2016
Annual Report

LI-NING

LI NING COMPANY LIMITED
李寧有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 2331)

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.

In addition to its core LI-NING brand, the Group also manufactures, develops, markets, distributes and/or sells various sports products which are self-owned by or licensed to the Group, including Double Happiness (table tennis), AIGLE (outdoor sports), Danskin (fashionable fitness products for dance and yoga), Kason (badminton) and Lotto (sports fashion) which are operated through joint venture/associate with third parties of the Group.

Contents


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Highlights of the Year 2016

MARCH

RUNNER CARNIVAL IN GUANGZHOU LI-NING 10K RUNNING LEAGUE OF 2016

The Youyue Li-Ning 10K Running League of 2016 (hereinafter known as the "10K") kick-off in Haixinsha Park, Tianhe District, Guangzhou and the runners were off with the pistol.

As the "Best Road Race Tournament in China", Li-Ning 10K has been striving to create quality and professional racing experience. It offered professional solutions on running, which integrated products, services and race experience, to runners.

Meanwhile, the 2016 Li-Ning 10K Online League was also put into operation. Even more running fans might opt to experience the 10K fun through their own track.

LAUNCH OF SUPER LIGHT 13TH ONE-PIECE KNIT RUNNING SHOES

JULY

MR. LI NING PARTICIPATED IN T-MALL LIVE CHANNEL

MAKE YOUR OWN WAY! 2016 WADE CHINA TOUR

Fans' passions were lighted up with the presence of Dwyane Wade at Raffles City. Having received the Way of Wade catalogue prepared by the loyal fans, in the countdown of crowd, Wade pressed the Roman V-shaped device on the stage and declared the official launch of Li-Ning's Way of Wade 5 with his game brand shoes presented on site.

AUGUST

NEVER GIVE UP: LI NING'S EXCLUSIVE INTERVIEW AT "KE FAN'S LISTENING"

"Unlike other companies, Li Ning Company has its unique history comprising my personal experience on sport training, every competition that I had participated in, and also how I comprehended the connotation and spirit of sports. I wish to carry forward the DNA of sport as a heritage through corporate and commercial acts. I wish to promote the spirit of sport through our operations. That's why I founded the Company and named it so," Li Ning mentioned in the exclusive interview.

LI NING 26TH ANNIVERSARY CARNIVAL "'LI' KEEPS US TOGETHER!"

OCTOBER

PARTNERING WITH DANSKIN, THE PROFESSIONAL DANCE AND SPORT BRAND OF THE U.S.A., TO EXPLORE THE FASHIONABLE SPORT SEGMENT AND CREATE BRAND NEW EXPERIENCES

Li Ning Company announced to partner with Danskin, the professional dance and sport brand of the U.S.A. of 134 years' history, to launch in phases fashionable fitness products of professional dance and yoga catering for the Chinese women consumer groups.

DANSKIN

NOVEMBER

LI NING BREAKS THROUGH: FROM COMMODITIZED TO "SMART WITH QUALITY"- INTERVIEW BY ECONOMICS OBSERVATORY JOURNAL

Aiming to stimulate people's aspirations and efforts to make breakthrough by means of sports, we endeavor to push forward the evolution of professional sport products from commoditized product to " Smart with Quality" product". We change our life-styles with sport and seek further breakthroughs. The Company will also introduce the core concepts, such as "Dreams Come True", "Consumer-oriented" and "Breakthroughs", to our efforts of developing into the world's leading sport product company.

Corporate Information

BOARD OF DIRECTORS

Executive Director

Mr. LI Ning *(Executive Chairman and Interim Chief Executive Officer)*

Non-executive Directors

Mr. CHEN Yue, Scott
Mr. WU, Jesse Jen-Wei

Independent non-executive Directors

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

EXECUTIVE COMMITTEE

Mr. LI Ning *(Committee Chairman)*
Mr. CHEN Yue, Scott
Mr. WU, Jesse Jen-Wei

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Ms. WANG Ya Fei *(Committee Chairperson)*
Mr. CHEN Yue, Scott
Dr. CHAN Chung Bun, Bunny, GBS, JP

NOMINATION COMMITTEE

Mr. SU Jing Shyh, Samuel *(Committee Chairman)*
Mr. LI Ning
Dr. CHAN Chung Bun, Bunny, GBS, JP

AUTHORISED REPRESENTATIVES

Mr. LI Ning
Mr. CHEN Yue, Scott

COMPANY SECRETARY

Ms. TAI Kar Lei

REGISTERED OFFICE

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suites 1, 7-15, L45
Office Tower, Langham Place
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
Troutman Sanders

PRC law
All Bright Law Offices

PRINCIPAL BANKERS

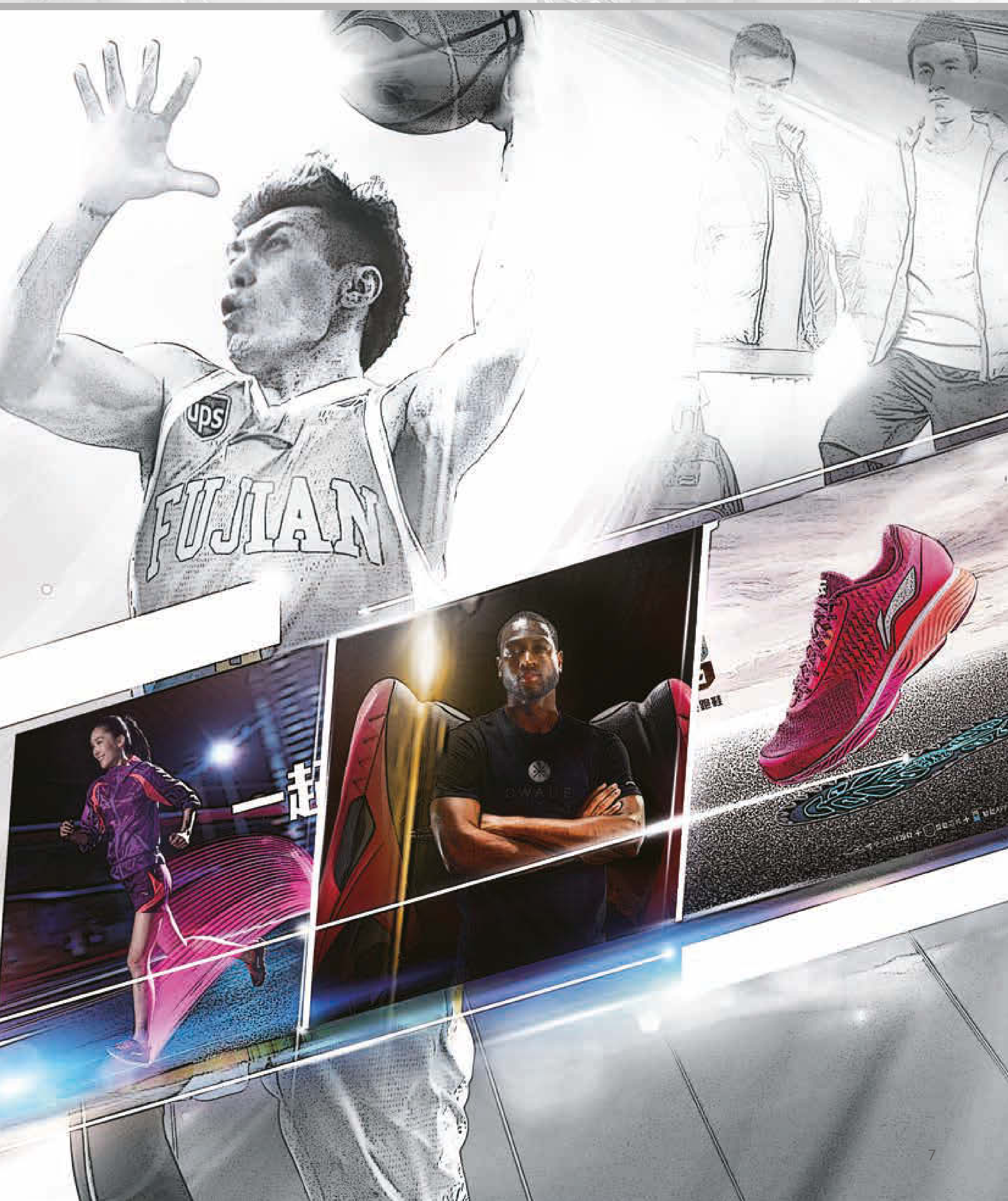
Hong Kong
Hang Seng Bank Limited
DBS Bank Ltd., Hong Kong Branch

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

Five-Year Financial Highlights

Unit: RMB'000

	2016	2015	2014	2013	2012
Operation results:					
Turnover	8,015,293	7,089,495	6,047,195	5,217,957	6,213,586
Operating profit/(loss)	385,805	157,069	(643,062)	(311,245)	(1,739,385)
Profit/(Loss) before taxation	287,946	30,814	(777,888)	(424,084)	(1,881,024)
Profit/(Loss) attributable to equity holders	643,254	14,309	(781,481)	(391,540)	(1,979,114)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	713,147	393,953	(456,221)	(99,496)	(1,473,441)
Assets and liabilities:					
Total non-current assets	2,130,054	1,413,942	2,077,087	2,055,201	2,114,048
Total current assets	4,650,440	5,483,516	3,962,719	3,961,650	3,905,524
Total current liabilities	2,673,915	2,471,786	2,679,141	2,017,723	3,264,127
Net current assets	1,976,525	3,011,730	1,283,578	1,943,927	641,397
Total assets	6,780,494	6,897,458	6,039,806	6,016,851	6,019,572
Total assets less current liabilities	4,106,579	4,425,672	3,360,665	3,999,128	2,755,445
Capital and reserves attributable to equity holders	3,994,599	3,179,903	1,951,858	2,684,230	1,613,597
Key financial indicators:					
Gross profit margin	46.2%	45.0%	44.9%	45.2%	37.7%
Margin of profit/(loss) attributable to equity holders	8.0%	0.2%	(12.9%)	(7.5%)	(31.9%)
EBITDA ratio	8.9%	5.6%	(7.5%)	(1.9%)	(23.7%)
Earnings/(losses) per share					
– basic (RMB cents)	29.03	0.66	(49.97)	(26.91)	(153.14)
– diluted (RMB cents)	28.95	0.66	(49.97)	(26.91)	(153.14)
Dividend per share (RMB cents)	–	–	–	–	–
Return on equity attributable to equity holders	17.9%	0.6%	(33.7%)	(18.2%)	(77.8%)
Net tangible assets per share (RMB cents)	182.47	162.59	94.24	157.86	97.40
Debt-to-Equity ratio	69.7%	109.7%	198.3%	116.4%	260.7%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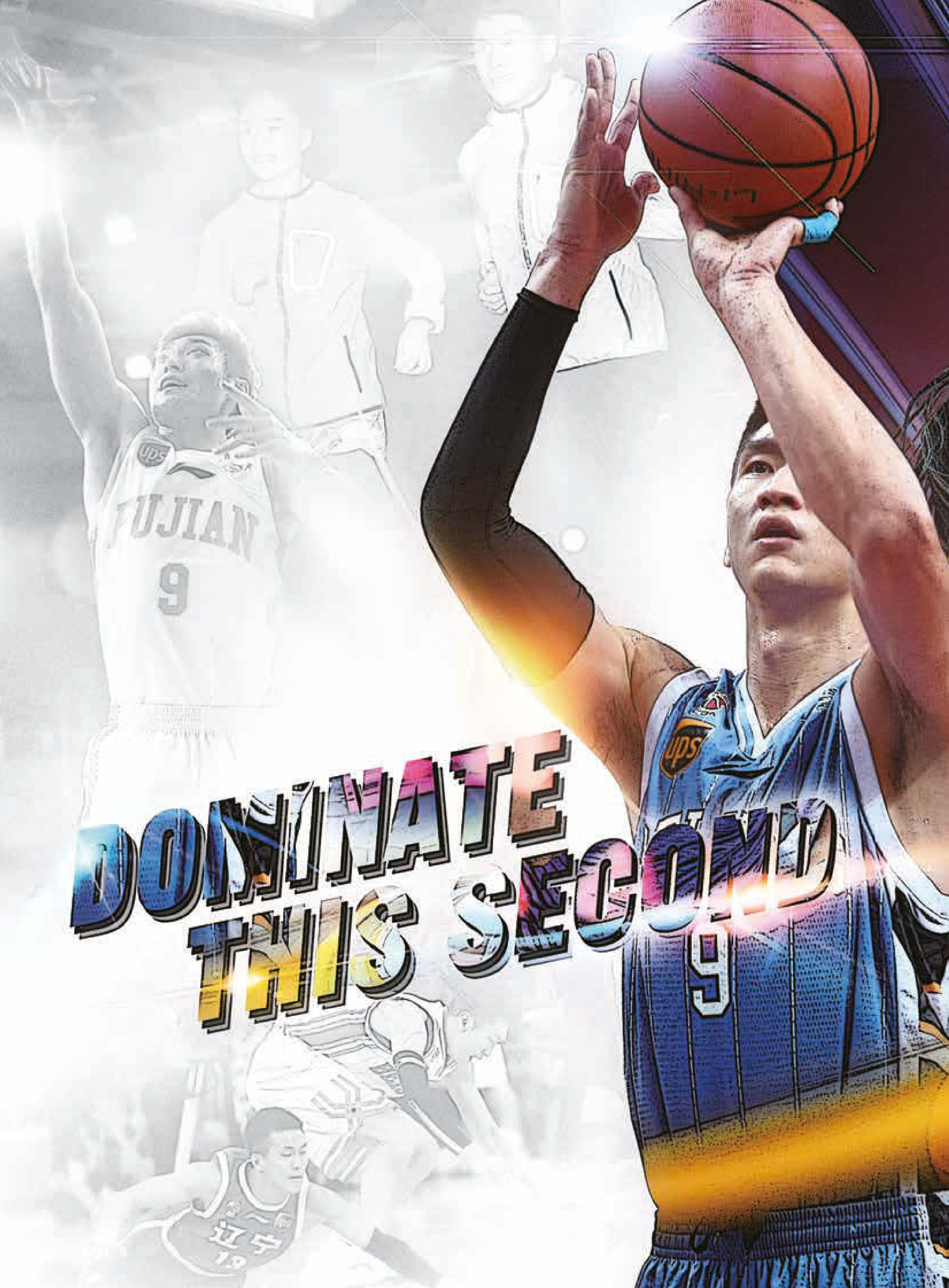
SPORTSMANSHIP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Chairman's Statement

Dear Shareholders,

In 2016, following the turnaround, the Company further optimized various indicators by steady implementation of the development strategies and launch of the related measures, resulting in various improvements such as finance, operations and brand influence. During 2016, revenue of the Group continued its steady growth while the profit attributable to equity holders of the Company was increased to RMB643 million, including the net gain from the disposal of 10% equity interest in Double Happiness of RMB313 million. Improved profitability reflected that the Company has restored its right track of healthy growth. LI-NING brand, which manifests our brand's DNA – tenacity derived from sports, has demonstrated the brand-new vibrancy and vivacity in the age of the Internet.

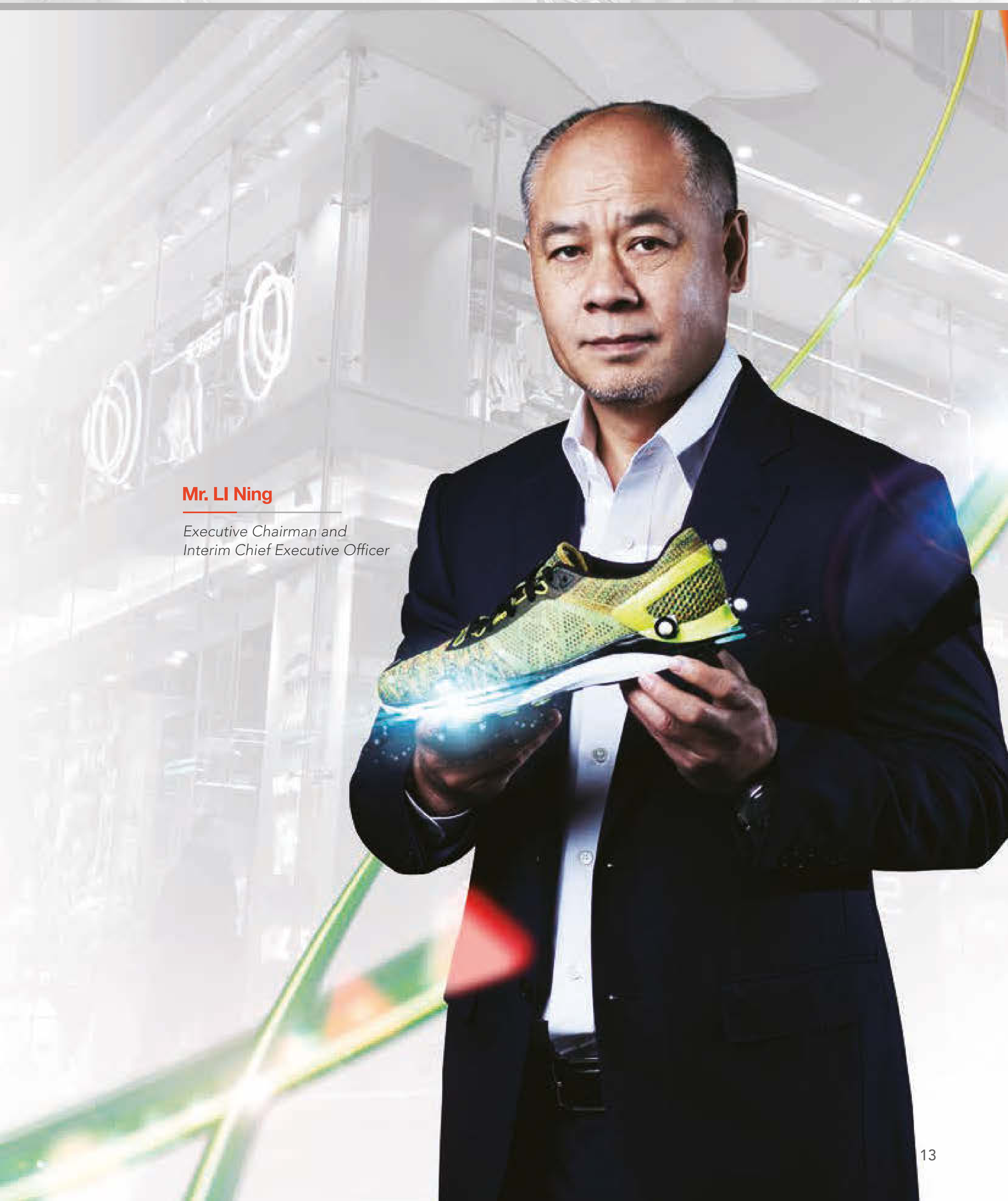
Amidst the changes in lifestyle of consumers and their spending habits, the Company focused on the creation of experiences as its key strategy of development. During 2016, the Company continued to put emphasis on product features and functions catering to the actual demands of consumers, so as to create LI-NING brand's value through experiences, including product experience, shopping experience and sports experience. The Company strived to incorporate the brand's value in experience into retail channels and daily operations, and further segmentize the services according to consumer demands. Meanwhile, we captured the consumer preference more rapidly and precisely with the support of big-data analysis.

RESTORE THE RIGHT TRACK OF HEALTHY DEVELOPMENT AND ACHIEVED PROFIT GROWTH TARGET

In 2016, with the commitment and efforts of all staff, various operation indicators have been improved significantly. During the year, revenue of the Group grew by 13%, and operating cash flow further increased to RMB995 million. Meanwhile, working capital rationalized with cash conversion cycle shortened from 76 days for the year 2015 to 59 days for the current year. The distributors have resumed confidence gradually. In terms of tag price, trade fair orders for LI-NING brand products from franchised distributors registered a year-on-year growth for thirteen consecutive quarters.

The enhanced results and improved operation indicators of the Company were attributable to the fact that we have been striving to develop and improve the overall retail capability to enhance efficiency of sales channels. The overall retail sell-through grew low-teens for two consecutive years, and the channel inventory turnover further improved. Sell-out ratio of new products continued to increase. The same-store sales for overall platform, including online and offline, accelerated its growth. For the whole year of 2016, same-store sales growth of LI-NING brand products for the overall platform including e-commerce (taking into account the POS that have been operating since the beginning of the first quarter last year) increased by low-teens on a year-on-year basis. In terms of channels, retails (direct operation) and wholesale (franchisee) channels increased by mid-single and low single-digits on a year-on-year basis while e-commerce virtual store business recorded a mid-eighties growth on a year-on-year basis.

In terms of online and offline channels, we formulated more compatible development strategies based on various features of channels. To cater to the changes in consumption patterns, e-commerce business continued its robust development trend recently with an approximate 90% growth of revenue year-on-year in 2016. Apart from responding to young consumers' purchase and aesthetic needs, we introduced additional trendy and fashionable elements and hot-gossips to position the products towards the consumer preference more precisely with the support of big-data analysis. The improvement of offline business was attributed to the focused efforts of the Company in establishing the retail operation-supported platform with an aim to enhance the store sales efficiency. On one hand, we determined the profit models according to store categories through the establishment of various store categories featuring different product categories (including full-categories stores, basketball stores, running and training stores and sports casual stores). On the other hand, we strived to enhance consumption sports experience and store image, employed more professional sports advisory personnel for retail outlets and continued to improve the staff training system so as to enhance shopping experience of customers.



