deferred income tax liabilities		
– to be recovered within 12 months	**(6,255)**	(4,168)
– to be recovered after more than 12 months	**(73,063)**	(77,101)
	(79,318)	(81,269)

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 RMB96,047,000 (2011: RMB13,261,000) in respect of tax losses amounting to RMB402,748,000 (2011: RMB75,498,000) that can be carried forward against future taxable income and will expire between 2013 and 2017 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 RMB36,465,000 (2011: RMB147,863,000) 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 RMB729,310,000 (2011: RMB2,957,270,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

25. Deferred income – Group

	RMB'000
As at 1 January 2011	62,324
Credited to income statement	(1,294)
As at 31 December 2011	61,030
As at 1 January 2012	**61,030**
Credited to income statement	**(1,294)**
As at 31 December 2012	**59,736**

The Group received government grant amounting to RMB64,697,000 for purchase of a land use right in the PRC in 2009. Such government grant was recorded as deferred income and would be credited to income statement over the lease period of the corresponding land use right of 50 years using straight-line method. An amount of RMB1,294,000 (2011: RMB1,294,000) has been credited to income statement during the year ended 31 December 2012.

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26. Expenses by nature

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

Note:

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

27. Other income and other gains – net

	2012 RMB'000	2011 RMB'000
Government grants	**95,790**	140,717
License fee income	**4,700**	9,084
Gain on derecognition of intangible asset and license fees payable relating to revision of the license agreement of Lotto brand *(Note 8 (a))*	**68,302**	–
Others	**–**	(6,368)
	168,792	143,433

28. Staff costs

	2012 RMB'000	2011 RMB'000
Wages and salaries	**376,883**	396,262
Contributions to retirement benefit plan *(Note c)*	**49,454**	53,316
Share options and restricted shares granted to directors and employees	**6,929**	38,890
Staff quarters and housing benefits	**18,172**	19,739
Other benefits	**282,057**	264,311
	733,495	772,518

(a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2011 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Mr. Li Ning	–	2,877	960	15	125	3,977
Mr. Zhang Zhi Yong *(ii)*	–	5,112	660	5,649	134	11,555
Mr. Chong Yi Kay *(iii)*	–	2,052	1,135	1,664	56	4,907
Ms. Wang Ya Fei	270	–	–	328	–	598
Mr. Lim Meng Ann *(iv)*	270	–	–	328	–	598
Mr. Koo Fook Sun, Louis	270	–	–	328	–	598
Mr. Chan Chung Bun, Bunny	215	–	–	328	–	543
Mr. Chu Wah Hui *(v)*	215	–	–	328	–	543
Mr. James Chun-Hsien Wei	215	–	–	328	–	543

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(All amounts in RMB unless otherwise stated)

28. Staff costs *(Continued)*

(a) Directors' and senior management's emoluments *(Continued)*

The remuneration of each director for the year ended 31 December 2012 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	–	3,454	839	17	140	4,450
Mr. Zhang Zhi Yong *(ii)*	–	3,171	–	4,221	149	7,541
Mr. Chong Yi Kay *(iii)*	–	1,293	107	1,182	108	2,690
Mr. Jin-Goon Kim	315	–	–	7	–	322
Ms. Wang Ya Fei	270	–	–	320	–	590
Mr. Lim Meng Ann *(iv)*	68	–	–	3	–	71
Mr. Koo Fook Sun, Louis	270	–	–	320	–	590
Mr. Chan Chung Bun, Bunny	250	–	–	320	–	570
Mr. Chu Wah Hui *(v)*	250	–	–	320	–	570
Mr. James Chun-Hsien Wei	250	–	–	320	–	570
Mr. Chen Yue, Scott	187	–	–	7	–	194
Mr. Su Jing Shyh, Samuel	122	–	–	7	–	129

(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. Zhang Zhi Yong ceased to be the chief executive officer of the Company with effect from 4 July 2012.

(iii) Mr. Chong Yi Kay ceased to be an executive director and the chief financial officer of the Company with effect from 1 November 2012.

(iv) Mr. Lim Meng Ann ceased to be a non-executive director of the Company with effect from 1 April 2012.

(v) Mr. Chu Wah Hui ceased to be a non-executive director of the Company with effect from 1 January 2013.