Mr. LI Ning

Executive Chairman and
Interim Chief Executive Officer

CREATE LI-NING BRAND VALUE THROUGH EXPERIENCE

During 2016, we offered more comprehensive user experience to consumers and sports population group, highlighting LI-NING brand value through experience, which continued to be the focus of our efforts. During the year, we remained steadfast on product development, retail platform and sports experience. Meanwhile, we pushed forward the digitization strategy and grasped the big data with an aim to develop it into the information and trend analysis department.

Product experience

Product is the essence of sports brand. During the year, continuing to put the concept of "Develop the profession into a more professional one, give lifestyle more mix-and-match" into practice, we embraced the heritage of sports' DNA among our brand and upgraded the sports performance of products. Meanwhile, we captured and introduced fashionable elements into the product design and launched a series of products recognized by consumers.

Regarding running products, we developed the product matrix of LI-NING's running shoes catering to the differentiated sports demands of runners. In respect of smart products, we incorporated smart technology into the proprietary technology platform. Meanwhile, our brand design team successfully launched the 2016 versions of "Rough Rabbit" (赤兔) and "Furious Rider" (烈駿). The success of innovative running shoes highlighted the competitive edges of the Group in R&D and marketing of smart products as well as the consumer trust and recognition of our brand. In respect of non-smart products, the technology platforms of "Super Light 13th", "LI-NING Cloud III" running shoes and "LI-NING Arc" continued to develop during 2016. With the introduction of fashioned designs and materials, their sales performance was encouraging. We established the running category specialty shop within the regions of group running activities. The first specialty shop of LI-NING running products was opened in Shanghai, integrating professional equipment and tests and sports and social network, aiming to develop into a new landmark for runners in Shanghai.

In respect of basketball products, we continued to explore room for development of casual wear category business while maintaining our professionalism. In terms of promotion, on one hand, the Group expanded products and increased product exposure through various means such as sponsorship of tournaments. On the other hand, we launched featured game apparel, fan-culture related apparel and others according to tournament schedules, which received positive consumer feedback.

Shopping experience

In order to fulfil consumer demands more precisely, we focused on the spending habits of fans of various sports and different customer groups, developed room for interactive experience by strategically shaping the image of new and correlated channels, implemented the display guidelines flexibly with highlighted theme so as to offer a brand-new shopping experience.

During the year, offline channels continued to expand. As of the end of 2016, the number of POS increased by 307 to a total of 6,440. Based on the regional actual sports demand, and taking into account the various classes of cities and their commercial zoning, we determined the featured products category of a particular store and implemented product differentiation planning, research and development and assortment. Meanwhile, we optimized and upgraded the store image according to store categories, and pushed forward the establishment of comprehensive experience stores in major cities. In order to provide consumers with better shopping experience, we strived to refine staff training mechanism, enhanced professionalism of staff and employed additional professional sport talents for the retail channels, thereby providing consumers at stores with our professional opinions and recommendations in relation to sports.

With the support of big-data analysis, we developed the ability of using online channels in creating business opportunities by making use of data application and interactions. To continue to consolidate the online advantages of the Company, we put emphasis on launching flexible and diverse promotional campaigns aligned with our featured product releases and the activities of various e-commerce platforms to improve user viscosity. Meanwhile, we will also continue to develop the omni-channel system platform to foster quicker and more convenient consumption experience for customers by leveraging the highly effective circulation of our products.

Sports experience

The brand's DNA – tenacity derived from sports is our core value. To provide consumers with unique sports experience is one of the focuses of value creation in experience. During the year, we continued to promote Running Corners in Flagship Stores. Up to now, various iRun Clubs of LI-NING have been opened in Beijing, Shanghai, Chengdu, Changsha and other cities to offer experience activities, such as professional courses, physical training, meet-ups of running groups, to tens of thousands of runners. In addition, we will continue to put a lot of efforts into expanding the scale of LI-NING's special sports experience activities and competitions, such as LI-NING 10K Road Racing League, in which we will draw runners for online purchase of our products through online marketing activities to generate sales. Also, we will continue the sponsorship of various major tournaments within China and overseas, such as CBA, CUBA, Sudirman Cup and BWF World Championships, to nurture and enhance users' interests in viewing the tournaments and enrich their experiences with abundant sports culture.

OUTLOOK

Pursuant to the "Certain Opinion on the Acceleration of the Development of the Sports Industry and the Stimulation of Sports-related Consumption" (關於加快發展體育發展產業促進體育消費的若干意見) announced in 2014 by the State Council, the market size of China's sports industry shall achieve at least a threefold growth to RMB5 trillion in 2025. In 2015, the market size of the sports industry in China accounted for 1.9% of the gross domestic product (GDP) growth of China. It is expected to grow to more than 3% in 2025, which is level with that of the U.S.A.

Following the promulgation of the new policy, unprecedented favorable opportunities for business development are brought by the promotion of nationwide fitness. As a national strategy, promotion of nationwide fitness should particularly be pushed forward at the forefront of the reform and renovation, playing the key role of unleashing the growth potential of sports industry, hosting the strategic promotion of sports culture and driver of a healthy China. During the development of and planning for the public service system to be designed for nationwide fitness, we should strive to increase the awareness of fitness and health at the retail end and the platform level. On one hand, the smart design, layout, transformation and upgrade of the fitness training spots are required to be improved. On the other hand, the establishment of a platform for common sharing and exchange of the fitness training population is necessary to accommodate the changes in social habits and lead the fashionable trend of scientific fitness training.

In order to capture the opportunities arising from the promotion of the sports industry in China, in 2017, we will continue to strengthen and improve the following business focuses:

– Maintaining a healthy and sustainable profit growth of the Company. We will continue to optimize the various key segments of the retail business model, including the modes of segmentation and correlation of products and channels, aiming to achieve their close integration and further drive store profitability;

– Developing LI-NING brand value through experience among various key business segments. It is a fashionable trend for the consumer preference to more incline to brands. We will provide featured user experiences to develop and enhance the brand value and influence, thereby driving the long-term development of the Company;

– We will, relying on big data analysis, precisely grasp the spending habits and needs of consumer groups to guide the business and operation of the Company toward the 'precise + rapid' dimension;

– In response to the emergence of multi-brand development strategy, we will exercise reasonable and prudent use of resources to invest in the sports category market with business opportunities, including Danskin brand and kidswear. As regards to the fine-tuned "" label business, we will develop its sales network based on the directions and findings from past experiences of fine tuning the business.

With the improvement of all operating indicators in 2016, our reform focusing on retail business model has been demonstrated as effective, and the development of our business, finance and brands is underway in a positive manner. We will continue to implement and push forward the implementation of the retail business model, and further move on the path of creating values for LI-NING brand. As the founder and operator of the Company, I always highly regard the interests of investors, and cherish their care of LI-NING brand and unremitting supports to the Company. I also wish to express my heartfelt thanks to our dedicated and industrious employees. The management and I will spare no efforts to steer the Company forward towards further development in the future, forging a LI-NING brand full of vivacity and creativity in a new era. "Anything is Possible!"

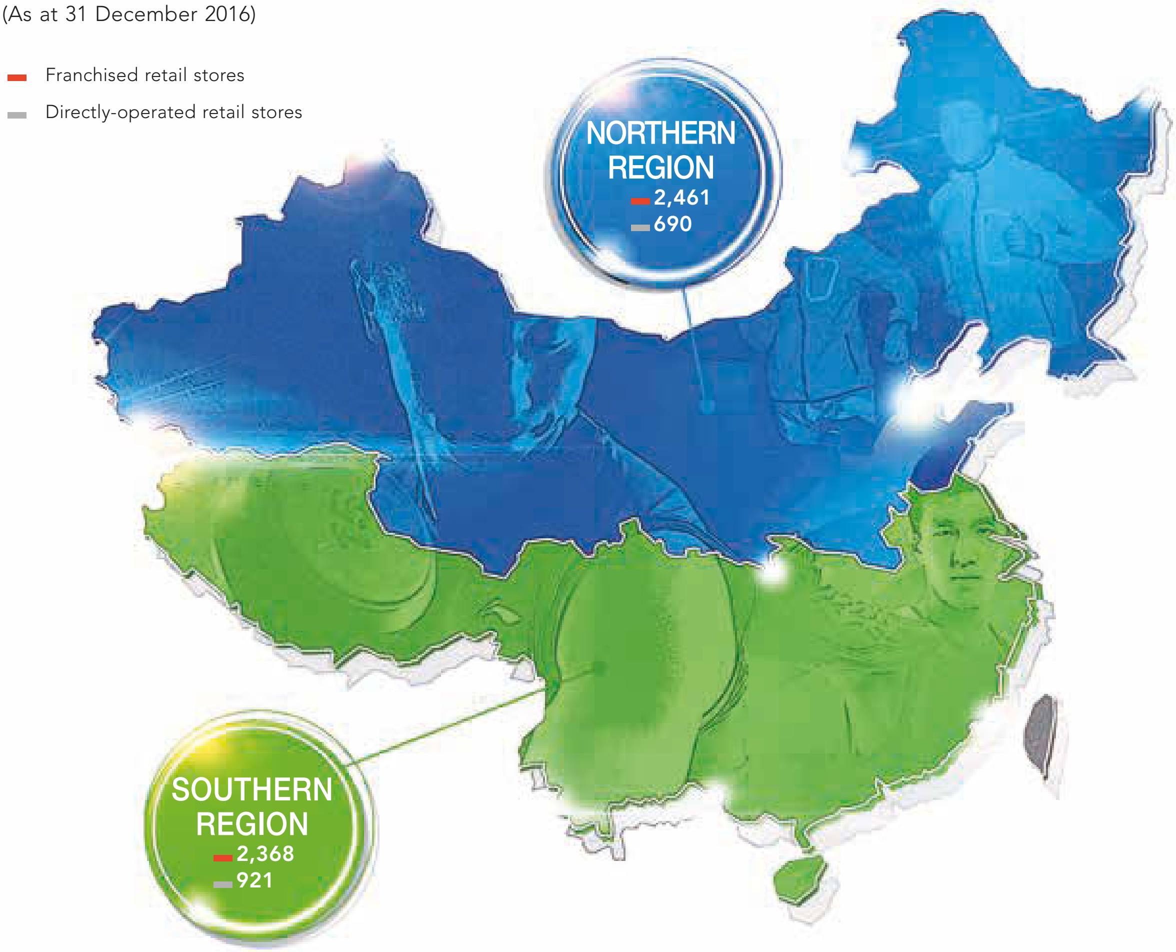
Li Ning
Executive Chairman and Interim Chief Executive Officer

Hong Kong, 22 March 2017

Management Discussion and Analysis

NATIONWIDE DISTRIBUTION OF FRANCHISED AND RETAIL POS

(As at 31 December 2016)



	Franchised	Directly-operated retail	Total
Northern region (Note 1)	2,461	690	3,151
Southern region (Note 2)	2,368	921	3,289
Total	**4,829**	**1,611**	**6,440**

Notes:

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

FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the year ended 31 December 2016 are set out below:

	Year ended 31 December 2016	2015	Change (%)
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue *(Note 1)*	**8,015,293**	7,089,495	**13.1**
Gross profit	**3,705,228**	3,192,659	**16.1**
Operating profit	**385,805**	157,069	**145.6**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 2)*	**713,147**	393,953	**81.0**
Profit attributable to equity holders *(Note 3)*	**643,254**	14,309	**4395.5**
Basic earnings per share *(RMB cents) (Note 4)*	**29.03**	0.66	**4298.5**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**46.2**	45.0	
Operating profit *(%)*	**4.8**	2.2	
Effective tax rate *(%)*	**11.3**	239.4	
Margin of profit attributable to equity holders *(%)*	**8.0**	0.2	
Return on equity attributable to equity holders *(%)*	**17.9**	0.6	
Expenses to revenue ratios			
Staff costs *(%)*	**9.7**	9.9	
Advertising and marketing expenses *(%)*	**12.3**	14.3	
Research and product development expenses *(%)*	**1.6**	1.9	

	31 December 2016	31 December 2015
Balance sheet items		
(All amounts in RMB thousands unless otherwise stated)		
Total assets *(Note 5)*	**6,780,494**	6,897,458
Capital and reserves attributable to equity holders *(Note 6)*	**3,994,599**	3,179,903
Key financial ratios		
Asset efficiency		
Average inventory turnover *(days) (Note 7)*	**82**	100
Average trade receivables turnover *(days) (Note 8)*	**64**	69
Average trade payables turnover *(days) (Note 9)*	**87**	93
Asset ratios		
Debt-to-equity ratio *(%) (Note10)*	**69.7**	109.7
Interest-bearing debt-to-equity ratio *(%) (Note 11)*	**19.2**	40.5
Net asset value per share *(RMB cents)*	**200.56**	180.91

Notes:

1. Including revenue for the period from 1 January to 30 September 2016: RMB5,486,910,000.
2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of profit/(loss) for the year from continuing operations, income tax expense, finance expenses – net, depreciation on property, plant and equipment, and amortisation of land use rights and intangible assets.
3. Including profit attributable to equity holders for the period from 1 January to 30 September 2016: RMB211,250,000.
4. The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year, divided by the weighted average number of shares in issue less ordinary shares held for Restricted Share Award Scheme.
5. Total assets at 30 September 2016: RMB6,832,110,000.
6. Capital and reserves attributable to equity holders at 30 September 2016: RMB3,580,802,000.
7. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year (excluding Double Happiness), divided by cost of sales and multiplied by the total number of days in the year.
8. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, (excluding Double Happiness) divided by revenue and multiplied by the total number of days in the year.
9. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, (excluding Double Happiness) divided by total purchases and multiplied by the total number of days in the year.
10. The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.
11. The calculation of interest-bearing debt-to-equity ratio is based on total interest-bearing borrowings and convertible bonds divided by 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 2016 amounted to RMB8,015,293,000, representing an increase of 13.1% as compared to that of 2015.

Revenue breakdown by brand and product category

	Year ended 31 December				
	2016		2015		
	RMB'000	**% of total revenue**	*RMB'000*	% of total revenue	**Revenue change (%)**
LI-NING brand					
Footwear	**3,947,170**	**49.3**	3,411,465	48.1	**15.7**
Apparel	**3,514,339**	**43.8**	3,118,303	44.0	**12.7**
Equipment/accessories	**463,930**	**5.8**	442,126	6.2	**4.9**
Total	**7,925,439**	**98.9**	6,971,894	98.3	**13.7**
Other brands*					
Total	**89,854**	**1.1**	117,601	1.7	**-23.6**
Total	**8,015,293**	**100.0**	7,089,495	100.0	**13.1**

* *Including Lotto, Kason and Aigle.*

The Group's core brand, LI-NING brand, recorded revenue of RMB7,925,439,000, which accounted for 98.9% of the Group's total revenue, representing a year-on-year increase of 13.7%. The business of the Group has entered into a phase of steady growth primarily due to the following factors: (a) other than the badminton category, all the other key categories of the Company achieved satisfactory results, particularly for running, basketball and cross-training products which showed significant sales growth. Although the revenue from badminton category declined as a result of a tightening market, the impact thereof on the Group's overall performance was not material. Following the recognition of the Company's product categories in the market and distributors' confidence were both enhanced, the revenue from sales to franchised distributors recorded a year-on-year increase; (b) the Company made continuous efforts in developing mobile internet services, fostering rapid development of e-commerce channel with fast sales growth recorded for the second consecutive year; and (c) same-store sales of self-operated points of sales ("POS") also registered slight growth. All of the above factors have contributed to the Group's steady growth in revenue.

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

	Year ended 31 December		
	2016	2015	
	% of revenue of LI-NING brand	% of revenue of LI-NING brand	Change (%)
LI-NING brand			
PRC market			
Sales to franchised distributors	**51.2**	55.4	**(4.2)**
Sales from direct operation	**31.9**	33.8	**(1.9)**
Sales from e-commerce channel	**14.3**	8.6	**5.7**
International markets	**2.6**	2.2	**0.4**
Total	**100.0**	100.0	

During the year, the boom of e-commerce in China and the Group's continuous expansion of e-commerce channel contributed to the substantial increase in the weighting of the total revenue of sales from e-commerce channel.

Revenue breakdown of LI-NING brand by geographical location

		Year ended 31 December				
		2016		2015		
	Note	***RMB'000***	**% of revenue of LI-NING brand**	*RMB'000*	% of revenue of LI-NING brand	**Revenue change (%)**
LI-NING brand						
PRC market						
Northern region	*2*	**3,889,212**	**49.1**	3,557,500	51.0	**9.3**
Southern region	*3*	**3,829,723**	**48.3**	3,262,950	46.8	**17.4**
International markets		**206,504**	**2.6**	151,444	2.2	**36.4**
Total		**7,925,439**	**100.0**	6,971,894	100.0	**13.7**

Note:

1. In 2016, the Group restructured and adjusted its sales system and related organizational structure to re-classify the original geographical locations into two sub-regions, namely the Northern region and Southern region of the PRC. The purpose of this was to further facilitate the transformation into a retail business model, which will enhance the product operation and production efficiency, as well as the quality and profitability of single-store operation. Comparative figures have also been restated for consistent presentation purpose.
2. The Northern region includes Beijing, Tianjin, Shanxi, Shandong, Hebei, Inner Mongolia, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Gansu, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region and Qinghai.
3. The Southern region includes Guangdong, Guangxi, Fujian, Hainan, Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing, Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei and Anhui.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LI-NING

Cost of Sales and Gross Profit

For the year ended 31 December 2016, overall cost of sales of the Group amounted to RMB4,310,065,000 (2015: RMB3,896,836,000), and overall gross profit margin was 46.2% (2015: 45.0%). Gross profit margin for this year increased mainly due to an improved tag-cost-ratio and the increase in the proportion of both sales of new products with higher gross profit margin and sales from e-commerce channel.

Cost of sales of LI-NING brand amounted to RMB4,257,717,000 (2015: RMB3,827,544,000), with gross profit margin of 46.3% (2015: 45.1%). During the year, the tag-cost-ratio was improved as the Company exercised effective control on procurement costs. Meanwhile, the structure of the sales of new and old retail and wholesale products was improved. The significant growth in e-commerce services also had positive effect on the gross profit margin. However, although this year the inventory provision was reversed accordingly with the clearance of obsolete inventory as in the previous year, the amount reversed was apparently less than that of last year, resulting that certain positive impacts were offset. Taking into account all the above factors, LI-NING brand's gross profit margin still represented a year-on-year increase of 1.2 percentage points in the year.

Distribution Expenses

For the year ended 31 December 2016, the Group's overall distribution expenses amounted to RMB2,969,341,000 (2015: RMB2,720,361,000), accounting for 37.0% (2015: 38.4%) of the Group's total revenue. The increase of distribution expenses are mainly due to the increase of variable expenses as a result of revenue increase.

Distribution expenses of LI-NING brand amounted to RMB2,961,481,000 (2015: RMB2,710,390,000), accounting for 37.4% (2015: 38.9%) of LI-NING brand's revenue. As the Group invested its resources mainly in channel expansion and users' shopping experience, the number of self-operated POS increased year-on-year, leading to a corresponding increase in staff costs of the POS and the corresponding depreciation on the asset investment. E-commerce channel developed rapidly, leading to a significant increase in the relevant commission fees. In addition, the sales growth resulted in the increase in logistics expenses. However, at the same time, the Group placed stringent control on the relevant advertising and marketing expenses. Based on market condition, the Group sharpened its focus on reducing marketing investment in the badminton category while investment in other categories remained steady. Taking into account all the above factors, although LI-NING brand's distribution expenses increased year-on-year, its percentage to revenue decreased.

Administrative Expenses

For the year ended 31 December 2016, the Group's overall administrative expenses amounted to RMB424,129,000 (2015: RMB346,149,000), accounting for 5.3% (2015: 4.9%) of the Group's total revenue.

Administrative expenses of LI-NING brand amounted to RMB418,856,000 (2015: RMB337,063,000), accounting for 5.3% of LI-NING brand's revenue, or 0.5 percentage points higher than the 4.8% of 2015. These expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses. The increase in administrative expenses during the year was mainly due to the impact of provision for impairment of trade receivables. During the year, the provision for impairment was reversed following the improvement of the distributors' business as in the previous year, but the amount reversed was apparently less than that of last year. Consequently, LI-NING brand's administrative expenses increased year-on-year.

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

For the year ended 31 December 2016, the Group's EBITDA (relating to continuing operations only) amounted to RMB713,147,000 (2015: RMB393,953,000), representing a year-on-year increase of 81.0%. This was mainly attributable to the improved performance of LI-NING brand.

EBITDA of LI-NING brand amounted to RMB674,066,000 (2015: RMB350,238,000). This was mainly attributable to the increase in revenue and gross profit of the Company and the decrease in expense ratio resulting from control of various expenses.

Finance Expenses

For the year ended 31 December 2016, the Group's net finance expenses amounted to RMB107,575,000 (2015: RMB133,203,000), representing 1.3% (2015: 1.9%) of the Group's total revenue. The decrease in finance expenses was mainly due to the decrease in interest expense on bank and other borrowings. The net finance expenses included the interest expense of convertible bonds amounting to RMB59,792,000 (2015: RMB63,612,000).

Income Tax Expense

For the year ended 31 December 2016, income tax expense of the Group amounted to RMB32,435,000 (2015: RMB73,768,000) and the effective tax rate was 11.3% (2015: 239.4%, primarily deferred income tax expense arising from the reversal of deferred income tax assets).

Profit for the Year of Discontinued Operations

In December 2016, the Group completed the disposal of 10% equity interest in Double Happiness to a wholly-owned subsidiary of Viva China. Accordingly, Double Happiness is accounted for as an associate company of the Group as of 31 December 2016. During the year, the net profit from Double Happiness, which is principally engaged in the operation of Double Happiness brand, and the gains relating to the equity transfer were thus classified as profit for the year from discontinued operations. During the year, the profit for the year from discontinued operations attributable to equity holders of the Company amounted to RMB387,743,000, which included the net profit from Double Happiness amounting to RMB74,542,000 (2015: RMB57,263,000) and the gains relating to the equity transfer amounting to RMB313,201,000 (2015:nil). The increase in the net profit from Double Happiness was mainly attributable to the substantial improvement in gross profit margin and the effective control of administrative expenses.

Overall Profitability Indicators

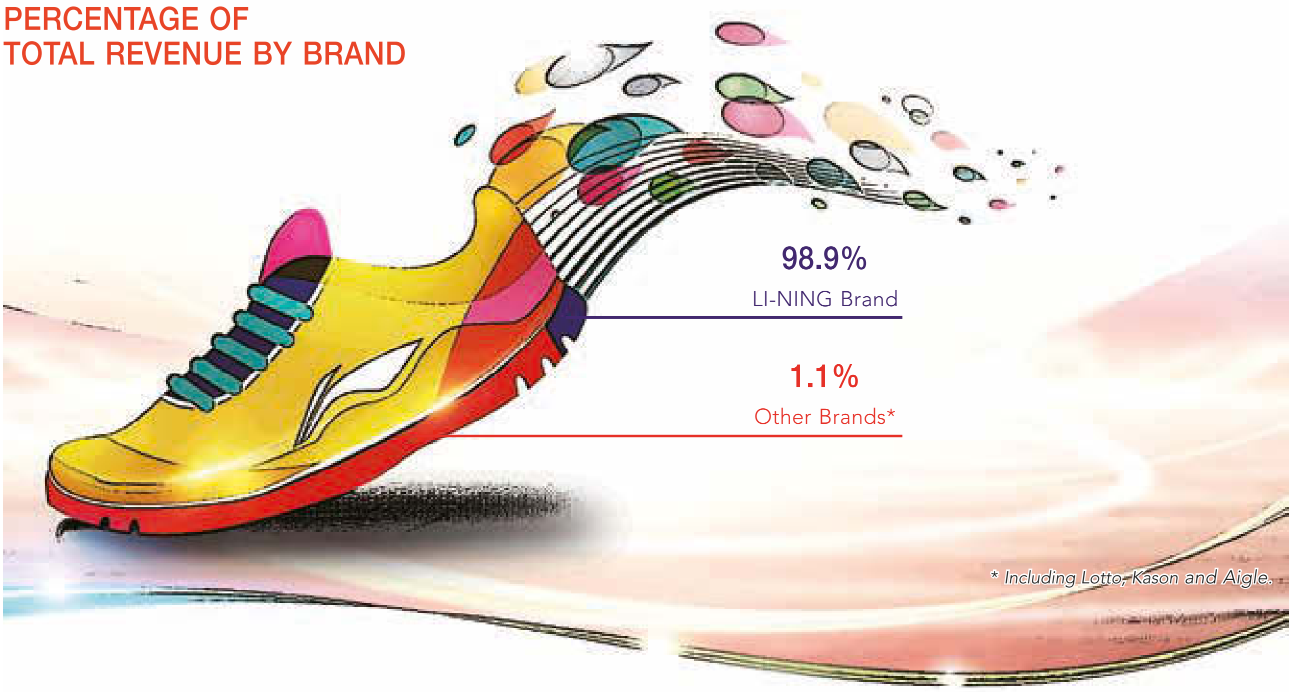
The overall profitability indicators of the Group improved significantly during the year ended 31 December 2016, which was attributable to the increase in both the sales revenue and gross profit margin, and the decrease in expense ratios of the Group during the year. During the year, the Group's profit attributable to equity holders amounted to RMB643,254,000 (2015: RMB14,309,000). The corresponding margin of profit attributable to equity holders was 8.0%, and 4.1% when excluding the net gain on disposal of 10% equity interest in discontinued operations (2015: 0.2%). Return on equity attributable to equity holders was 17.9%, and 9.2% when excluding the net gain on disposal of 10% equity interest in discontinued operations (2015: 0.6%).

Provision for Inventories

The Group's policy in respect of provision for inventories for 2016 was the same as that in 2015. 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 to be adequate in ensuring appropriate provision for inventories is made by the Group.

As at 31 December 2016, the accumulated provision for inventories was RMB143,203,000 (31 December 2015: RMB169,697,000). With further clearance of obsolete inventory during the year, the structure of inventory ageing was improved, with a decrease in the balance of the overall provision for inventories.

PERCENTAGE OF TOTAL REVENUE BY BRAND



Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for 2016 was the same as that in 2015.

As at 31 December 2016, the accumulated provision for doubtful debts was RMB414,137,000 (31 December 2015: RMB475,757,000). As the business of our channel distributors improved, the balance of long aged trade receivables gradually decreased, the Group therefore reversed certain provision for doubtful debts during the period.

Liquidity and Financial Resource

The Group's net cash from operating activities (including continuing operations and discontinued operations) for the year ended 31 December 2016 amounted to RMB995,476,000 (2015: RMB687,043,000). As at 31 December 2016, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits held at banks with original maturity of no more than three months) amounted to RMB1,953,588,000, representing a net increase of RMB141,016,000 as compared with the position as at 31 December 2015. The increase was due to the following items:

Item	Year ended 31 December 2016 *RMB'000*
Operating activities:	
Net cash from operating activities	995,476
Investing activities:	
Net capital expenditure	(470,244)
Proceeds from the disposal of available-for-sale financial assets	13,479
Payment for investment in associates	(2,000)
Proceeds from the disposal of partial equity interests in subsidiaries	124,992
Recovery of proceeds from borrowings	5,237
Net cash from other investing activities	8,230
Financing activities:	
Net repayment of borrowings	(364,819)
Net cash used in other financing activities	(144,208)
	166,143
Add: Exchange gain on cash and cash equivalents	2,494
Less: Net increase in cash classified as held-for-sale	(27,621)
Net increase in cash and cash equivalents	141,016

As the overall performance of our channel partners demonstrated a steady upward trend, the recovery of trade receivables increased significantly, leading to significant improvement in the Group's cash flow.

As at 31 December 2016, the Group's banking facilities amounted to RMB1,100,000,000, amongst which outstanding borrowings amounted to RMB200,000,000. As at the end of the year, the ratio of outstanding borrowings and convertible bonds to equity attributable to equity holders (i.e. the gearing ratio) was 19.2% (31 December 2015: 40.5%).

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 South Korea and Hong Kong use South Korean Won and Hong Kong Dollars as their respective functional currencies. The Group has a small amount of cash and bank deposits denominated in Hong Kong Dollars, United States Dollars, Euros and South Korean Won. 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 United States Dollars.

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

Pledge of Assets

As at 31 December 2016, buildings and land use rights with net book value of RMB369,121,000 (2015: RMB386,548,000) and RMB77,804,000 (2015: RMB79,661,000) respectively were secured for acquiring the Group's borrowings.

Contingent Liabilities

As at 31 December 2016, the Group had no significant contingent liabilities.

BUSINESS REVIEW

During the year, influenced by various factors such as the macro economy, the consumer goods industry remained sluggish as a whole. Nevertheless, sporting goods industry maintained steady growth with the support of national policies and the increasing participation and passion for sports amongst the public. Meanwhile, national policies actively promoted the building of sharing and communication platform for sports enthusiasts. With regard to Li Ning Company, as we placed more emphasis on fostering LI-NING brand value through experience during the year, various operational indicators saw continued improvement and the revenue of the Group maintained steady growth, which successfully achieved the target of profitable growth.

During the year, we continued to enrich product experience, sports experience and shopping experience of our major categories including running, basketball and sports casual in product lines and retail end. Products were still the core development focus of the Company. In respect of smart products, we continued to leverage our advantage in product development to integrate innovative smart elements into the established technology platform. Meanwhile, carrying on LI-NING brand's DNA in professional sports, we launched a number of running shoes, namely "LI-NING Arc", "LI-NING Cloud" and "Super Light 13th", gaining positive recognition amongst consumers. With regard to sales channels, we maintained channel expansion in a healthy way and completed the POS expansion plan adopted in early 2016, achieving a net increase of 307 POSs. We also adopted a clearer channel classification based on category features to strengthen the image of the stores and enhance sports experience and shopping experience of retail outlets. In addition, we strived for better product design, assortment and sales process encompassing category features. As a result, the overall retail sell-through grew low-teens for two consecutive years, with a constant improvement in new product discount rate, including the stable growth of same-store sales for overall platform, including online and offline channels.

LI-NING BRAND

Basketball

Legendary LI-NING basketball shoes: Tenth Generation of "YuShuai"

Based upon the reputation of the "YuShuai" series, LI-NING basketball segment developed the brand new product "YuShuai X". The trade fair orders of this product for the third quarter of 2016 broke the record among the "YuShuai" series. Meanwhile, the segment teamed up with "SOLE", a sneaker magazine, to develop the crossover product "YuShuai X SOLE", attracting long queues and driving hot sales among trendy brand stores. Such collaboration further boosted the professional reputation of LI-NING basketball products within basketball sneaker category.

Continual leadership in the design of regional features of basketball teams: 16-17 CBA League apparel

With the unique design, the CBA uniform, apparel and culture costume for fans in 2016 continued to deliver ground-breaking manifestation of the regional style of different basketball teams in a trendy and modern way. The apparels were proved to be popular among consumers.

Innovative culture products for street basketball: basketball culture apparel

The mixture of trendy street elements, features and basketball culture apparel provided consumers with choices of diversified all-season apparel and more matchings of street basketball style. The sell-out rate for woven fabric windbreakers for couples and the casual trousers for street basketball launched in the third quarter of 2016 ranked the top, which built a foundation for cross-seasonal woven fabric fashion product mix for southern regions and received good response in the market.

New high-end sports fashion store: "Wade" image stores

The first "Wade" image store was opened in INDIGO, Beijing in January 2016. As of the end of 2016, there was a total of nine "Wade" image stores spreading across high-end shopping arcades in eight cities such as Beijing, Shanghai, Zhengzhou and Shijiazhuang, offering Wade fans and the mass consumers with more enriching shopping experiences.

The 2016 Wade China Tour – an event ignites fans' passion

Wade's visit to China has been upgraded in 2016 from the manner of a single person event to Wade's Team. The team visited six cities including Beijing, Shanghai, Zhengzhou and Shijiazhuang, and sold "Zen Panda", the first pair of lifestyle footwear branded in the couple's name, Wade and Union. Coupled with the finals of "Shot to Fame", the event attracted more than 60 million viewers.

Leveraging the wealth of top domestic basketball resources to create sports experience with focuses on events, players, city teams, fans and youth on campus

– ***Chinese Basketball Association League (CBA)***

- We effectively publicised the professional functions of our products and increased brand exposure through product sponsorship;

- In August 2016, the signed players of LI-NING, Zhao Jiwei and Guo Ailun represented the China national basketball team to play in the Rio Olympics. Zhao Jiwei showed his outstanding talent for the first time in a series of games;

- Through the expansion into Liaoning and leveraging on the local influence of signed resources, LI-NING attracted customers to retail outlets through interaction during the off-season and enhance customers' purchasing experience;

- Sun Yue and Zhao Jiwei offered professional endorsement for LI-NING "one" basketball shoes;

- Shanghai Team participated in the NBA Pre-season Games in the United States and offered high exposure for the relevance of basketball products and fan culture with the splash of fanpack products and team LOGO;

- In August, LI-NING held the first youth training camp (青訓師訓練營) in Beijing, filling the gap of domestic youth training market and creating a new business model for the Company. In the same year, we opened a total of four LI-NING youth training camps which have been highly praised within and outside the industry.

– Building up communication channel with students and youth and enhancing the brand recognition and preference through domestic basketball student leagues: China Junior & High School Basketball Leagues and Chinese University Basketball Association League (CUBA)

- Participating students of the 2016 China Junior & High School Basketball Leagues are required to collect sponsored gears through LI-NING e-commerce platforms and offline outlets, from which LI-NING can obtain big data of core basketball consumption group on campus and attract more young consumers to visit LI-NING outlets;

- For the 2015-16 season, LI-NING, taking advantage of the cultural dissemination driven by CUBA top 24 games and semi-finals, put a lot of effort to explore the potential of campus basketball, creating campus culture products for CUBA traditional basketball schools and triggering alumni resonance, which facilitated the development of basketball culture and established the recognition of LI-NING brand on campus. For the 2016-17 season, CUBA Leagues will continue to pursue the integration of gear collection by participating teammates with the channels so as to foster quality product experience for customers.

Grassroots Basketball Marketing

– ***Summer League "Shot to Fame"***

The LI-NING basketball segment held the Summer League "Shot to Fame" in the second quarter of 2016. We searched for elite grassroots basketball players from over a hundred basketball courts in 14 cities. Players were selected to compete for the "Shot to Fame" championship by going through three stages. Young consumers were given the purest street basketball experience with various levels of LI-NING basketball sports resources during different stages of the game.

– ***LI-NING 3+1 Winter Basketball League***

During the fourth quarter of 2016, the LI-NING basketball segment continued to adopt the bundled experience model, which emphasises sports, products and consumption of consumers. Having suspended for years, our game IP "LI-NING 3+1 Basketball League" was resumed in the winter when grassroots games are generally almost unavailable. Benefited from the introduction of innovative competition systems including grouping and promotion in four cities, namely Beijing, Shanghai, Guangzhou and Xi'an, basketball consumers of different age groups of 10 to 35 took this opportunity to gain some bundled experience through game participation. In addition, the LI-NING basketball segment also coordinated with local basketball associations and student associations, which laid a good foundation for the expansion of coverage of the game in 2017.

– ***Cooperation with non-governmental training institutions and arenas***

In view of the thriving non-governmental training institutions and private community arenas, since the third quarter of 2016, we launched contractual co-brand building cooperation based on LI-NING events and activities, and initiated specialised sales channels with a greater focus on the demand of teenagers and core basketball consumers. Up to now, our cooperation resources have reached over 80,000 people.

Running

Utilization of technology platform

– ***LI-NING Cloud III***

The newly upgraded Cloud III technology achieves better cushioning and rebounding, thus effectively reducing the likelihood of sport injuries. By incorporating the smart technology and building a smart ecosystem, LI-NING Cloud III can precisely record runners' running data, running route, calories consumed, foot strikes, frequency of stride, etc., assisting runners in knowing their own running status and enhancing their performance in sports. The protective LI-NING Cloud III Running Shoes which launched afterwards, adopted the wind-proof and water-proof watershell uppers. This would effectively prevent rain and snow, protecting athletes from biting wind, while keeping their feet dry and comfortable.

– ***Super Light 13th Running Shoes***

We combine flexible yarn and MONO yarn to create an upper which balances breathability and supports functionality. The ultra-light design can reduce unnecessary fetters. Applying the "FOAMEVAlite" midsole technology, the product is the first choice for runners.

– ***LI-NING Arc***

The outsoles of LI-NING Arc offer effective buffering and protection through the deformation and resiliency of the hollowed bow structure. With the colorful "all in-one weaving" design, the products balance the attributes between breathability and support. The colorful glow-film (炫彩膜) design renders protection for night runners.

Development of Smart Platforms

With the crossover of our smart running shoes with Mi Fit, the products can provide precise and accurate recordings of runners' statistics by displaying running routes, distance, burned calories, speed per hour and pace in a clear manner. Accordingly, we help runners to better understand their running habits and hence complete their sport plans.

During the year, we successfully launched the 2016 versions of "Rough Rabbit" (赤兔) and "Furious Rider" (烈駿). Meanwhile, we integrated smart elements into LI-NING's existing technological platforms. Smart running shoes, namely "LI-NING Cloud", was launched and well received in the market.

Running Apparel

With strategic product innovation, products are designed for both professional runners and general runners, in which the former focus on professional products emphasizing the upgrade of functions, while the later concern about the provision of comfortable product experience.

– ***Innovation and upgrade of product functions: the running windbreaker series***

  Leveraging LI-NING's ultralight technology platform, the products of the ultralight windbreaker series continued to make breakthroughs, such as lighter in weight and more practical design, to enhance the performance of the professional products. Based on the LI-NING's technology platform, the protective running windbreakers were made of light materials with 3D fitting and fashionable workmanship, which enhanced the reputation among professionals and the sales.

– ***Integration of product performances and runners' fashion: Seamless products***

  With the advanced seamless weaving, apparel was designed in the fashion styles favored by runners, fulfilling the runners' demands on comfort and decency.

Innovative Marketing Approach

We aim to re-build LI-NING's professional image by drawing on both our existing product matrix and smart ecosystem. This strategy will be supplemented by effectively applying an integrated marketing approach to our online and offline channels in pursuit of wider recognition of LI-NING running products.

– We have seen remarkable results in the implementation of an integrated marketing approach for our core products. For the launch of the "Super Light 13th" running shoes, we combined innovative advertising techniques with promotion on WeChat "Moments" to reach out to approximately 14 million target runners, a base identified through big data analysis. The promotional video accumulated a total of approximately 45.14 million views. This exemplified effective application of an integrated marketing approach as it connected online and offline channels to maximize return on investment;

– The division continued to develop the LI-NING Smart Running Ecosystem by integrating smart products, professional physical experience channels, communications based on mobile internet as well as users' big data. As of 31 December 2016, there are already over 1.2 million runners using the smart running shoes and interacting through various online and offline channels;

– The division joined hands with Dr. Romanov, the developer of the world-renowned Pose Method, in the R&D and launch of the new version of "Certified Yunma Running Shoes of Pose Method". The running shoes was a breakthrough attempt to apply the scientific and effective technical theory into running practice, which effectively raised the professionalism of running shoes and provided professional training methods and guidance to runners;

– The division also continued to strengthen and expand the LI-NING China 10K Running League and jointly hosted the LI-NING 10K Online Running League with multiple brands, thus enhancing our influence and involvement. Furthermore, the division effectively generated sales by drawing runners directly into online stores through online marketing activities.

Innovative experience

The division continued to promote Running Corners in key stores, the LI-NING iRun Club, and the LI-NING running product specialty shops, while supporting the multi-store tactic of Sales Department in implementing targeted product planning and assortment. Until now, a number of iRun Clubs have been opened across the PRC such as Beijing, Shanghai, Chengdu, Changsha and Zhengzhou to organize a variety of experience events such as professional courses, physical training, foot shape analysis, meet-ups of running groups and a platform for finding running partners for tens of thousands of runners.

Badminton

In 2016, the badminton segment under LI-NING brand continued to expand on professional channel front. On the basis of the existing channel coverage, we sharpened our focus on developing professional channel customers and stores at badminton courts that LI-NING badminton business has not expanded into. Meanwhile, we have been exploring and improving the retail capability of professional channel stores. By smartening up the display, strengthening staff's product retail skills and implementing the racket stringer training across the board, the retail efficiency was enhanced.

– In 2016, we continued to develop new products on the basis of the "LI-NING badminton technology platform", maintaining the market awareness and sales momentum of high-end products. In the first half of 2016, we launched N99, the tailor-made racket for world champion Chen Long, and N80 II, a newly sponsored product. In the second half, N7 II and N9 II, developed via the "Energy Aggregation" technology platform, made their debut in the Olympic Games and supported Fu Haifeng and Zhang Nan in securing the Badminton Men's Doubles championship. These newly sponsored products demonstrated LI-NING's unrivalled racket research and development technology, craftsmanship, and coating design capability in the industry. Coupled with exposure in the Olympic Games and promotional campaigns, these newly sponsored products were well received and widely accepted by badminton fans;

– With respect to badminton apparels, LI-NING launched newly sponsored badminton apparels for the Chinese National Badminton Team at the 2016 Olympics. The design for these newly sponsored apparels was a bold breakthrough and innovation to the traditional Chinese style. The apparel featured traditional Chinese patterns such as dragons, seawaves, clouds and five-star as the master pattern with a wide range of Brazilian elements integrating into the design, including vividity, passion, Latin-styled parrots, butterflies and rainforest plants. The trendy design that highlighted the theme of Olympic Games was widely accepted by consumers after being exposed on the courts;

– In 2016, the product planning for LI-NING's badminton shoes emphasized on streamlining segregated product lines towards the demand of the long-term development of e-commerce platform. In line with the control of sales prices in our e-commerce channel, the product life cycle was prolonged. Meanwhile, we focused on the research and development of innovative products at Best level so as to get well-poised for the gradual update of products;

– In 2016, LI-NING brand badminton continued to receive significant attention on social media through top events, namely the All England Open Badminton Championships, Thomas & Uber Cup, and the Olympic Games. During the Thomas & Uber Cup tournament, a top badminton event held in Kunshan in May, LI-NING published over 250 news articles on our brand, products and tournaments. Our official WeChat account attracted over 500 thousand viewers, whereas our official Weibo attracted more than ten million views. The professional performance of LI-NING badminton brand in top events were promptly posted and exposed in physical and online stores nationwide and widely circulated and shared among badminton fans via different forms such as visually creative images, posters of product series and athletes as well as court diagrams.