The total remuneration of senior management, excluding directors, is within the following bands:

	Number of individuals	
	2012	2011
Emoluments bands		
RMB500,001 to RMB1,000,000	1	–
RMB1,500,001 to RMB2,000,000	2	–
	3	–

28. Staff costs *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included three directors for the years ended 31 December 2012 and 2011, and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining two individuals whose emoluments were the highest in the Group for the year are as follows:

	2012 RMB'000	2011 RMB'000
Salaries and allowances	**3,846**	4,805
Other benefits	**801**	1,192
Contributions to retirement benefit scheme	**157**	124
	4,804	6,121

The emoluments fell within the following bands:

	Number of individuals	
	2012	2011
Emoluments bands		
RMB2,000,001 to RMB2,500,000	**2**	–
RMB3,000,001 to RMB3,500,000	**–**	2
	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.

29. Finance income and costs

	2012 RMB'000	2011 RMB'000
Interest income on bank balances and deposits	**7,593**	6,198
Net foreign currency exchange gain	**–**	10,981
Finance income	**7,593**	17,179
Amortisation of discount – license fees payable *(Note 21)*	**(19,035)**	(40,389)
Interest expense on bank borrowings	**(119,782)**	(49,104)
Interest expense on convertible bonds *(Note 23)*	**(46,836)**	–
Net foreign currency exchange loss	**(1,541)**	–
Others	**(21,581)**	(9,738)
Finance costs	**(208,775)**	(99,231)
Finance costs – net	**(201,182)**	(82,052)

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(All amounts in RMB unless otherwise stated)

30. Income taxes

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

Notes:

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

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

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

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

30. Income taxes *(Continued)*

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

	2012 RMB'000	2011 RMB'000
(Loss)/profit before income tax	**(1,805,024)**	547,377
Tax calculated at a tax rate of 25% (2011: 25%)	**(451,256)**	136,844
Effects of different overseas tax rates	**7,219**	9,030
Preferential tax rate on the income of certain subsidiaries	**–**	(781)
Temporary differences and tax losses for which no deferred taxation is recognised	**526,935**	13,261
Expenses not deductible for tax purposes	**51,469**	16,169
Tax credit granted to subsidiaries	**–**	(41,524)
Income not subject to tax	**(1,495)**	(12,691)
Withholding tax on dividends from subsidiaries in PRC	**17,503**	16,100
Taxation charge	**150,375**	136,408

Based on the Company's assessment at the year ended 31 December 2012, the Group expects the realisation of tax benefits from some of the tax losses incurred is not probable, and therefore did not recognise a portion of deferred income tax assets, as such the effective tax rate decreased to negative 8.3% for the year ended 31 December 2012 from 24.9% for the year ended 31 December 2011.

31. (Losses)/earnings per share

Basic

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

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

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31. (Losses)/earnings per share *(Continued)*

Diluted

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under convertible bonds, share option schemes and shares held for the Restricted Share Award Scheme. The convertible bond is assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options and shares held for the Restricted Share Award Scheme, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding share options and the unvested awarded shares. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the conversion of the convertible bonds, the exercise of the share options and the payout of the awarded shares, with the difference being adjusted in arriving at the weighted average number of shares for diluted (losses)/earnings per shares, of which details are as follows:

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

Note:

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

32. Dividends

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

Note:

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

33. Statement of cash flows

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

	2012 RMB'000	2011 RMB'000
(Loss)/profit before income tax	**(1,805,024)**	547,377
Adjustments for:		
Depreciation	**141,643**	158,562
Amortisation	**85,196**	102,741
Loss on disposal of property, plant and equipment	**5,057**	236
Gain on derecognition of intangible asset and license fees payable relating to revision of the license agreement of Lotto brand *(Note 8 (a))*	**(68,302)**	–
Impairment of intangible assets	**127,838**	–
Provision for impairment charge of trade receivables	**933,235**	10,246
Write-down of inventories to net realisable value	**399,673**	72,427
Provision for impairment charge of investment in associates	**5,610**	–
Share options and restricted shares granted to directors and employees	**6,929**	38,890
Finance costs – net	**201,182**	82,052
Amortisation of deferred income	**(1,294)**	(1,294)
Share of loss of associates	**11,508**	1,527
Operating profit before working capital changes	**43,251**	1,012,764
Increase in inventories	**(186,288)**	(399,794)
Increase in trade receivables	**(326,196)**	(491,996)
Decrease in other receivables and prepayments	**156,631**	5,347
(Decrease)/increase in trade payables	**(501,416)**	271,438
Increase in other payables and accruals	**19,172**	29,718
Cash (outflow used in)/inflow generated from operations	**(794,846)**	427,477

34. Share-based compensation

(a) Share Purchase Scheme

Alpha Talent Management Limited ("Alpha Talent") was set up in 2004 by Mr. Li Ning, 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.