Kason, a well-known badminton equipment brand with over 20 years of history, is an important and integral part of the Group's badminton segment. During the reporting period, Kason continued to maintain its reputation as a "classic" brand among consumers. By optimizing its product mix, reducing production costs and enhancing the cost-effectiveness of its products as well as launching retro-style racket models, the retro-style racket models continued to sell well, while newly developed apparel and footwear products remained competitive in terms of product design and pricing.

The Group will continue to differentiate between the LI-NING brand and the Kason brand in the market, enhance product competitiveness, and effectively utilise the brands' superior sports marketing resources to increase its market share in badminton products.

Training

We continued to launch functional products to fully satisfy the functional requirements of beginners, amateurs and fitness professionals.

Indoor Training

– The indoor professional tights line was the key product launched in 2016 and was well received in the market. The Company launched products of diversified grades catering to different sports and intensity levels. At the same time, leggings, short-sleeved T-shirts, vests and bras are launched seasonally. Using the X-POWER shock-absorber cup with multi-dimensional shock absorption and the Race Back shoulder strap design, our bras can effectively fix the breast to avoid sliding of shoulder straps and relieve the pressure on shoulder, and provide extra support by means of professional sport mechanics.

Outdoor Training

– The outdoor water-proof jacket line is environmentally-friendly due to the use of fluorine-free materials and features a water-proof layer with good breathability. Moreover, it further launched an upgraded waterproof woven line with improved elasticity and protection and 3D fit so as to replace the traditional thickness product. The jacket has won high market recognition with positive sales performance;

– By using the Carbon Dioxide Extraction technique to produce coffee yarn fabric, an environmentally-friendly, warm and antibacterial jacket set has been launched;

– Winter elastic shell down apparel product which can achieve structurally elastic effect and enhance comfortability and convenience during sports through a special knitting technique;

– Patented down jacket in shape of a U-shaped cushion which features the rapid change of a conventional down jacket into a U-shaped cushion. The product has significantly upgraded and went beyond the fundamental function of a down jacket toward customers;

Sports Casual

LI-NING's sports casual is committed to satisfying the customer demand of the general public on the combination of sport and fashion so as to drive the recognition and loyalty of LI-NING's brand by mainstream customers from various regions.

Apparel

– To cheer for the 2016 Rio Olympics, we merged the Chinese traditional dragon motifs with the DNA of LI-NING brand into our packaged Olympics products, which embodied, in a cultural manner, the Olympic spirit: "anything is possible"!

– In 2016, the Company continued to collaborate with Marvel Studios and launch the relevant products aligned with the release of Marvel's movies. They attracted a large group of young consumers and were well received in the market.

Footwear

– ***Remake the Classics, "Exceed" the tradition and revive***

In memory of the modern Olympics and paying tribute to all the athletes who pay efforts on their own dream, LI-NING launched a limited collection "EXCEED". With reference to the "Stegosaurus", the winning shoes in 1996 Atlanta Olympic Games, and integrating with LI-NING "smart technology", "LI-NING Cloud" shock-absorbing technology and "elastic and seamless weaving" upper technology, classic "Stegosaurus" has revived and evolved as a new model.

– ***Family of air cushion products***

Having been gradually rolled out since 2016, the products are integrated with various popular styles (e.g. minimal, vintage and functional). Leveraging the combination of the inner arched structure and TPU cushion material, they can offer dual cushioning and supporting performance. Filled with nitrogen (a kind of noble gas), the air cushion can reduce reshaping and enhance protection, integrating visualized functionalities and fashion.

Outdoor

In 2016, LI-NING brand strived to launch more professional and fashionable products for the categories of cross country running and outdoor sports products, attracting the endorsements from consumers.

Cross Country (mountain) Running Shoes for Professional Competitions

Launched in the first quarter of 2016, the men's and women's products for professional competitions offer cross country running players and amateurs a cushioning, gripping, supporting and breathable experience, which are suitable for outdoor cross country (mountain) running under various conditions. With seamless fit TPU shoe faces made of Sandwich Mesh, the shoes are more breathable. The unique sock liners offer good coverage to the foot. With functions of anti-bacterial, anti-mould and bacteria inhibition, the hemp seeds in hemp insoles can keep dry and comfortable environment in shoes.

Light Windbreaker and Wading Shoes

As the featured products of LI-NING Outdoor in the second quarter of 2016, the light windbreaker and wading shoes both gained recognition from consumers. Using ultra-light and tear-resistant 15D nylon fabrics, the light windbreaker combines the functions of water and ultraviolet protection. With lightweight, breathable and permeable functions, the wading shoes use open mesh surfaces. The design of slip-on structure creates convenient experience for users.

3 in 1 Jackets, Outdoor Wind/Water-proof Shell Down Coats and Walking Gear on Snow

These three types of products were launched as the key products of the outdoor series of LI-NING brand in the fourth quarter of 2016. The 3 in 1 Jackets were made of two layers of wind/water-proof fabrics. The inner layer, which was made of thermal proof fleece, is detachable from the jacket to improve flexibility wearing. The shell down coats were made of wind/water-proof fabrics with grey goose down lining for thermal-proof. The Warmshell outdoor thermal-proof walking shoes were made of high quality and soft genuine leather on the top layer of the uppers and protective rubber at the toe cap.

LNG

LNG has a brand essence which focuses on the culture of urban sport lifestyle and the demands for high-end products encompassing the stoic fashion trend. Based on high quality functional fabrics, LNG values comfortability, fine details, and simplistic design as its core brand culture. The brand offers collections which cater for the lifestyles of sportswear gurus and adhere to high quality and unique design positioning, producing highly fashionable urban sportswear.

LNG is anchored in metropolitan cities, including Beijing, Shanghai, Guangzhou and Shenzhen, and first-tier cities and continuously penetrated into second- and third-tier cities, with primary focus on the fashion floors of large shopping malls and mid-to-high end shopping arcades, and secondary on the sports and leisure areas.

Star Products – Apparel

– ***Marble Pattern Series***

  It was launched for sales in the second quarter of 2016. The apparel motifs and designs were inspired by marble patterns, styling simplicity, fashionable theme and brand-new attempts;

– ***Washed denim series***

  It's the first time to adopt the innovative tencel washed denim fabric in the series. With its denim look, silhouette and comfortable wear, the washed denim series has won the recognition of consumers once being launched for sales;

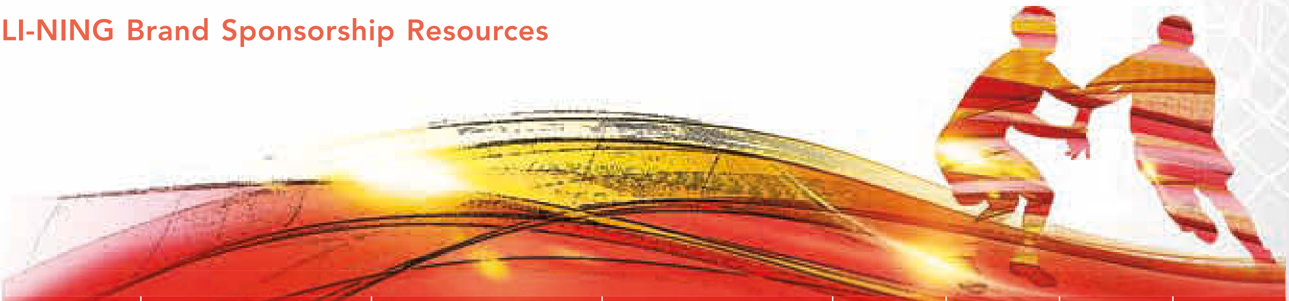
– ***Long shell down coats***

  It was launched for sales in the fourth quarter of 2016. Featuring the far higher down content than major products (down content of 350G), fabrics imported abroad and fashionable silhouette, the product still won consumers' high recognition with its excellent quality, unique silhouette and cutting despite a high selling price which had no impact on consumers' buying needs. It became the hot sale item under LNG label in the last quarter of 2016 accordingly.

Star Products – Footwear

In 2016, independent shoe designs were introduced under the LNG label. Themed sock-like structure with fake shoelace knot and integrated body are easy wear and off, aligning more with the fashion trend. More quality fabrics are used in the design, such as genuine granular leather, LYCRA and genuine-leather incorporated anti-fur. As for the design, integration of various couplings are employed, such as anti-fur and TPU or genuine leather and anti-fur, enriching the product spectrum of diverse LNG shoe designs. Series of color are introduced for apparel mix and match of consumers (e.g. transitional colors, color tones and contrast, etc.), highlighting the uniqueness and compatibility of our LNG shoe products.

LI-NING Brand Sponsorship Resources



	BASKETBALL	TRACK & FIELD/RUNNING	BADMINTON	TENNIS/OTHERS	OLYMPIC CHAMPION TEAMS	TABLE TENNIS	SHOOTING
TOP-NOTCH ATHLETES/ SPORTS TEAMS/ SPORTS CLUBS	Dwyane Wade		China National Badminton Team	Marin Cilic	China National Table Tennis Team	Ma Long	Tsinghua University Shooting Team
	Evan Turner		Chen Long	The delegation of Shanghai for the National Game	China National Diving Team	Li Xiaoxia	
	Zhao Yanhao		Wang Yihan	Speed Skating Canada	China National Shooting Team	Wang Liqin	
	Xirelijiang		Xu Chen	Iran Esteghlal Soccer Club	India Olympic Committee/ All the Teams	Ding Ning	
	He Tianju		Li Xuerui	Vietnam National athletics team	Iran Olympic Committee		
	Sun Yue		Zhang Nan				
	Zhao Jiwei		Fu Haifeng				
	Zhao Tailong		Zhao Yunlei				
	Sichuan Jinqiang Basketball Club		Yu Yang				
	China National Junior Team						
	Paris Levallois (Basketball Club)						
TOURNAMENTS	China Basketball Association	Li-Ning 10K Running League	2013-2016 'MAJOR EVENTS' Partner of BWF			CTTA Members' League	
	China Junior & High School Basketball League	China National High Attitude Endurance Challenge	2016 Thomas & Uber Cup (Equipment Sponsor)				
	Chinese University Basketball Association	2016 Hong Kong Streetathon	2016 Thaihot China Open (Equipment Sponsor)				
	CBA Junior League	2016 Jingmen International Marathon	2016 BWF Super Series China Masters (Equipment Sponsor)				
		2016 Nanning International Half Marathon	2016 Singapore Open Badminton Championships (Equipment Sponsor)				
			2016 China (Ling Shui) International Challenge (Equipment sponsor)				
			2016-2017 China Badminton League (Partner)				
OTHER IMPORTANT SPONSORSHIP RESOURCES	Udonis Haslem	Provincial Athletics Team (Guangdong/Yunnan/Bayi)	Chinese Youth Badminton Team	Li-Ning International Junior Tennis Championships			
	Glenn Robinson III	Li Tie	Singapore National Badminton Team				
	Zeng Lingxu		Australia National Badminton Team				
	Fang Shuo		Indonesia National Badminton Team				
	Tian Yuxiang		Provincial Team: Beijing, Liaoning, Shanghai, Sichuan, Guangdong, Zhejiang, Bayi, Shandong, Xiamen, Tianjin Club: Hunan Club, Qingdao Club				
	Chen Linjian		Porntip (Thailand), Markis Kido (Indonesia), Parupalli Kashyap (India), Jwala Gutta (India), Pia Zebadiah (Indonesia), Rizki Amelia Pradipta (Indonesia)				
	Luo Kaiwen		Bao Chunlai, Wang Xin, Wang Lin, Tang Xianhu				
	Zhang Zuming						
	Fan Bin						
	Qu Shaobin						
	Yang Maogong						
	Wang Zirui						
	Meng Duo						

International Business

Pursuing the strategies of the international business of LI-NING brand, the Group aims to enter the international market with its brand names, promote and sell the brands from China. Under the business modes of sole distributor or authorized sole agent, we established LI-NING exclusive stores or shop-in-shop in the region to sell major products and badminton-oriented products of LI-NING brand. Meanwhile, we actively provided customized products for the local markets in response to the market demand. Distributors were responsible for marketing, sponsoring and organizing the local sports events, while the Company provided support to and monitored them in order to optimize the uses of resources and improve efficiency. Currently, our business covers 44 countries across Asia, Europe and the Americas. It is expected that developing countries in Asia will remain the key markets in the future.

In early 2016, our international business segment started to tap into cross-border e-commerce business and reached strategic cooperation with AliExpress in November 2016 with LI-NING's official flagship store on AliExpress launched. Cross-border e-commerce will remain the main task of our international business segment in 2017. We strive to let more consumers in the international market experience LI-NING's products and services and promote our brand value via the cross-broader e-commerce platform.

Sales Channel Expansion and Management

As at 31 December 2016, the number of LI-NING brand (including LNG and " " label) conventional stores, flagship stores, factory outlets and discount stores amounted to a total of 6,440, representing a net increase of 307 POS as compared to 31 December 2015. The number of distributors was 39, representing a net decrease of 17 as compared to 31 December 2015. POS breakdown as at 31 December 2016 is as follows:

Number of franchised and directly-operated POS

LI-NING Brand	31 December 2016	31 December 2015	Change
Franchised	**4,829**	4,618	**4.6%**
Directly-operated retail	**1,611**	1,515	**6.3%**
Total	**6,440**	6,133	**5.0%**

Number of POS by geographical location

LI-NING Brand	31 December 2016	31 December 2015	Change
Northern Region *(Note 1)*	**3,151**	2,999	**5.1%**
Southern Region *(Note 2)*	**3,289**	3,134	**4.9%**
Total	**6,440**	6,133	**5.0%**

Notes:

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

In 2016, the Company continued its efforts in building retail capacity and strengthened management and reform on product decision, ordering and assortment, store visual identity and merchandising, retail promotion, retail training, omni-channel operation, inventory clearance and logistics, which enhanced the overall operating efficiency and retail performance.

Building Product Management Decision Platform

The Company endeavored to establish the retail model based on single store profits and cultivate the core competence of product planning and management in order to provide products that are in line with the market demand. The Company established the product management decision platform, by which the Company coordinated and made management decision on operation flows of merchandising including product planning, design, development, sampling, ordering, production and supply, product launch and promotion as well as end-user retail operation. The platform enhanced product input-output efficiency towards consumers' specific needs whilst improving the product lifecycle management and sales performance of stores based on the classification of store categories.

Strengthening Management on Single Store Order and Assortment Based on Store Classification

In 2016, the Company optimised the store classification based on product categories and further impelled single store order and assortment of retail outlets, resulting in more refined orders, ensuring procured goods better suit into the feature of retail outlets, improving consumers' shopping experience and enhancing store profitability.

In the meantime, the Company strengthened control on overall orders and enhanced order quality, which resulted in enhanced product sell-out ratio and reduced inventory level. In terms of tag price, trade fair orders for LI-NING brand products from franchised distributors registered a year-on-year growth for thirteen consecutive quarters. The orders from the latest trade fair, which are for the third quarter of 2017, registered a low-single digit growth on a year-on-year basis, meeting our target based on more precise trade fair order strategy.

Visual Identity

Based on the features of lead categories in stores, the Company further defined the feature of business district and consumer segmentation to enhance and improve the function and sports experience of multi-brand stores and specialty stores. By adding LNG, kidswear and other categories, the Company continued to improve sports experience, product experience and shopping experience of segmented consumer group gained from LI-NING stores.

Visual Merchandising

Through the product decision platform and integrating marketing meetings, the Company continued to strengthen the collaboration between retail outlets and our product department, and effectively utilized the marketing resources of product categories to improve product operation of stores. Based on the assortment by store types, the Company developed appropriate display standards and promotional events. Besides, the Company formulated professional display guidelines based on product categories with an aim to enhance the integrated expression of product feature, professionalism and color and deepen the overall experience of store image, lead categories, marketing events and store display.

Marketing and Establishment of Membership Platform

By linking categories and store ends based on integral marketing, the Company planned marketing events for signature products and promoted crowd-pleasing sports entertainment and interactive promotions that better cater to the tastes of consumers. The membership system and internet-based 3D marketing boosted customer flows on both online and offline platform, which improved product sell-out rate with enhanced product experience and brand interaction.

Enhancing Retail Operations and Strengthening Execution Capability

Based on the monthly and quarterly assessments, the Company strengthened the performance management of various retail management such as managers and regional heads of the Company to enhance its operation and execution capability. Moreover, the Company updated and improved the SOP manual on operating procedure management in order to improve the standard and planning of store operation.

In 2016, the sales efficiency at the Company was effectively improved. In respect of LI-NING brand POS which have been operating since the beginning of the fourth quarter last year, the same-store-sales growth of LI-NING brand products for the overall platform (including e-commerce business) increased by mid-teens on a year-on-year basis for the fourth quarter ended 31 December 2016. In terms of channels, the retail (direct operation) and wholesale (franchisee) channels increased by high-single and low-single digits on a year-on-year basis while the e-commerce virtual stores business registered a mid-nineties growth on a year-on-year basis.

Operation of Omni-channel

The Company initially established the all-in-one and all-channel O2O inventory system, which enhanced the operating efficiency of online purchase and offline delivery. Meanwhile, offline store shopping guide continued to promote the use of digital sales tool to make up for the loss of opportunities as a result of out of stock (in terms of color and size) and limited display space and enhance shopping experience of end users.

After various mega events including Double 11 in 2016, the omni-channel operating channel achieved interworking linkage of the online and offline platform through integrated merchandise management and marketing events, which enhanced the overall brand influence. In the future, the Company will, through the implementation of omni-channel strategy, break the inventory barriers at all levels of channels to realise inventory pooling, which will lay the foundation to further improve inventory structure and enhance inventory turnover month.

Logistics Reformation

In 2016, we completed the business process re-engineering and information upgrade of all Regional Distribution Centers (RDC) and National Distribution Centers (NDC). Accordingly, we are able to provide wholesale logistics, retail logistics and e-commerce logistics, which enables us to directly serve online customers. Therefore, we have preliminarily established an all-channel logistics service system, covering all sales networks throughout the PRC.

The Company continued to optimize the operation model to enhance the efficiency in use of logistics resources and provide highly efficient services to cater for various business requirements. In future, we will focus on retail logistics, all-channel logistics and information logistics and constantly uplift our services and ability to deliver feedback, and optimize the control on the efficiency in the uses of resources.

Supply Chain Management

In 2016, the Company continued to focus on the workmanship and details of product quality and improve product wearing comfort, which achieved continuous improvement and upgrade in product quality and gained positive feedback and good reputation from consumers. On the cost front, the Company practiced the concept of cost management throughout the development and production process, by which the procurement costs have been effectively managed and the gross profit of our products registered a year-on-year growth. At the same time, consumers could enjoy their benefits as the price-value of the products got further improved.

In response to the differentiated demand on various types of products or markets as well as the new parallel business model (online and offline), the Company continued to enhance the flexibility and elasticity of the supply model with the aim to cater to the differentiated supply cycle demands on various products. As regards to R&D and innovation, the Company continued to put efforts in the research of a variety of sports such as running/basketball/badminton/table tennis so as to improve professional performance of our products in the field of sports. With regards to supply chain development, the Company continued to tighten the requirements on environmental protection and human rights to ensure sustainable development.

E-Commerce

In 2016, the overall growth of the e-commerce industry slowed down and there was ongoing intense competition within the online sports industry. Under such macro-environment, the e-commerce business of LI-NING still sustained strong growth momentum and registered a year-on-year increase of approximately 90% in annual revenue, with the proportion to the revenue of LI-NING brand increasing to 14%.

During the year, our e-commerce business continued to improve various key business links such as product planning and supply chain management, product lifecycle management and front-end business structure management. Meanwhile, the extension of O2O business effectively facilitated the resources allocation between offline stores and service outlets, which boosted flows of goods and enhanced user experience.

In 2017, the main goal of our e-commerce business will remain to improve the e-commerce digital operation whilst maintaining profitability in a bid to maintain reasonable and sustainable growth.

NEW BUSINESS

Danskin Brand

In October 2016, Li Ning Company announced the cooperation with Danskin, the professional dance sports brand in the United States, for the exclusive licensing right to operate the brand's businesses in the Mainland China and Macao. Established in New York in 1882, Danskin brand is a professional dancewear brand for women in the United States. Nowadays, Danskin has developed into a comprehensive sports lifestyle brand for women and its market has expanded from the United States to Japan, Europe, Brazil, Latin America, Middle East (including Dubai), Israel, Southeast Asia, etc. Danskin's fashion philosophy emphasises the pursuit of lifestyle and cherishes the elegant and healthy attitude to life.

In China, the sportswear market is huge and the consumer base is broad. Excluding the sectors related to sports competition, there is still enormous potential to be explored in the women's leisure sportswear market and female-themed professional sports market. It can be expected that the sports market will be showing a tendency towards segmentation, and this accounts for the reason why Li Ning Company values the women's sports market as the new growth driver of the sports market.

Coupled with the Company's insight of Chinese consumer demand in the sports fashion segment, LI-NING brand will cooperate with Danskin brand and gradually launch fashionable fitness products built on professional dance and yoga, which are tailor-made for female consumer group in China. This will continue to maintain Danskin brand's mid-high end market positioning in the European and Japanese licensed markets. It is estimated that the brand will open 5 to 10 pilot stores in core business districts of metropolitans and first-tier cities in the second half of 2017, with an aim to expand into the target market steadily.

Based on the foregoing, Li Ning Company can further develop the sports casual segment, which epitomizes the brand's product concept of creating exclusive selections with the promotion of the creative inspiration "Sports X Fashion". Such approach will enable Li Ning Company to further expand into women's professional sports segment. More importantly, Chinese female consumers can be exposed to more choices and unique lifestyle experience.

"lining" Label

In 2016, the brand continued to maintain its channel expansion plan in a prudent manner. The brand fine tuned and optimized its business through exploratory tests in areas such as product and channel. After these adjustments, the "lining" label is still positioned as a fast fashion brand featuring sports and leisure attire, and caters to the demand of general public for the functionalities of sports brand. Its sales channels are predominantly influential arcades and shopping malls located in central business districts in second-tier and third-tier cities. Its products are mainly styled to cater for modern creative lifestyle.

With the use of bright colors, the brand created a vivacity image that integrates different kind of lifestyle themes, giving it the most attractive appearance visually among the new generation. Meanwhile, by providing casual-sportswear with affordable prices that are convenient and comfortable to put on, the brand enabled consumers to express their aesthetic values and personality, regardless of gender and age, and introduced the idea that dressers can match up different styles on their own.

As of the end of December 2016, the brand has opened about 40 POS in more than 20 cities including Beijing, Shanghai, Shenzhen, Hefei, Nanning, Wuhan and Chongqing. Going forward, the brand will develop its sales network based on the directions and findings from past experiences of fine tuning the business.

LI-NING YOUNG

The Company started strategy development for LI-NING KIDS, the existing LI-NING kidswear brand, during the second half of 2016. The new kidswear will, on the basis of retaining the existing elements of LI-NING KIDS, target teenagers aged between 3 to 12, and great emphasis will be placed on launching the new logo: LI-NING YOUNG, a LI-NING teenage brand. The Company always believes that sports can help children to grow more healthily and energetically and will thus aim to provide comfortable, safe, fashionable and colorful sports products and sports experience to help them keep up their stamina by upholding its character as a confident, truthful and fashionable brand. Meanwhile, the Company will leverage the market influence of LI-NING to expand sales coverage and explore new target consumers, so as to further enhance the competitive edges of LI-NING.

In 2017, the brand will take excellent product quality, utilisation of environmentally friendly and low-carbon materials as well as fashionable and simple product designs as the core values of its products, in a view to satisfy the needs of teenagers from different age groups for professional sports and leisure sports products. Sales channels policy will seek to accommodate the development requirements of the retail market. With a combination of various sales channels, the brand will seek to facilitate the integration of its online and offline business in an effort to establish a healthy business model for sustainable development.

YOUNG

The logo of LI-NING teenage brand merges the blue English characters "YOUNG" with the signature red flag icon that highlights the inheritance of sportsmanship of LI-NING Brand. The logo demonstrates the brand's interpretation of the features of Chinese youth sports: youthful, energetic, fashionable and pure. It also signifies that LI-NING YOUNG will support and facilitate the healthy development of Chinese youths with the power of sports, thus creating infinite possibilities in the future.

KIDS

The colorful LI-NING KIDS logo, comprising four joyful colors of red, blue, yellow and green, gives a strong visual effect with a sense of playfulness. LI-NING YOUNG simplified the original logo by reserving the English characters "KIDS" and the signature red flag icon of LI-NING Brand, which signifies that the brand belongs to LI-NING YOUNG series. The logo is mainly applied to apparel for children aged between 3 and 6, reflecting the market segmentation of products under LI-NING YOUNG.

OTHER BRANDS

Double Happiness Brand

Double Happiness Brand ("Double Happiness") is principally engaged in the manufacture, research and development, marketing and sales of table tennis equipment and other sports equipment.

Double Happiness continued to adopt "promotion by sports stars and sponsorship of sports events" as its marketing philosophy. In 2016, the brand continued to sign up outstanding table tennis players in China as endorsers for its table tennis equipment, including Ma Long (馬龍), Ding Ning (丁寧), Li Xiaoxia (李曉霞), Fan Zhendong (樊振東), Fang Bo (方博), Yan An (閆安), Zhu Yuling (朱雨玲), Chen Meng (陳夢), Wang Hao (王皓) and Wang Liqin (王勵勤). Meanwhile, the brand also actively sponsored various domestic and international professional tournaments. In 2016, it successfully completed the equipment provision and marketing promotion for the 52nd World Table Tennis Championships in Kuala Lumpur, Malaysia. The brand continued to provide professional equipment for events such as the Table Tennis World Cup, International Table Tennis Federation (ITTF) World Tour, China Table Tennis Super League and China Table Tennis Championships. Table tennis equipment under Double Happiness brand were successfully selected as the equipment for the Rio 2016 Olympics, the fifth time in a row that the brand appeared in the Olympics. Double Happiness signed an agreement with ITTF in respect of the provision of equipment for the world table tennis competitions from 2017 to 2020, pursuant to which it will provide equipment for major events such as 2020 Tokyo Olympic Games, World Team Table Tennis Championships 2017 to 2020 and the Table Tennis World Cup.

Double Happiness introduced and successfully launched over one hundred new products in 2016. Meanwhile, the brand continued to improve the product manufacturing efficiency and product capacity level by reinforcing the upgrade and transformation of automated production and environmental friendly production.

Double Happiness products are mainly distributed via wholesale and integrated sporting goods stores. The brand has adopted a wholesale model for its domestic business, with a relatively stable client base across each provinces and municipalities in China. In 2016, Double Happiness continued to put great effort into refined and standardised management on customer behaviors and sales policies and opened offline experience stores, with an aim to enhance user experience. In terms of e-commerce channels, Double Happiness implemented a strict authorisation and management over e-commerce dealers and conducted differentiated product development. Double Happiness brand topped the sales charts of sports products on major e-commerce platforms.

AIGLE Brand

Under China's New Normal Economy, the Chinese retail market entered into the L-shaped balanced growth period. In 2016, the overall growth of total retail sales of social consumer goods has slowed down compared to the previous years. However, leveraging its precise market positioning, well-planned expansion strategy, high-quality products balancing design and function, and professional retail management, in 2016, AIGLE sustained the strong momentum of positive double-digit growth and continued to maintain its leading position as one of the outdoor and leisure brands in the market.

In 2017, AIGLE brand will continue to focus on implementing the following major operation strategies with the aim to improve customer experience and boost brand recognition and loyalty by focusing on customized services so as to ultimately promote continuous growth of its operating results:

- Continue to open new retail shops under unified global brand image in first-tier cities such as provincial capitals;
- Capture the growth opportunities for shopping malls, outlets and e-commerce markets;
- Closely monitor and follow up on the feedback from distributors to ensure a steadily growing distribution business;
- Enhance online and offline shopping experience of customers, explore and channel the demand of post-80s and post-90s customers;
- Increase product procurement efficiency, and continue to upgrade inventory management and improve sell-out ratio;
- Sustain efforts to upgrade retail sales management and training and to improve frontline customer service.

HUMAN RESOURCES

In 2016, the Company continued to improve the organisation of its product and sales department and the incentive and talent management system. Our human resources team rolled out various important measures to optimise the organisational structure, control labour costs, optimise the talent structure as well as the incentive mechanism based on core performance indicators, and to safeguard the corporate culture of performance and trust. The outcome was encouraging.

Regarding organisational optimisation and culture construction, we established a flat product organisation structure, refined the management structure of sales districts, and offered incentives to staff with excellent performance. Furthermore, we cut down low-output positions and personnel in various departments, in order to enhance the input-output ratio of personnel and strengthen the healthy and benign corporate culture.

With regard to talent management, we built up a retail and product talents identification, assessment and training system to support the Company's strategic approach in enhancing products and retail capabilities. Moreover, we initiated development plan for management trainees specialised in sales and product, so as to build our own key personnel for future business expansion.

In terms of remuneration, we continued to provide incentives to key positions based on their performance to increase the market competitiveness of the remuneration of core talents.

Regarding performance management, we established the regional and store incentive mechanism based on the principle of profit sharing. Leveraging the product performance management system based on key financial goals, we attempted to establish incentive mechanism for product innovation so as to enhance product and retail operation efficiency.

Regarding employer brand-building, an official LI-NING WeChat account was set up as a window to showcase the Company's activities and achievements in this area, such as the anniversary celebration of the Company and Creativity Competition. This year, the Company was once again named in the "2016 Top 100 Most Attractive Employers in China" Award, and topped the domestic sportswear industry in the award. Meanwhile, the Company was awarded several employer brand awards, including "2016 Best Employer in China" and "2016 Top 100 Excellent Employer in China".

Looking ahead, we will adhere to the goal of achieving better product experience, sports experience and shopping experience in strengthening our organisational performance management and our talent team building. We wish to effectively control our cost on human resources, while continuing to strengthen our organisational capability and enhance the performance of our staff, in order to give full support to the Company's strategic goal and enhance the management and operational capability of each business unit.

As at 31 December 2016, the Group had 1,975 employees in total (30 June 2016: 1,956 employees), including 1,800 employees at the Group's headquarters and retail subsidiaries (30 June 2016: 1,770 employees), and 175 employees at the Group's other subsidiaries (30 June 2016: 186 employees).

OUTLOOK

Looking forward, we will continue to strengthen and improve the following business focuses based on our major tasks which were accomplished in 2016, in order to maintain healthy and sustainable profit growth for the Company in the future:

– We will push forward the building of supporting platform for retail operations in order to constantly enhance the profitability of retail outlets. We will analyze those key business segments with correlated products and channels based on categories and optimize the overall retail business model, aiming to drive the profitability of retail outlets;

– Developing LI-NING brand value through experience: Taking into account the actual needs of consumers, we will refine their product experience, shopping experience and sports experience in terms of products and channels so as to create value in experience that meet consumer needs and habits and enhance the brand value and influence among consumers;

– We will, relying on the big data, analyze and grasp the spending habits and differentiated needs of consumer groups to support the projection of the Company's long-term development in the future;

– We will exercise reasonable and prudent use of resources to explore new businesses with business opportunities and market potentials, including sports market other than the five major categories, kidswear market and “” label, to foster new opportunities for the Company's future profit growth in the long run.

With the increasing participation and passion for sports amongst the public, their professional awareness about the sports category they participate has gradually enhanced and it is expected that they will have a better understanding of their own sports habit. Meanwhile, the population effect of sports participation is gradually emerging where the sports population group is more inclined to share their sports experience and obtain professional sports guidance and advices via different communication platforms. These changes bring companies in sports industry both new challenges and new opportunities. In order to accommodate the changing market environment, developing LI-NING brand value through experience will remain as the theme of the Company's future development. We will provide flexible experiences according to differentiated consumer habits with an aim to explore and broaden room for business development.

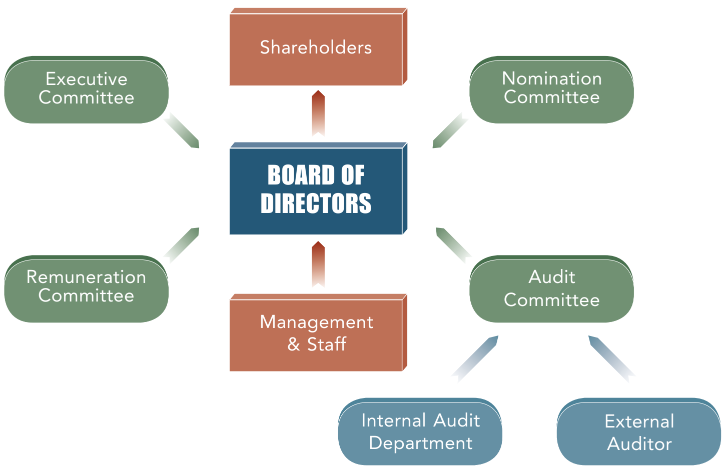
Corporate Governance Report

Adapting and adhering to recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in an effective and efficient manner. The Board believes that good corporate governance safeguards the long-term interest of the Shareholders and enhances 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.

Throughout the year ended 31 December 2016, the Company has complied with the code provisions of the Corporate Governance Code ("Code Provisions") as set out in Appendix 14 to the Listing Rules, except for certain deviations specified with considered reasons 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 Code Provisions as the duties of the Board in performing its corporate governance functions.

During the year of 2016, 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 the Directors and the senior management of the Company (the "Senior Management");

c. reviewing and monitoring the Company's policies and practices to ensure they are 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 seven Directors, with a majority of whom being non-executive Directors (including independent non-executive Directors), of which one is an executive Director, two are non-executive Directors, and four are independent non-executive Directors. During the year of 2016 and up to the date of this report, the composition of the Board and its changes are as follows:

Name of Director

Executive Director

Mr. Li Ning *(Executive Chairman and Interim Chief Executive Officer)*

Non-executive Directors

Mr. Chen Yue, Scott
Mr. Wu, Jesse Jen-Wei

Independent non-executive Directors

Mr. Koo Fook Sun, Louis
Ms. Wang Ya Fei
Dr. Chan Chung Bun, Bunny, GBS, JP
Mr. Su Jing Shyh, Samuel

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 they 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 pursuant to the disclosure requirements of the Listing Rules. The Board is of the view that each Director has given sufficient time and attention to the affairs of the Company for the year under review.

Board Diversity Policy

The nomination committee of the Company (the "Nomination Committee") reviews and assesses the composition of the Board and makes recommendations to the Board on the appointment of new Directors and Senior Management based on its terms of reference.

The Nomination Committee made an annual review on the composition of the Board with reference to a number of factors, including but not limited to diversity. The Company has complied with paragraph A.5.6 of the Code Provisions, with respect to board diversity during the year. Further details on the review of the composition of the Board are set out in the section headed "Nomination Committee" below.

Chairman and Chief Executive Officer

According to paragraph A.2.1 of the Code Provisions, the roles of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. As the Company has not yet identified a suitable candidate to be the chief executive officer ("CEO") during the year of 2016, Mr. Li Ning, the Executive Chairman and Interim CEO of the Company, assumed the role of chief executive officer during the year. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles are currently undertaken by Mr. Li Ning. Notwithstanding the above, the Board is of the view that the assumption of the roles of Executive Chairman and Interim CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group's business strategies. The Board also believes that the current arrangement is in the interest of the Company and its Shareholders as a whole.

In addition, 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.

Principal Responsibilities of the Board

While delegating the 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 D.3.1 of the Code Provisions.

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 or she has a proper understanding of the business and operations of the Group and that he or she is fully aware of his or her duties and responsibilities as a director under the applicable rules and requirements. Directors are updated on any developments or changes affecting their obligations from time to time. Professional training and update programmes are provided to the Directors on a regular basis in order to enhance the Board members' knowledge on the professional and regulatory perspectives. In June 2016, the Company, together with its legal adviser, organized a training session to provide the Directors with an update on "Hong Kong Stock Exchange Review on Annual Report of Listing Issuers".

According to the records maintained by the Company, the Directors received the following trainings and updates in 2016:

	Attending seminars and/or conferences and/or forums relating to rules and regulations or duties of the directors	Reading newspapers, journals and updates relating to the economy and business management and duties of directors
Executive Director		
Mr. Li Ning *(Executive Chairman and Interim CEO)*	✓	✓
Non-executive Directors		
Mr. Chen Yue, Scott	✓	✓
Mr. Wu, Jesse Jen-Wei	✓	✓
Independent non-executive Directors		
Mr. Koo Fook Sun, Louis	✓	✓
Ms. Wang Ya Fei	✓	✓
Dr. Chan Chung Bun, Bunny, GBS, JP	✓	✓
Mr. Su Jing Shyh, Samuel	✓	✓

Non-executive Directors and Independent Non-executive Directors

Non-executive Directors and independent non-executive Directors play an important check-and-balance role in safeguarding 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 Directors and independent non-executive Directors have extensive professional experiences and have participated in the meetings of the Board in a conscientious and responsible manner. They actively serve on the Board and its committees to provide their independent and objective views, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control. They have been appointed for a specific term and are subject to re-election and rotation according to the applicable Listing Rules and the Articles of Association.

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. 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 in accordance with the Articles of Association.

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 remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. Each of the Board Committees has its own defined and written terms of reference as approved by the Board covering its duties, powers and functions, which are in compliance with the Listing Rules and have taken into account the specific business needs of the Company. The Board Committees are provided with sufficient internal and external resources to discharge their duties. Each Board 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. Meetings of the Board Committees are convened and conducted in accordance with the Articles of Association.

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, Interim CEO & Executive Director
Mr. Chen Yue, Scott	Non-executive Director
Mr. Wu, Jesse Jen-Wei	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, helping to develop and endorse major recommendations made to the Board by management, and supervising the management in the implementation of policies and decisions laid down by the Board in relation to the business and operations of the Group;
- overseeing and guiding the business and operations of all 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 the delegation of authority to the Executive Committee is proper and appropriate and remains appropriate to the Company's needs.

Nomination Committee

The Nomination Committee has been established since June 2005. The primary role of the Nomination Committee is to formulate and execute nomination policies of the Board members and 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 the Directors, 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 has adopted the terms of reference as outlined under the Code Provisions. The current terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee currently consists of the following three Directors:

Mr. Su Jing Shyh, Samuel *(Chairman of the Committee)*	Independent non-executive Director
Mr. Li Ning	Executive Chairman, Interim CEO & Executive Director
Dr. Chan Chung Bun, Bunny, GBS, JP	Independent non-executive Director

The Nomination Committee normally engages professional recruitment consultants in discharging its duties and functions. 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 and the Senior Management have sound knowledge, experience and/or expertise required 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 2016:

- identifying and approving a suitable candidate for the position of Chief Human Resources Officer;
- assessing the independence of each of the independent non-executive Directors;
- identifying candidates for the position of CEO for the Group; and
- reviewing the structure, size and composition of the Board, the time involvement, work framework, and duties and responsibilities of the Directors on an annual basis; and keeping records on the information updated by each Director pursuant to Rule 13.51B of the Listing Rules.

During the year, the Nomination Committee reviewed the composition of the Board, including its diversity, based on a range of perspectives with reference to the Company's business model and requirements, including but not limited to gender, age, ethnicity, education background and professional expertise, industry experience, skills and knowledge, and length of service.

The Nomination Committee considered that the current composition of the Board is balanced in terms of diversity and is able to meet the objectives of the Board. The Board's diversity provides the Company with experienced individuals and professionals with proven and extensive industry experience whose opinions and expertise are useful for the decision-making of the Board and the implementation of its business directives.

Remuneration Committee

The Remuneration Committee has been established since the Company was listed on the Stock Exchange in June 2004. The primary responsibility of the Remuneration Committee is to formulate remuneration policies and structure for the Directors and the Senior Management to enable the Company to attract, retain and motivate talents which are essential to the long-term success of the Company.

The Remuneration Committee has adopted the terms of reference as outlined under the Code Provisions. 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 *(Chairperson of the Committee)*	Independent non-executive Director
Mr. Chen Yue, Scott	Non-executive Director
Dr. Chan Chung Bun, Bunny, GBS, JP	Independent non-executive Director

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

No Directors participated in deciding his or her own remuneration. The emoluments of each Director for the year ended 31 December 2016 are set out in note 39 to the consolidated financial statements.

The following is a summary of the major tasks carried out by the Remuneration Committee in 2016:

- making recommendations to the Board on the remuneration packages of all the Directors and Senior Management for the year 2016;
- reviewing and approving the bonus plan for the year 2016;
- reviewing and approving the salary adjustment plan for the year 2016;
- reviewing, monitoring and approving the implementation of ESOP (employee share option program) for 2016;
- reviewing and approving the recommendation of short-term and long-term incentives for the year 2016; and
- approving the budget of human resources expenses for the year 2017.

To discharge its obligations, the Remuneration Committee consults and seeks advice from the Executive 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 was listed on the Stock Exchange in June 2004. The primary role of the Audit Committee 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, risk management and internal control procedures and the Company's relationship with the external auditor.

The Audit Committee has adopted the terms of reference, which follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are in compliance with the Code Provisions. The current terms of reference of the Audit Committee 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
Dr. Chan Chung Bun, Bunny, GBS, JP	Independent non-executive Director

The external auditor, the 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 raised by the Audit Committee.