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34. Share-based compensation *(Continued)*

(a) Share Purchase Scheme *(Continued)*

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

	2012		2011	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	**0.86**	**100**	0.86	638
Exercised	**0.86**	**(100)**	0.86	(538)
As at 31 December	**0.86**	**–**	0.86	100
Exercisable as at 31 December	**0.86**	**–**	0.86	100

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

	2012		2011	
Expiry date	Weighted average exercise price (per share) HK$	Share options (Thousands)	Weighted average exercise price (per share) HK$	Share options (Thousands)
5 July 2012	**0.86**	**–**	0.86	100

(b) Share Option Scheme

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

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

34. Share-based compensation *(Continued)*

(b) Share Option Scheme *(Continued)*

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

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

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

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

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

	2012		2011	
	Weighted average exercise price (per share) HK$	**Outstanding Options (thousands)**	Weighted average exercise price (per share) HK$	Outstanding options (thousands)
As at 1 January	**13.287**	**23,984**	13.360	23,324
Granted	**5.327**	**20,410**	9.896	6,699
Exercised	**8.830**	**(224)**	5.172	(2,883)
Lapsed	**12.673**	**(8,719)**	14.036	(3,156)
As at 31 December	**8.884**	**35,451**	13.287	23,984
Exercisable as at 31 December	**15.060**	**10,254**	15.683	9,614

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34. Share-based compensation *(Continued)*

(b) Share Option Scheme *(Continued)*

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

	2012		2011	
Expiry date	**Exercise price (per share) HK$**	**Share options (Thousands)**	**Exercise price (per share) HK$**	**Share options (Thousands)**
4 September 2012	**8.830**	**–**	8.830	627
20 November 2012	**9.840**	**–**	9.840	300
19 July 2013	**19.680**	**350**	19.680	350
4 July 2014	**17.220**	**1,333**	17.220	2,011
5 December 2014	**10.940**	**93**	10.940	93
31 December 2014	**5.360**	**347**	–	–
19 January 2015	**11.370**	**7,121**	11.370	9,557
1 April 2015	**13.180**	**413**	13.180	689
22 October 2015	**21.870**	**2,691**	21.870	3,960
15 July 2017	**9.896**	**3,040**	9.896	6,397
4 July 2018	**4.690**	**1,000**	–	–
31 December 2018	**5.360**	**19,063**	–	–
		35,451		23,984

The fair value of the options granted under the above scheme during the years ended 31 December 2012 and 2011 determined by using Black-Scholes valuation model were as follows:

	2012 RMB'000	2011 RMB'000
Post-IPO Option	**42,978**	19,294

Significant inputs into the model were as follows:

	2012	2011
Post-IPO Option		
Weighted average share price (HK$)	**5.33**	8.96
Weighted average exercise price (HK$)	**5.33**	9.90
Expected volatility	**53.9%**	51.4%
Expected option life (years)	**4.34**	3.97
Weighted average annual risk free interest rate	**0.2%**	1.0%
Expected dividend yield	**1.0%**	2.0%

34. Share-based compensation *(Continued)*

(b) Share Option Scheme *(Continued)*

The expected volatility is estimated based on the daily trading prices of the Company's shares since its date of listing (28 June 2004) as at the date of grant.

The fair value of Post-IPO Option is charged to the consolidated income statement over the vesting period of the option. The amount charged during the year ended 31 December 2012 was RMB420,000 (2011: RMB12,943,000).

(c) Restricted Share Award Scheme

The Company adopted Restricted Share Award Scheme on 14 July 2006 with a duration of 10 years commencing from the adoption date. The objective of Restricted Share Award Scheme is to encourage and retain selected participants which include directors, employees, officers, agents and consultants of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals.

The Group has set up the Li Ning Company Limited Restricted Share Award Scheme Trust ("Restricted Share Trust") to administer and hold the Company's shares before they are vested and transferred to selected participants. As the financial and operational policies of the Restricted Share Trust are governed by the Group, and Group benefits from the Restricted Share Trust's activities, the Restricted Share Trust is consolidated in the Group's financial statements as a special purpose entity.