During the year of 2016, 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 2016:

- reviewing the external auditor's statutory audit plan and the nature and scope of audit before commencement of audit work;
- reviewing and recommending for the Board's approval the annual results announcement and annual financial statements for the year ended 31 December 2015 and the interim results announcement and interim financial statements for the six months ended 30 June 2016 with particular focus on changes in accounting policies and practices, compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;
- discussing with the external auditor and the management on possible accounting risks and major findings in the course of audit/review;
- reviewing the independence of the external auditor and recommending to the Board on the re-appointment of the external auditor;
- approving the audit fees and terms of engagement of the external auditor;
- reviewing 2016 internal audit findings and recommendations and approving 2017 internal audit plan; and
- reviewing 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 have business dealings 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 achieve the maximum attendance of 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 a timely manner before the date of the meeting in compliance with the Code Provisions.

Directors can access relevant information as requested at any time. The management provides the Directors with comprehensive reports on the Group's business progress, financial objectives, strategic and development plans 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.

During the year of 2016, the Board has only one Executive Director. For the year ended 31 December 2016, 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 the Board or Committee meetings. Interested Directors are required to abstain from voting and will not be counted in the quorum present in the Board or Committee meetings in accordance with the Articles of Association.

The attendances 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 Director	Number of meetings attended/ number of meetings held during the respective tenure in the financial year ended 31 December 2016 Board	Nomination Committee	Remuneration Committee	Audit Committee
Executive Director				
Mr. Li Ning *(Executive Chairman and Interim CEO)*	4/4	1/1	2/2 (in attendance)	N/A
Non-executive Directors				
Mr. Chen Yue, Scott	4/4	N/A	1/2	N/A
Mr. Wu, Jesse Jen-Wei	4/4	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Koo Fook Sun, Louis	4/4	N/A	N/A	3/3
Ms. Wang Ya Fei	4/4	N/A	2/2	3/3
Dr. Chan Chung Bun, Bunny, GBS, JP	4/4	1/1	2/2	3/3
Mr. Su Jing Shyh, Samuel	4/4	1/1	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.

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 the year of 2016, 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 2016, the management had provided all members of the Board with monthly financial updates in order to give a balanced and reasonable assessment of the Company's performance, position and prospects.

External Auditor's Remuneration

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

For the year ended 31 December 2016, the fees for the audit services and non-audit services provided by the external auditor are as follows:

Type of Service	**2016 (RMB)**	2015 (RMB)
Audit fee for the Group	**4,400,000**	4,710,000
Tax compliance and other advisory services	**957,000**	419,000
Total	**5,357,000**	5,129,000

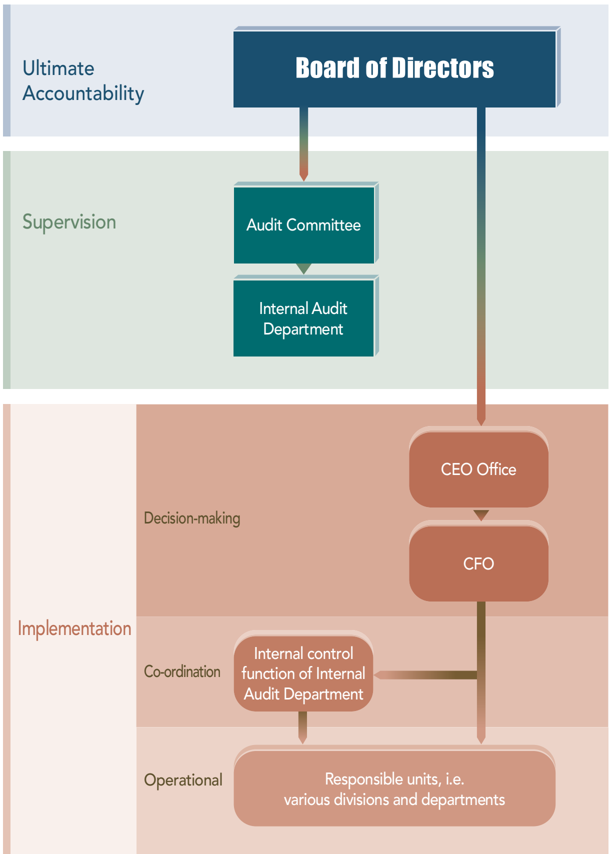
Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives and reviewing the effectiveness of the Group's risk management and internal control systems on an annual basis. In 2016, the Board, with the support of the Audit Committee, reviewed the adequacy of resources, qualifications and experience of staff in performing the accounting and financial reporting functions and the appropriateness of their training programmes and budgets.

Risk Management and Internal Control System

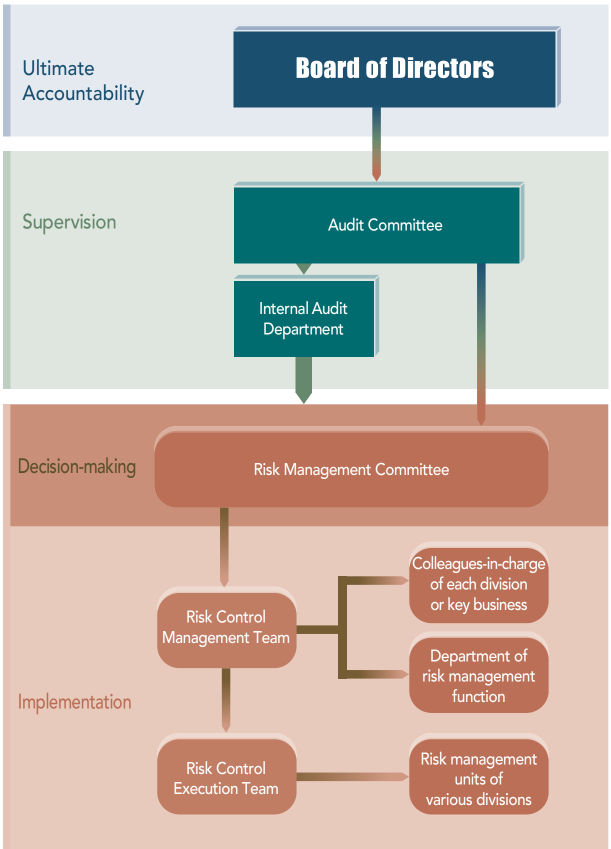
Based on the experience in operation control over the years, the Company has put in place an integrated system of risk management and internal control. The system adopts the globally recognised framework outlined by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"), taking into account the Group's business, operational and financial risks, corporate culture and management philosophy. The system is designed to (i) achieve effectiveness and efficiency of operations; (ii) enhance the reliability of internal and external financial reporting; and (iii) ensure compliance with the 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 strong support, reflected mainly in the following aspects:

(1) The normal operation of the organizational structure set up on the basis of the COSO risk management and internal control framework is promoted continuously, under which the internal control organization structure 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 bears the ultimate accountability and has the ultimate 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 risk management and internal control procedures and advising the Board on the effectiveness thereof. Preliminary assessment on the effectiveness of risk management and internal control are 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 (namely, the internal control function of Internal Audit Department, 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.

(2) Risk management organization structure is depicted as follows:



The Company has established a top-down organizational and management structure with clear-cut responsibilities and authorities for risk management purposes, embracing four levels which are responsible for ultimate accountability, supervision, decision-making and implementation, respectively: (i) the Board bears the ultimate accountability in the risk management of the Company. It has the right to provide guidance and final decision on the Company's risk management policies and systems as well as response plans, and bears the ultimate accountability for the effectiveness of the Company's risk management; (ii) the Audit Committee and its Internal Audit Department assess and monitor the implementation of the Company's risk management, and inform the Risk Management Committee of such result and submit to the Board in a timely manner; (iii) the Risk Management Committee is comprised of the Company's management and Group Vice President for a term of two years. Its basic duties include but not limited to discussing and approving the policies and systems relating to risk management, making decision on risk management related works, discussing and approving the annual work plan and annual report on risk management, deciding solutions for major issues arisen during the operation of the Company as well as reporting regularly to the Audit Committee and/or the management in respect of risk management; (iv) the implementation level comprises a risk control management group (including heads of departments or key business heads, and risk management functions performed by the Internal Audit Department) and a risk control execution group (i.e. staff designated for risk management of each system).

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

(3) Possession of effective and forward-looking information on strategic management and operation management and financial and accounting management systems supports 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 are being carried out promptly so as to remedy any significant failures or weaknesses.

(4) 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, is implemented on an ongoing basis. The Internal Control Manual currently covers areas including 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 function of Internal Audit Department, key items of internal control and the specific control procedures set out in the Internal Control Manual were updated by the relevant departments during 2016. Such updated procedures have been implemented during the year.

(5) An effective annual self-assessment and evaluation mechanism under the internal control framework was established with satisfactory results and attained the following goals:

    (i) fostering middle and senior management to review and comment on whether control targets at 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 procedural control, 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.

(6) Independent reviews of risks management and internal control in relation to key operations, 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.

(7) In order to support the rapid and healthy development of business diversification of the Group, the Company conducts annual risk review at corporate level and assesses risks and risk management controls on the key business aspects based on the Risk Management Manual of Li Ning Company Limited.

ANNUAL REVIEW

The Board is fully aware of its accountability in respect of the Group's risk management and internal control systems and its responsibility for reviewing the effectiveness of the systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Group's internal control system is subject to continuous review and improvement to enable timely responses to any changing risks facing the Group.

A comprehensive review on the effectiveness of the Group's risk management and internal control system is conducted by the Board annually, covering all material controls including financial, operational and compliance monitoring. 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 2016, the Company continued to improve methods for self-assessment, which included extending the scope of the self-assessment. The procedural control of self-assessment covered various divisions or departments in light of the Company's organisational restructuring and business expansion. In addition, members of the 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 review process and the results, and submitted a declaration to the Audit Committee and the Board certifying the adequacy and effectiveness of the Group's internal control system.

The results of the review for the year ended 31 December 2016 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 risk management and 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 by the Group so far and there are 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 the sufficiency of 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 fulfil accounting and financial reporting duties. These personnel possess necessary professional qualifications and practical experience to effectively perform their respective functions, and there have been appropriate 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 of the Corporate Governance Code for the year ended 31 December 2016.

INTERNAL AUDIT

The Internal Audit Department was established soon after the Company's listing on the Stock Exchange in 2004. The main functions of the Internal Audit Department are reviewing the operational and financial conditions of the Group to disclose potential risks, and following up with related remedial measures, with a view to continuously enhancing the operational effectiveness and efficiency of the Group. The Internal Audit Department plays an important role in the Group's internal control and risk management framework with an aim to provide the Audit Committee and the Board with objective assurance that the internal control system and risk management system are effectively 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 maintained constructive communications with the Company's external auditor during 2016. The Internal Audit Department also collaborates with the external auditor where appropriate.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk assessment results, and engages in related tasks with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular audits and evaluation of the operational effectiveness and efficiency of various business and functional systems; and (ii) special audits in areas designated by the management and the Audit Committee based on the assessment of risks. In the year of 2016, the Internal Audit Department conducted audits on the sales system, marketing system, retail subsidiaries, supply chain system and non-core business systems of LI-NING brand, as well as internal control and risk management systems, and submitted the relevant audit reports to the Audit Committee and the management.

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. The Internal Audit Department submits formal work report to the Audit Committee three times a year, which enables the Board to assess control of the Group and the effectiveness of risk management. As at 31 December 2016, 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 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 2016, the Internal Audit Department participated in reviewing the implementation of the risk management system, internal control system, risk management of sales channels and branding, and the financial systems.

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 Chapter 13 of the Listing Rules and the Securities and Futures Ordinance and the overriding principle that inside information of the Company should be announced immediately. The Company reviews from time to time its internal guidelines on inside information or potentially price sensitive information with reference to its own and industry circumstances and the Guide on Disclosure of Inside Information issued by the Securities and Futures Commission. The Company's policy contains a strict prohibition on unauthorised use of confidential or inside information and has established and implemented procedures for responding to external enquiries about the Group's affairs.

During the year, the Company followed the rules and procedures on regulating the disciplines and actions of all employees in external media communications and that the Executive Chairman and CFO are the key spokespersons of the Company in all external media communications. The human resources division of the Company is responsible for monitoring and reviewing the due compliance by all staff of the Group. The purpose of streamlining the communications of the Group with the media is to regulate all media communication activities, protect the interests of the Company and keep inside information strictly confidential prior to its disclosure.

COMPLIANCE WITH THE MODEL CODE ON SHARE DEALINGS

The Company has adopted the Model Code regarding securities transactions by the 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 2016.

Employees who are likely to be in possession of unpublished inside information of the Group are also subject to guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in the year of 2016.

COMPANY SECRETARY

During the year, Ms. Tai Kar Lei is the company secretary of the Company (the "Company Secretary"). Ms. Tai is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. During the year, Ms. Tai reported to the Executive Chairman and/or the CFO. In addition, she has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company has a number of formal communication channels to provide the 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 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 the Board to hold an extraordinary general meeting 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, Kowloon, 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" in the section headed "Corporate Governance" of the Company's website at http://ir.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, Kowloon, Hong Kong.

For the year of 2016, there was no change in the 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 was listed on the Stock Exchange in 2004, all resolutions put forward at the Shareholders' meeting were voted by way of poll, of which each fully paid share of the Company is entitled to one vote. The procedures for demanding and conducting a poll with reference to the Articles of Association 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 meetings, more than 20 clear business days' annual general meeting notice and 10 clear business day's extraordinary general meeting notice, and the circular containing necessary information are given to the Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered at the meetings.

Board members (including the chairmen of each of the Nomination Committee, the Remuneration Committee and the Audit Committee) and the Company's external auditor were present at the annual general meeting of Company held on 3 June 2016 (the "2016 AGM"). A question-and-answer session was held for the Shareholders to raise questions. The next annual general meeting of the Company will be held on 16 June 2017 (the "2017 AGM"). Details of the 2017 AGM and necessary information on issues to be considered are set out in the circular despatched to the Shareholders together with this annual report.

The attendance records of the Directors at the shareholders' meetings held in the year of 2016 are set out below:

	2016 AGM
Executive Director	
Mr. Li Ning *(Executive Chairman and Interim CEO)*	✓
Non-executive Directors	
Mr. Chen Yue, Scott	✓
Mr. Wu, Jesse Jen-Wei	✓
Independent non-executive Directors	
Mr. Koo Fook Sun, Louis	✓
Ms. Wang Ya Fei	✓
Dr. Chan Chung Bun, Bunny, GBS, JP	✓
Mr. Su Jing Shyh, Samuel	✓

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 Chairman and Interim CEO

Hong Kong, 22 March 2017

Environmental, Social and Governance Report

I POLICY MANAGEMENT AND KEY ISSUES IDENTIFICATION

"Shouldering social responsibility" has been a key integral part of the corporate culture of Li Ning Company. The Group has always pursued the concept that "sports activities are not merely for the purpose of competition or fitness, but also have the functions of public service and social education" and honoured its commitment as a "corporate civil responsibility", aiming to benefit the society and the environment in the long-term.

For years, the Group has been adhering to its core values: fulfilling dreams, integrity and faithfulness, our culture, excellence, customer orientation and breakthrough, and discharging our responsibilities for products, environment, employees and communities through constant communication and cooperation with all stakeholders. Meanwhile, the Group has also improved its ability on relevant risk management and control.

1.1 Environmental, Social and Governance Philosophy

The Group emphasizes that our philosophy in environmental, social and governance should be correlated to our business, which principally includes the areas as below:

- We are highly demanding on product quality, supply chain environment and social management, making all endeavors to reduce emissions of various wastes and resource consumption and actively promoting corporate social responsibility to our suppliers with our practices. We also assist suppliers in promoting the progress of corporate social responsibility in order to develop a more responsible business environment. Meanwhile, we are committed to providing consumers with green, safe and high-quality products.

- Cherishing our employees as the most important asset of the Company, we continue to create a good working environment and provide professional skill training and career development opportunities to achieve mutual growth of employees and the Company.

- As the leader in the domestic sporting goods industry, we are actively participating in public charity and community investment activities to contribute to the society and fulfill the social responsibility of a corporate citizen in the course of development and expansion.

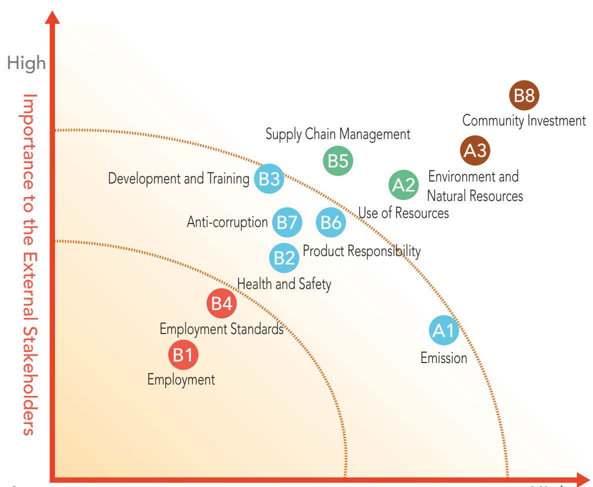
1.2 Key Issues Identification

Communication and engagement with stakeholders is the foundation of corporate sustainability. We identified the principal stakeholders of the Group in accordance with the features of the industry and our operations, including government and regulatory authorities, shareholders and investors, employees, distributors and suppliers, media, consumers, communities and general public. In the meantime, we have established a good and stable communication model with stakeholders through various channels.

Key Stakeholders Identification

Key stakeholders	Communication channel	Issues concerned	Response
Government and regulatory authorities	Policy guidelines; Regulatory document; Industry meeting; On-site inspection; Off-site regulation	Energy saving and emission reduction; Corporate governance; Compliance operation; Implementation of policy	Implement regulatory policy; Accept supervision and assessment; Carry out green operations; Improve corporate governance system
Shareholder and investor	Information disclosure; General meeting; Road show; Result announcement	Operation strategy; Profitability; Transparency and information disclosure	Maintain brand value; Regularly publish results announcement; Promote internal control and risk management
Employee	Trade union; Staff representatives meeting; Intranet mailbox; Corporate activity	Employee remuneration and benefits; Community charity; Development and training; Safety and protection	Bring the role of trade unions into play; Enrich employees' life; Establish a learning platform; Protect employees' rights and interests
Distributor and supplier	Regular communication meeting; Daily exchange and visit; Cooperation agreement; Strategic negotiation	Fair cooperation; Integrity and compliance; Mutual development	Formulate a transparent and fair procurement system; Enhance environmental and social risk awareness; Establish a good relationship in business cooperation
Media	Press Release; Media platform; Site visit	Corporate influence; Transparency and information disclosure; Ability in Public relations	Regularly organize the open day for media; Real-time news release; Timely and objective information disclosure
Consumer	Customer service hotline; Satisfaction survey; Marketing activity; Official website	Product quality; After-sales service; Privacy protection	Establish and improve the quality control and management system; Improve service quality; Protect consumers' rights and interests
Community and general public	Charity activity; Volunteer action; Community activity	Benevolent and charitable activities; Community development; Community relations	Regularly conduct volunteer activities; Increase external donations; Popularize professional sports knowledge

With regard to the 11 major issues identified in the Guidelines on Environmental, Social and Governance Report, we conducted a specific survey on the key stakeholders of the Group and identified the main concerns of the internal and external stakeholders, including community investment, supply chain management and resource use, etc.



Analysis Matrix of Concerns of Key Stakeholders over the Guidelines on Environmental, Social and Governance in various aspects

II ENVIRONMENTAL MANAGEMENT

2.1 Environmental Management Policy

The Group has been actively exploring a way of development featuring low-investment, low-consumption, low-emission and high-yields since its inception. The Group has taken various control measures for environmental protection, vigorously used green energy and resources to improve the management efficiency of energy resources while developing its business. In addition, the Group continues to focus on energy conservation and emission reduction, increase investment in environmental protection and comply with Environmental Protection Law of the People's Republic of China, Laws of the People's Republic of China on Conserving Energy and other important laws and regulations.

In 2016, the Group achieved the goal of energy saving set at the beginning of the year. The energy consumption was significantly reduced as compared to that of last year.

2.2 Environmental Management Measures

As a brand operator in sports industry, the Group did not cause significant pollution and impact on the environment in the course of its operations. However, it still attaches great importance to environmental management. The Group set up a leading team for energy saving and emission reduction led by Administration Department, making clear-cut rules with respect to authority and accountability, appointed responsible persons and specified job responsibilities.

In the year of 2016, the Group continued to improve systems and management measures including "Li Ning Company Energy (Resources) Saving Management Standards (李寧公司節能（源）管理標準)", "Li Ning Company Energy Saving Arrangements (李寧公司節能工作安排)", "Li Ning Company Energy Saving Measures (李寧公司節能措施)". In addition, the Group carried out a variety of training and promoting activities in energy saving and emission reduction to guide the participation of all employees, which created a good atmosphere of energy saving and emission reduction.

In order to improve the overall management level and efficiently launch the campaign on energy saving and emission reduction, the Group conducted regular and irregular follow-up assessment and evaluation on fundamental aspects, such as system development, target implementation and energy utilization management. The Administration Department of the Group has required the property management department to provide monthly statistics and summary of the energy consumption (water, electricity, gas) of areas under its management and make analysis on the statistical results. According to these data, the Group can find out the root cause of unreasonable energy consumption and fine-tune our energy management to ensure the energy and resources in those areas are used reasonably and efficiently.