Upon granting of shares to selected participants ("Restricted Shares"), the Restricted Share Trust purchases the Company's shares awarded from the open market with funds provided by the Company by way of contributions. Restricted Shares vest gradually after selected participants complete a period of service in the Group of 12 to 36 months from the date of grant. The vested shares are transferred to selected participants at nil consideration. Dividends on Restricted Shares are used to purchase additional shares and allocated to selected participants on a pro rata basis.

The maximum number of Restricted Shares shall not exceed 20,556,000 shares, being 2% of the Company's issued share capital as at the adoption date of 14 July 2006. For each selected participant, the maximum number of Restricted Shares granted in aggregate shall not exceed 10,278,000 shares, being 1% of the Company's issued share capital as at the adoption date of 14 July 2006.

The fair value of Restricted Shares awarded was based on the market value of the Company's shares at the grant date.

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34. Share-based compensation *(Continued)*

(c) Restricted Share Award Scheme *(Continued)*

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

	2012		2011	
	Weighted average fair value (per share) HK$	**Number of Restricted Shares granted (Thousands)**	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)
As at 1 January	**17.18**	**3,539**	21.97	3,840
Granted	**–**	**–**	8.96	1,647
Vested	**18.01**	**(835)**	20.26	(1,330)
Lapsed	**14.35**	**(930)**	18.39	(618)
As at 31 December	**18.27**	**1,774**	17.18	3,539

The fair value of Restricted Shares charged to the consolidated income statement was RMB6,509,000 during the year ended 31 December 2012 (2011: RMB25,947,000).

35. Commitments

(a) Capital commitments

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

	Group		**Company**	
	2012 RMB'000	2011 RMB'000	**2012 RMB'000**	2011 RMB'000
Contracted for but not paid				
– property, plant and equipment	**42,506**	94,729	**–**	–

There is no capital expenditure authorised but not contracted for by the Group and the Company as at 31 December 2012 and 2011.

35. Commitments *(Continued)*

(b) Operating lease commitments – where any group companies are the lessee

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

	2012 RMB'000	2011 RMB'000
Not later than 1 year	**255,514**	340,652
Later than 1 year and not later than 5 years	**510,345**	581,055
Later than 5 years	**15,354**	196,801
	781,213	1,118,508

The Company does not have any operating lease commitments as at 31 December 2012 and 2011.

36. 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:

	2012 RMB'000	2011 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd., all being controlled by a key management personnel of a non-wholly owned subsidiary	**3,810**	4,859
Digital Li-Ning, being an associate of the Group	**6,451**	1,371
	10,261	6,230

(b) Purchases of goods from:

	2012 RMB'000	2011 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	**18,105**	18,996

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(All amounts in RMB unless otherwise stated)

36. Related-party transactions *(Continued)*

(c) Purchases of services from:

	2012 **RMB'000**	2011 RMB'000
Subsidiary of Viva China, being controlled by a substantial shareholder of the Company	**200**	1,600

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

(d) Key management compensation

Details of compensation paid or payable to key management of the Group are as follows:

	2012 **RMB'000**	2011 RMB'000
Salaries and other benefits	**16,773**	17,224
Contribution to retirement benefit scheme	**463**	315
Employee share schemes for value of services provided	**4,865**	6,323
	22,101	23,862

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

	2012 **RMB'000**	2011 RMB'000
Receivables from related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	**–**	179
Digital Li-Ning	**3,105**	1,555
	3,105	1,734
Payables to related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	**5,153**	1,728
Subsidiary of Viva China	**–**	650
	5,153	2,378

37. Subsequent events

(a) Equity Funding Raising Plan

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

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

(b) Amendment to CB

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

(c) Renewed Master Agreement

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

GLOSSARY

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

"Alpha Talent"	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company" or "Li Ning Company"	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Group" or " Li Ning Group"	the Company and its subsidiaries
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Post-IPO Share Option Scheme"	the post-IPO share option scheme of the Company adopted on 5 June 2004 and as amended on 15 May 2009 and 11 October 2012
"PRC" or "China"	the People's Republic of China
"Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006 and as amended on 30 April 2009 and 4 July 2012
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Share Purchase Scheme"	the share purchase scheme set up by Mr. Li Ning and adopted by Alpha Talent on 5 June 2004
"Shareholders"	shareholders of the Company
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

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