Cases

Li-Ning Centre Photovoltaic Power Generation Project (李寧中心光伏發電工程): The Administration Department of the Group has actively explored and cooperated with professional service providers to build solar power stations by taking full advantages of the Company's arenas and the vast roof areas of office buildings. The project was composed of more than 5,700 pieces of photovoltaic panels with effective laying area of approximately 15,000 square meters. The power capacity of the project amounted to 1,460KW with an average annual generating capacity of 1,400,000W, accounting for 25% to 30% of the average annual power consumption of Li-Ning Centre. So the Group can directly save more than RMB400,000 every year in power charges, and its emission reduction result will save 510 tons of standard coal per year, and reduce 1,400 tons of CO_2 emission and 42.5 tons of SO_2 emissions per year, respectively.

LED Light Energy Saving Renovation Project of Office Area (辦公室LED燈節能改造工程): In order to reduce management cost and meet the target of energy saving and improve efficiency, the Group launched a LED light energy saving renovation project of the office area in Li-Ning Centre at the beginning of 2016. The project converted the original 7,982 fluorescent lamps of 36W into LED lamps of 16W. Upon completion of the conversion, it is expected to save 379,304kWh of electricity and 125 tons of standard coal every year and reduce CO_2 and SO_2 emissions by 295.8 tons and 3.4 tons per year, respectively.

III EMPLOYMENT MANAGEMENT

The Group strictly complies with the laws and regulations such as "Labour Law of the People's Republic of China", "Labour Contract Law of the People's Republic of China", "Social Insurance Law of the People's Republic of China", and has formulated the "Staff Handbook of Li Ning Company Limited (李寧有限公司員工手冊)" in accordance with the laws and the practical conditions of the Company, covering aspects such as recruitment and employment, labour relations management, work time attendance and leave management, reward and punishment management, and remuneration and welfare. At the same time, the Group respects the protection of the legitimate rights and interests of employees, constantly improves the employment management system and establishes a good supervision and protection system on the rights and interests of employees.

3.1 Lawful Employment with Protection of Employees' Rights and Interests

As of the end of 2016, the Group had 1,975 employees in total, including 1,800 employees in the Group's headquarters and retail subsidiaries, and 175 employees in the Group's other subsidiaries.

In respect of employment, the Group has signed, renewed, terminated or dismissed the labour contract with employees in accordance with the relevant laws and regulations of the State and local governments and fulfilled the obligations of the enterprise in accordance with the terms of the labour contract. We treat all candidates equally and respect different culture and beliefs, regardless of gender, ethnic and religious background, in order to select qualified candidates who are in line with the corporate culture through a rigorous recruitment process. As provided by the "Staff Handbook (員工手冊)", we emphasize that the employees under recruitment must meet the requirements on age stipulated by the law. No significant risk of employment of minors or forced labour has been found within the Company so far.

The Group has developed a remuneration strategy matching the Company's strategies as a whole in line with the Company's strategic development objectives, industry characteristics and other factors, and regularly reviews employee salaries and benefits, in order to provide a variety of incentives according to the performance and contributions of employees of different positions. We provide sale bonuses, sale commissions, share options and share awards to outstanding employees.

The Group has developed "Employee Attendance and Leave Management System (員工考勤及休假管理制度)" to protect the entitlements of employees to paid leave that could offer a balance between work and life. At the same time, we pay full premium on pension, work injury, unemployment, medical and maternity insurance and other social insurance and housing provident fund for all employees in accordance with the provisions of the State and the local government, and provide employees with other additional benefits, including birthday, marriage and birth gifts, traditional festival allowance, accidental injury insurance and supplementary health insurance.

3.2 Focusing on Health and Safety

The Group requires its employees to be strictly in compliance with the "Safety Code (安全手冊)" and "Occupational Health Code (職業健康手冊)" to provide them with safe and comfortable office environment, and help them keep abreast of their health by arranging annual medical check-ups. Human Resources and Operation Department of the Group selects qualified medical check-ups institutions to arrange annual medical check-ups for our staff in July every year, then holds the medical examination report meeting and invites internal and external experts to explain and give some suggestion to our staff on the basis of every medical examination report. In their daily work, we also organize various activities including health talks from time to time and encourage our staff to participate in such activities after making appropriate arrangements to their daily tasks, which are designed to improve the ability of staff's self-care and to effectively prevent occupational diseases by disseminating health knowledge.

The Group has formulated certain systems, including "Li Ning Company Emergency Plan Compilation (李寧公司應急預案彙編)", "Emergency Rapid Reporting Procedure (突發事件快速匯報流程)" and "Emergency Evacuation Plan (疏散應急預案)". The Administration Department, as the leading department, issued "Emergency Telephone Contact List of Li Ning Park (緊急電話聯繫表)" to every system. In case of emergency, the staff on duty will contact the person in charge of the property and system in the relevant units and deal with such emergencies in a timely manner. We require every system to put the safety of employees as our top priority and reduce potential accidents through systematic management.

The Group organizes training on safety production regularly for the head of the various systems and the safety management personnel, and strengthens the training for special equipment operators and key personnel continuously to ensure all of them are on duty with required certificates. In addition, we conducted various promotional campaigns on safety and fire protection, including setting up "Safety Production Month" in June every year and "Fire Protection Publicity Day" on 9 November every year. In 2016, Li-Ning Centre, situated in Beijing, carried out 26 safety drills of various kinds in total. At the same time, it carried out more than 10 series of inspection activities according to the 5S office management system (which includes SEIRI, SEITON, SEISO, SEIKEISU and SHITSUKE). The above measures effectively enhanced the safety awareness of our employees and ensure that our staff will master the basic knowledge of emergency relief.

3.3 Talent Training and Promotion of Mutual Development

The Group pursues the concept of mutual development with staff, takes talent development as the core of the Company's talent management strategy, and integrates organizational development, talent development and corporate strategies through the mechanism of talent development conference to reduce brain drain and enhance employee engagement. Meanwhile, the Group organizes a number of training activities on a variety of knowhow, skills and work attitude in order to meet the mutual needs of the Company and the employees in future development.

Pursuant to the Group's training objectives, we conduct general training for all employees by integrating self-training and lecture training as well as position training and professional training based on the strategic development needs of the Company. The Group will also continue to explore and innovate on the mode of training, expand its depth and connotation, and build a platform of learning- and knowledge-oriented enterprise to improve the knowledge, ability and initiative of our staff, aiming to achieve the goal of self-realization of our employees.

The basic principles underlying our training are as follow:

- Full Staff: Management and employees should actively participate in training for constant learning and growth.
- Target: Conducting training according to practical needs.
- Planning: Design training plans based on training needs and implement them strictly according to plans.
- Full length: The training covers the full-length of an employment including orientation, on-the-job, transfer and promotion.
- Comprehensive: We offer comprehensive training combining basic training, quality training and technical training through various means such as lectures, discussions, visits, observation and commissioned training.
- Tracking: Subsequent to a training, we will conduct assessment on the contents of the training and review the training results on a regular basis.

IV SUPPLY CHAIN MANAGEMENT

4.1 Social Responsibility of Supply Chain

In the year of 2016, the Group consolidated, strengthened and enhanced the management of its suppliers through the following measures on the basis of the "Code of Conduct on the Social Responsibility of Li Ning Company's Suppliers (李寧公司供貨商社會責任行為準則)":

- The new supplier approval system was strictly executed. In the year, reviews were made on a total of 17 potential suppliers, among which 14 of them passed the review to qualify as our suppliers. The passing rate was approximately 82%;

- The Group developed "Quarterly Self-assessment and Review Tool on the Social Responsibility of Li Ning's Suppliers (李寧供貨商社會責任季度自評審核工具)" and implemented the system of quarterly assessment and review on the social responsibility of suppliers of Li Ning's finished products coupled with a third-party review and assessment on the same, whereby suppliers were required to make self-review and assessment and improve their CSR performance on a regular basis. The Group conducted quarterly assessment and review on CSR performance of all suppliers of finished products in a bid to strengthen suppliers in terms of self-management and continuing improvement. The quarterly CSR ratings will be taken into account in the supplier quarterly comprehensive assessment indicators system;

- With the continuing combination of the suppliers' self-management and improvement and the supervision by Li Ning Company, the Group further improved "On-site Review and Assessment Tool on the Social Responsibility of Li Ning's Suppliers (李寧供貨商社會責任現場審核評估工具)" and commissioned a third-party consulting organization to conduct CSR on-site audit on 19 selected representative suppliers during the year;

- Coupling auditing with improvement measures, the Group emphasized on the improvement requirements for suppliers and tracked the progress of CSR auditing and improvement of all participating suppliers of finished products in order to strengthen suppliers' management and control capability;

- With the combination of daily management and emergency planning, the Group conducted risk review and assessment of suppliers' operation on a regular basis.

4.2 Environmental Responsibility of Supply Chain

Impact on the environment has always been a key focus of the Group. In order to become an enterprise which places emphasis on environmental protection and sustainable development, the Group focuses on the following two aspects: the business operation environment and the production environment. During the year of 2016, the Group continuously strengthened the suppliers' awareness and concept of environmental protection and provided them with ways and means to improve their environmental performance by way of policy revision, professional training, on-site review, and sampling test, etc.:

- The Group revised the "Li Ning's Restricted Substances List on Manufacturing", which sets out the requirements on the control of restricted substances used in the manufacturing process and provides a reference for protecting the health and safety of their staff and preventing and controlling pollution to the environment;

- The Group developed "Li Ning's Supplier Quarterly Assessment Tool on Suppliers' Working Environment (李寧供貨商環境審核季度評估工具)", and conducted quarterly assessment and review on the environmental performance of all material suppliers based on their respective self-inspection and reporting, in order to strengthen the suppliers' environmental performance under their self-management and continuing improvement. The quarterly ratings will be taken into account in the Group's quarterly comprehensive assessment indicators system on suppliers;

- The Group commissioned a third-party consulting organization to conduct environmental performance and chemicals on-site audit on 12 selected key representative suppliers, The Group also conducted environmental performance audit on key material suppliers using third-party environmental audit tool (TGI, ZDHC) to evaluate suppliers' environmental management performance in terms of water, energy, solid waste, chemicals, gas emissions and noise, etc. The Group conducted on-site chemical management audit (CM) on key material suppliers using third-party chemical management audit tool to evaluate suppliers' chemical management performance and risks of on-site chemicals, etc.;

- The Group conducted wastewater testing for core material suppliers and promoted their disclosure of data on the platform of the Institute of Public & Environmental Affairs (IPE), enabling 80% of the suppliers with hydrometallurgical process to disclose their data on the IPE platform, thereby facilitating the supply of data for green supply chains.

4.3 Interaction with the Zero Discharge of Hazardous Chemicals Program of Member Brands (ZDHC Program or ZDHC) and Participation in the ZDHC Program

As one of the six founding brands of ZDHC, the Group participated in ZDHC's various working-team meetings in the year of 2016 and collaborated with various ZDHC major brands and made the following contributions to environmental protection in the textile industry:

- The Group participated in regular meetings of the ZDHC management board and took part in the resolutions of and discussions on major issues concerning the ZDHC Program;

- The Group joined the Working-team of ZDHC-Stakeholder Partnership, and hosted and took part in research work on "Top Ten Issues on Chemical Management (化學品管理十大問題)" with ZDHC Asian working teams, making positive contributions to the promotion of environmental protection in China and Asia together with the Asian working teams of various major brands;

- During the year, ZDHC updated and released the new version of Manufacturing Restricted Substances List (MRSL 1.1 version), which has included leather in the list. As the only Chinese brand in the ZDHC group, the Li Ning Group was involved in the formulation of the MRSL list, continuously making positive contributions to the goal of zero discharge of hazardous chemicals.

V PRODUCT LIABILITY MANAGEMENT

5.1 Quality Control

The Group established a production and quality management system in line with its philosophy and standards in accordance with ISO9001 Quality Management System and related-industrial standards.

In order to ensure that the product quality of our suppliers meets our requirements, the Group has set up a set of quality control requirements, which covers design, research and development, production and other aspects with more than 40 corporate standards including product quality, physical and chemical properties of surface materials, product safety and sanitation, functional requirements, testing methods, marking labels, management process, and so on. In addition, we conduct on-site audit review on the production plants of suppliers every year based on the production and quality management system audit table to standardize their production management process and ensure quality, as well as make comments and suggestions on the related issues. The results of the supplier audit will be taken into account in the supplier's annual assessments and evaluations. For the suppliers with poor results in assessments and evaluations, we will take measures such as interviews, notices of criticism, reduction of orders and delisting from Li Ning suppliers in order to ensure product safety and meet consumers' expectations.

5.2 Complaints and Guarantees

In line with the principle of "customer priority and professional services", the Group has established an efficient customer feedback channel and management system, which allows us to prioritize our responses and responded timely to all kinds of customer feedbacks in order to protect our customer's rights and interests and ensure that our customers' opinions and suggestions are properly handled. After receiving a customer complaint, we will make a response immediately and deal with it as soon as possible. For complaints on the technical aspect of a product, they will be promptly referred to the quality management department, and the defective product will be sent to the production plant for inspection. If it is confirmed to be a defective product, the quality management department will cooperate with the production department to further investigate the root causes of the fault, to prevent the recurrence of similar problems. According to the result analysis of customer satisfaction assessment, the overall satisfaction on the Group was 97.90% in 2016.

5.3 Customer Data Protection

Protecting customer data security is our commitment. As such, the Group has established a sound information security management mechanism. The customer's personal data, consumption information and other data are stored in the high-security technical firewall for safekeeping. The Group also monitors data flow process strictly to avoid the information leakage caused by internal and external risks.

5.4 Verification and Recall

The Group has formulated the "Li Ning Product After-sales Service Manual (李寧產品售後服務手冊)" as the operating guidelines to deal with product issues, recall and management of defective goods for the staff in sales system in order to solve the product quality issues quickly and better serve customers and consumers.

For the recovery of defective product, the Group formulated the "Li Ning Company's Defective Product Recall Management Regulations (李寧公司缺陷產品召回管理規定)". According to these regulations, when a product is confirmed to be defective and required an active recall, the quality management department will coordinate the relevant departments to jointly develop a recall plan, including ceasing effectively the production of the defective product, notifying promptly the sellers to suspend wholesale and retail sales of the defective product, informing effectively the relevant consumers about the specific issues of the defective product and the time and place to deal with the defective product, as well as estimating the results of the recall in an objective and fair manner. These regulations strengthen the management of defective product recall and reduce the risk to consumers and public health and safety from the defective products.

5.5 Intellectual Property Protection

The Group formulated and published a series of relevant system and work procedure for protection of the Company's intellectual property, in accordance with the requirements of the national intellectual property strategy and the relevant laws and regulations, such as Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China, Product Quality Law of the People's Republic of China and Provisions on Indicating Product Identification. At the same time, the Group relies on law enforcement departments of the government, the huge consumers groups and Li Ning employees to jointly maintain the legitimate rights and interests of Li Ning brand.

In our design, production, sales and advertising and marketing activities, we strictly review and control the products or paperwork which may infringe others' patents, trademarks and/or copyright and other legitimate rights and interests. Meanwhile, we make full use of external resources to establish long-term cooperative relations with intellectual property law firms or agencies, and seek professional services for more important research and development results and products, including pre-assessment, patent infringement retrieval and analysis, and patent novelty retrieval and analysis. In recent years, there has been no material dispute or litigation of intellectual property involving the Group.

We fight against counterfeit products online and offline, including cooperating with intellectual property protection departments of e-commerce companies, such as Alibaba and JD, to crack down on counterfeit goods on websites in time. We are cooperating with Tencent to combat counterfeit products and trademark infringement in the platform of "Brand Protection-WeChat Security Centre (品牌維權一微信安全中心)". We also work together with third-party companies to identify targeted infringing shops and merchandise links in the platform of e-commerce, resulting in the deletion of more than 10,000 pieces of complained infringement links in the year. Offline-wise, we mainly engage the third-party companies to conduct investigation in markets and production dens of counterfeit products. In addition, we protect product rights through various means including customer reporting, market inspection by law enforcement entities, staff reporting, consumer complaints and other channels, to maximize our efforts in brand protection.

VI ANTI-CORRUPTION MANAGEMENT

In order to prevent corruption in the procurement process, promote business development and maintain a healthy and stable market environment, the Group has formulated and published a "Engagement Letter on Joint Prevention and Control of Commercial Bribery (關於共同預防和制止商業賄賂的溝通函)" and "Letter of Undertaking on Anti-Commercial Bribery (反商業賄賂承諾書)" for suppliers and distributors. The Group fight against commercial corruption and bribery jointly with suppliers and distributors based on their respective commitment.

The Group continues to strengthen its daily internal audit to prevent corruption, conduct research and analysis on audit findings to identify corruption clues and to assess the risk of corruption. The Group encourages stakeholders to report corruption and provide a means of reporting. Anyone who wishes to report corruption involving senior management may report via the mailboxes of our independent directors.

VII COMMUNITY INVESTMENT MANAGEMENT

Placing great emphasis on community investment, The Group actively made contributions to the society and honoured its commitment as a "responsible corporate citizen". As a responsible and major sporting goods company, we develop our business while taking into account the interests of the community. At the same time, we will focus ourselves on community investment through promoting national fitness and community charity, and we expect to bring long-term benefits for the community and further, the entire society as a result of our efforts.

7.1 Promoting Fitness and Health of the General Public

The Group has vigorously responded to the "National Fitness Program (2016-2020) (全民健身計劃（2016-2020年）)" issued by the State Council to promote public enthusiasm and participation in sports. In order to further implement the public sports and national fitness, we established the Li Ning Sports Park in Nanning, Yangzhou, Nanyang and other regions to promote a lifestyle and sports habits that is more scientific, healthier and happier for the mass. In addition, we actively cooperate with the government and social institutions, and are committed to promoting the continuous development of sports industry to realize the vision of "fitness for all".

Cases:

LI-Ning 10K Running League

Li-Ning 10K Running League (hereinafter referred to Li-Ning 10K), the first league of road racing competition in China launched by the Group in 2012, has successfully held more than 40 events all over China. In 2016, the Youyue Li-Ning 10K also introduced runner-team to the competition for the first time, bringing team concept into the social activities of the runners, providing a team running platform for independent "running groups (跑步圈子)" to strengthen the ability of team work running and enhance the fun of competitive race. The league won the prizes of "Best Road Race Tournament in China" by Runner's World, a professional and authoritative magazine for runners in China, for three consecutive years since 2013. In March 2016, Youyue Li-Ning 10K was selected as the "Most Favourite Running Theme (最想跑的主題跑)" by 100 heads of runner teams in the annual running carnival held by Sina Sports.

Develop a Nationwide Basketball Strategy

The Group has laid domestic basketball resources on all fronts and paid attention to the development of campus basketball through increasing the training of teenager complementary talents and attracting more teenagers to participate in basketball, in order to vigorously develop and strengthen our nationwide basketball strategy. We set up a professional youth training camp, and organized nationwide grassroots basketball tournaments including "Shot to Fame (壹戰成名)", "3+1 Basketball League (3+1籃球聯賽)" winter league and others, and continued to sponsor CUBA, CUBS and Junior & High School Basketball Leagues, to help student players to commit themselves more to the activities and enjoy the fun of basketball.

7.2 Launch of Community Charity

Through active participation in charity, the Group sends warmth to the society, helps the vulnerable groups to solve their living difficulties, and anticipates to encourage more enterprises to actively fulfil their social responsibilities so as to create a more harmonious and healthier society.

Cases

"Postal Parcel for Mothers"

The Group partnered with China Women's Development Foundation to carry out a philanthropy project named "Postal Parcel for Mothers" with aim to help poor mothers to solve their living difficulties. Since 2012, Li Ning Company, as a strategic partner of China Women's Development Foundation, has launched the project of "Postal Parcel for Mothers", accumulating donations of more than RMB46,500,000.

On 3 March 2016, the Group donated RMB16,500,000 worth of supplies to China Women's Development Foundation to support the philanthropy projects of "Postal Parcel for Mothers" in poverty-stricken areas, such as Yunnan, Tibet and Inner Mongolia. On the same day, China Women's Development Fund and the Group jointly donated items worth RMB2,000,000 to the Yunnan Women's Federation in Diqing Tibetan Autonomous Prefecture in Yunnan Province. On 11 August, the Group further visited Shule County, Yingjisha County and Maigaidi County in Xinjiang to present items of love in person to the poor deprived improverished mothers. We donated a total of 2,000,000 apparels of love in this visit to Xinjiang.

"Charity Trip with Science and Technology" in the School for Children of Migrant Workers (「科普公益行走」進打工子弟學校)

In order to raise social awareness about migrant children, in September 2016, the Group launched an activity named "'Charity Trip with Science and Technology' in the School for Children of Migrant Workers" with China Corporate Commonweal Committee and Beijing Youth Daily and other organizations, in which more than 40 pupils from Beijing Jinbang School (北京金榜學校) (a school for children of migrant workers) were given opportunities to visit China Science and Technology Museum, and received donation of new school bags and basketballs. Not only do we care about the children's life after school, but we provide them with the fun of science and technology as well as learning the same.

VIII PARTICULARS OF THE REPORT

Report Summary

This report describes the basic principles of environmental, social and governance of Li Ning Company Limited in 2016, the compliance with important laws and regulations, the specific work performed and the relevant performance in response to the concerns of the Company's key stakeholders.

Time Span

From 1 January to 31 December 2016, part of contents of the report can be appropriately traced back to previous years.

Scope of Report

Unless otherwise stated, this report covers the headquarters of Li Ning Company Limited and its retail subsidiaries.

Basis of Preparation

This report is prepared in accordance with the Guidelines for Environmental, Social and Governance Reporting published by The Stock Exchange of Hong Kong Limited.

Data Description

The data and cases disclosed in the report are derived from the original records of the operation or financial statements of the Company.

Investor Relations Report

REVIEW

During the year, capitalizing on the breakeven in 2015 and coupling with the implementation of development strategies and a set of initiatives, various indicators indicated that the Company's performance in financial, operational and products was enhancing steadily. On the basis of the active development of the proprietary technology platform for LI-NING brand, we enhanced the product and brand value by constantly riding on the fashion trend, with an aim to optimize consumer and tournament experience through product experience. Meanwhile, we continued to refine the classification of retail channels to enhance products sales performance and retail efficiency, led by products categorization such as basketball, running and sports casual. In line with the Company's business development and the increasing concern from the investment community on the Company's business development, the investor relations team continued to maintain an effective two-way communication, so as to demonstrate a more complete picture of the Company's development focus and progress to the investment community under the principle of being accessible, credible and timely (the "ACT").

THE "ACT" PRINCIPLE

In 2016, the Company continued to adhere to the ACT principle and responded actively so as to maintain effective communications with investors showing continuous interest in the business development of the Company.

The Investor Relations Department strictly complied with the relevant requirements of the Hong Kong Stock Exchange to disclose information on a regular basis whilst significantly increased the number of meetings and conference calls in response to the increasing concerns from the investment community on the Company's operating performance. Meanwhile, in order to deepen and broaden the conveying of information, the Investor Relations Department also attended forums to conduct interactive communication in a more focused way. Except the black-out period prior to the results announcement, the Department responded to the questions in an effective and timely manner. At the same time, it served as a two-way bridge to collect the feedbacks from the investment community for consideration of the Company's management concerning its future development.

Type of activities	2016	2015
Roadshows (including reverse roadshows)	**2 times (42 meetings in total)**	2 times (43 meetings in total)
Forum	**1 time (12 meetings in total)**	0 time
Meeting	**137 times**	92 times
Conference call	**170 times**	160 times
Store visit	**12 times**	18 times

PROSPECT

In 2017, the Investor Relations Department will continue to adhere to the ACT principle and accommodate the business development of the Company with an aim to facilitate the understanding by the investment community of the Company's current and future development in a more timely and comprehensive way so as to secure the confidence of the capital market on the long-term development of the Company.

INFORMATION FOR INVESTORS

Share Information

Listing: Main Board of the Hong Kong Stock Exchange
on 28 June 2004
Stock code: 2331
Board lot: 500 shares
No. of issued shares as at 31 December 2016: 2,005,317,338
Market capitalisation as at 31 December 2016:
approximately HK$9,765,895,436

Dividend for 2016

Interim dividend: Nil
Final dividend: Nil

Financial Calendar

Announcement of annual results: 22 March 2017
Annual General Meeting: 16 June 2017

Corporate Websites

Li Ning Official Website: http://www.lining.com
Li Ning IR Website: http://ir.lining.com

Contact for Investor Relations

Suites 1, 7-15, Level 45, Office Tower
Langham Place, 8 Argyle Street, Mongkok
Kowloon, Hong Kong
Investor Relations Department, Li Ning Company Limited

Telephone: +852 3541 6000
Fax: +852 3102 0927
Email: investor@li-ning.com.cn

Directors and Senior Management

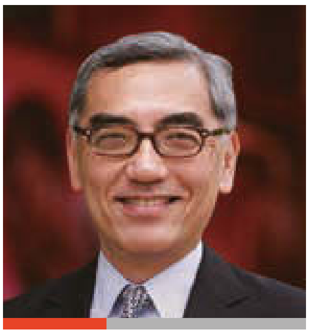
Biographies of Directors and Senior Management as at the date of this report are as follows:

EXECUTIVE DIRECTOR

Mr. Li Ning, aged 54, is the founder of the LI-NING brand and the Group's Executive Chairman, interim chief executive officer and an executive Director. Mr. Li also serves as the Chairman of the Executive Committee and a member of the Nomination Committee of the Company. Mr. Li has been appointed as interim chief executive officer of the Company with effect from 18 March 2015 and the duties of Chief Executive Officer has been performed by Mr. Li and supported by the incumbent senior management of the Company. 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 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 from his athlete career in 1989, 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, chief executive officer and executive director of Viva China Holdings Limited. 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 "WFP Goodwill Ambassador against Hunger".

NON-EXECUTIVE DIRECTORS

Mr. Chen Yue, Scott, aged 40, is a non-executive Director, a member of the executive committee and the remuneration committee of the Company. Mr. Chen joined the Group in April 2012. TPG, which has interests in the convertible bonds, the convertible securities and ordinary Shares of the Company, is an affiliate of TPG Group, a leading global investment firm. Mr. Chen is a partner and managing director of TPG. Mr. Chen is head of TPG's Beijing office and co-leads investment opportunities for TPG in Greater China. Mr. Chen's investment focus spans across all industries but specialize in the consumer and retail, healthcare 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 or has served on the Boards of Directors of United Family Healthcare, HCP Global Ltd., UTAC Holdings Ltd. and Taishin International Bank Co., Ltd. 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.



Mr. Wu, Jesse Jen-Wei, aged 60, is a non-executive Director and a member of the executive committee of the Company. Mr. Wu joined the Group in August 2015. He is a global business executive with extensive multinational business management experience. He is also an advisor of private equity firms focusing on consumer products and health care. He recently retired from Johnson & Johnson, a global health care company, where he served as Chairman of Johnson & Johnson China and a member of the Johnson & Johnson Management Committee until March 2016. He joined Johnson & Johnson's consumer business in 1989. He later was appointed Managing Director, Johnson & Johnson China in 1995 and became President for Greater China in 2000. He was named International Vice President, Asia/Pacific in 2003 and Company Group Chairman, Global Markets in 2008. In 2011, he was appointed Worldwide Chairman of the Johnson & Johnson Consumer Group. Before joining Johnson & Johnson, he had worked with Procter & Gamble and PepsiCo. Mr. Wu is a holder of Degree in Economics from National Chengchi University in Taiwan. He also obtained an MBA degree from Duke University's Fuqua School of Business. Mr. Wu serves on the Board of Visitors at Duke University's Fuqua School of Business and Advisory Boards of Duke Kunshan University and Center for Talented Youth at the Johns Hopkins University.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koo Fook Sun, Louis, aged 60, is an independent non-executive Director and chairman of the audit committee of the Company. 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 Winfull Group Holdings Limited, all of which are 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 61, is an independent non-executive Director, chairperson of the remuneration committee and a member of the audit committee of the Company. 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 chairperson 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. Ms. Wang 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.

Dr. Chan Chung Bun, Bunny, GBS, JP, aged 59, is an independent non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company. Dr. Chan joined the Group in June 2004. Dr. Chan has more than 30 years of experience in the garment industry and is currently the chairman of Prospectful Holdings Ltd. Dr. 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. Dr. Chan is active in community affairs in Hong Kong. He is currently the chairman of the Kwun Tong District Council of Hong Kong. He has been appointed as vice-chairperson of the Community Care Fund Task Force of the Commission on Poverty from 1 December 2012 and as member of the Council for Sustainable Development from 1 March 2015 respectively. Dr. Chan was appointed as Justice of Peace in 2002 and was awarded the Bronze Bauhinia Star medal in 2004, Silver Bauhinia Star medal in 2009 and Gold Bauhinia Star medal in 2014 by the Hong Kong Government. In December 2013, Dr. Chan was conferred Doctor of Business Administration, honoris causa, by the Open University of Hong Kong.

Mr. Su Jing Shyh Samuel, aged 64, is an independent non-executive Director and chairman of the nomination committee of the Company. Mr. Su joined the Group in July 2012. Mr. Su has retired from Yum! Brands, Inc. ("Yum!"), a company listed on the New York Stock Exchange, where he was the Chairman and CEO of its China division as well as the vice chairman and an executive director of Yum!. 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. Tsang, Terence Wah-Fung, aged 55, chief financial officer of the Group, joined the Group in April 2013, and is responsible for finance, internal audit, company secretary and investor relationship. Mr. Tsang has over 25 years of experience in the apparel industry. His previous employment included that for Guess Inc, Ashworth Inc and Levi Strauss Company. Mr. Tsang had held various management roles including as chief financial officer, chief operation officer, Asia president and senior vice president for business unit throughout his career. He is a Certified Public Accountant. Mr. Tsang holds a Bachelor of Science in Accounting and a Master of Business Administration from State University of New York.

Mr. Yang Hai Wei, aged 44, vice president of the Group, joined the Group in January 2000, and is responsible for regional sales, channels, retail, product operation and logistics. Mr. Yang has over 22 years of sales working experience. He worked at a well-known retail group and held various positions such as the Company's channel officer, retail operation officer and regional general manager. Mr. Yang holds a bachelor degree in management engineering from Beijing Wuzi University.

Mr. Hong Yu Ru, aged 51, vice president of the Group, joined the Group in March 1990, and is responsible for the Company's product design, planning, listing and marketing as well as the business of badminton, football and international sales. Prior to joining the Group, Mr. Hong has eight years of experience of being a professional badminton athlete. After joining the Group, he has been responsible for the Company's regional retailing business in Shanghai; setting up the Company's first division, accessory division; responsible for the strategic collaborations of Beijing Olympics and businesses such as basketball, badminton and international business division.

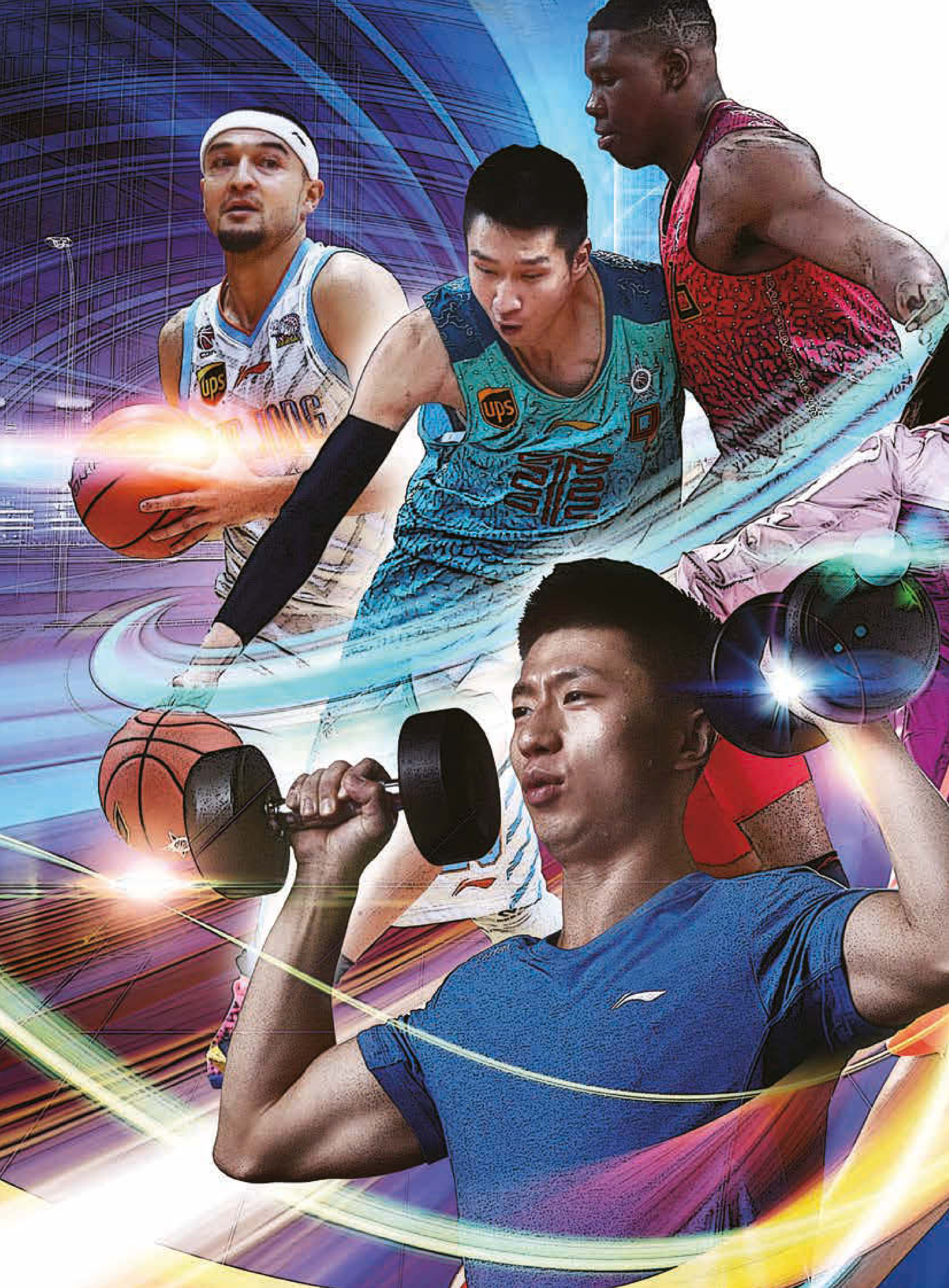
Mr. Liao Bin, aged 42, vice president of the Group, joined the Group in May 2016, and is responsible for the Group's human resources, legal affairs and administration. Mr. Liao has over 13 years of experience in the sportswear and apparel industry. Between 2003 and 2012, he worked at the Company. In his career, Mr. Liao held senior human resources management positions in a number of companies. Mr. Liao holds a bachelor degree and a master degree from Renmin University of China.

Mr. Zhang Xiang Du, aged 61, general manager of the brand project management center of the Group, joined the Group in November 1991, and is responsible for the PR, media management, market research, medal teams' sports marketing and "lining" label division. Mr. Zhang has over 35 years of experience in the apparel industry and was the deputy manager of Beijing Dahua Shirt Factory (北京大華襯衫廠). Mr. Zhang served as the manager of Li Ning Shirt Company Limited (李寧襯衫公司), general manager of Li Ning Apparel Company Limited (李寧服裝公司), deputy general manager of Beijing Li Ning Company Limited, special assistant of chairman and acting chief marketing officer of the Group. Mr. Zhang holds a bachelor's degree in politics and administration from Beijing Open University and a bachelor's degree in economic management from Beijing Open University.

Mr. Feng Ye, aged 37, general manager of the e-commerce division of the Group, joined the Group in August 2008, and is responsible for the e-commerce of the Group. Mr. Feng has over 10 years of experience in the areas of Internet and e-commerce. He worked at a number of well-known Internet companies. He holds a bachelor's degree in electronic information engineering from Shanghai Maritime College (now known as Shanghai Maritime University).

Mr. He Can Yu, aged 47, General Manager of Apparel R&D and Production Division of the Group, joined the Group in January 2002, and is responsible for businesses such as the R&D, production and procurement of apparel goods. Mr. He has over 23 years of experience in the area of supply chain for sports goods. He worked at internationally renowned sportswear manufacturers. Mr. He graduated from Central South Forestry University with a bachelor's degree in forestry.

Mr. Xu Jian Guang, aged 48, the general manager of the footwear R&D and production division of the Group, joined the Group in March 1998, and is responsible for businesses such as the R&D, production and procurement of footwear goods. Mr. Xu has over 24 years of experience in footwear industry. He worked at internationally renowned sportswear manufacturers. Mr. Xu holds a bachelor's degree in engineering from Nanchang University and a MBA Degree from Renmin University of China.



STANDING OUT

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016.

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.

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), Danskin (fashionable fitness products for dance and yoga), Kason (badminton) 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 investment in associates and a joint venture as at 31 December 2016 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 2016 are set out in the consolidated income statement on pages 98 to 99 of this annual report.

During the year, the Company did not declare interim dividend for the six months ended 30 June 2016 (2015: Nil). 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 for the year ended 31 December 2016 (2015: Nil).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2016 are set out in note 17 to the consolidated financial statements.

RESERVES

As at 31 December 2016, reserves of the Company amounted to RMB3,809,128,000 (2015: RMB3,233,048,000). Details of movements in reserves of the Company during the year are set out in note 38 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	
	2016	2015
	% of total revenue	% of total revenue
The largest customer	**6.5**	5.3
Five largest customers	**20.0**	19.5

	% of total purchases	% of total purchases
The largest supplier	**11.6**	10.6
Five largest suppliers	**39.0**	42.7

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 2016 amounted to RMB200,000,000 (2015: RMB566,499,000). 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 RMB25,868,185 (2015: RMB134,356).

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.

CONVERTIBLE BONDS

On 19 January 2012, the Company entered into the subscription agreements with TPG ASIA, Inc. (TPG ASIA, INC., and/or its affiliates "TPG") and Tetrad Ventures Pte. Ltd. ("GIC Investor") respectively in relation to the issue of convertible bonds by the Company (the "Convertible Bonds") in an aggregate amount of RMB750,000,000 with a conversion price of HK$7.74 per Share. The Convertible Bonds bear minimum interest rate of 4% per annum and will be due on the fifth anniversary of the date of issue of the Convertible Bonds. The Company had issued Convertible Bonds in the principal amount of RMB561,000,000 to TPG Stallion Holdings, L.P. (which is an affiliate of TPG) and Convertible Bonds in the principal amount of RMB189,000,000 to GIC Investor on 8 February 2012, respectively.

Nevertheless, on 23 January 2013, the Company entered into deeds of amendment with TPG and GIC Investor respectively to amend certain terms and conditions attached to the Convertible Bonds, among which the conversion price of the Convertible Bonds was reset to HK$4.50 per Share. Please refer to the announcement of the Company dated 25 January 2013 for details.

As a result of the 2015 Open Offer and pursuant to the terms and conditions of the Convertible Bonds, the conversion price of the Convertible Bonds was adjusted from HK$4.50 per Share to HK$4.092 per Share on 2 February 2015. Based on the outstanding Convertible Bonds in the aggregate principal amount of RMB750,000,000 on 2 February 2015, the conversion right attaching to the outstanding Convertible Bonds was adjusted from 205,000,000 Shares to 225,439,882 Shares. Please refer to the announcement of the Company dated 30 January 2015 for details.

GIC Investor exercised the conversion right attached to its Convertible Bonds in the principal amount of RMB189,000,000 on 18 August 2016 in accordance with the terms and conditions of the Convertible Bonds. The Company issued and allotted 56,810,850 new Shares at the conversion price of HK$4.092 each to GIC Investor. The newly issued Shares represented approximately 3.01% of the then issued Shares of the Company.

TPG exercised the conversion right attached to its Convertible Bonds in the principal amount of RMB561,000,000 on 3 February 2017 in accordance with the terms and conditions of the Convertible Bonds. The Company issued and allotted 168,629,032 new Shares at the conversion price of HK$4.092 each to TPG. The newly issued Shares represented approximately 8.41% of the then issued Shares of the Company.

As at the date of this report, the Company has no outstanding Convertible Bonds. Details of the Convertible Bonds are set out in note 23 to the consolidated financial statements.

CONVERTIBLE SECURITIES

On 25 January 2013, the Company announced the open offer of convertible securities (the "2013 Convertible Securities") in the principal amount of approximately HK$1,847.8 million on the basis of each 2013 Convertible Securities in the principal amount of HK$3.50 for every two existing Shares held on 19 March 2013. Details of the 2013 Open Offer and the terms thereof are set out in the Company's announcement dated 25 January 2013 and in the prospectus dated 27 March 2013 respectively.

After the 2013 Open Offer became unconditional, the Company issued the 2013 Convertible Securities with an aggregate principal amount of HK$1,847,838,000 entitling the conversion into a total of 527,953,814 Shares on 22 April 2013. Please refer to the announcement of the Company dated 18 April 2013 for details.

On 16 December 2014, the Company announced the 2015 Open Offer of offer securities (i.e. new ordinary Shares and/or convertible securities ("2015 Convertible Securities")) ("Offer Securities") on the basis of 5 Offer Securities for every 12 existing Shares held on 8 January 2015. Details of the 2015 Open Offer and the terms thereof are set out in the Company's announcement dated 16 December 2014 and in the prospectus dated 9 January 2015 respectively.

After the 2015 Open Offer, the Company issued a total of 597,511,530 Offer Securities, which include 450,630,034 new ordinary Shares and the 2015 Convertible Securities with an aggregate principal amount of HK$381,891,889.60 entitling the conversion into a total of 146,881,496 Shares on 2 February 2015. Please refer to the announcement of the Company dated 30 January 2015 for reference.

As a result of the 2015 Open Offer and pursuant to the terms and conditions of the 2013 Convertible Securities, the conversion price of the 2013 Convertible Securities was adjusted from HK$3.50 per Share to HK$3.183 per Share on 2 February 2015. Based on the outstanding 2013 Convertible Securities in the aggregate principal amount of approximately HK$529,251,713 on 2 February 2015, the conversion rights attaching to the outstanding 2013 Convertible Securities was adjusted from 151,214,775 Shares to 166,274,493 Shares. Please refer to the announcement of the Company dated 30 January 2015 for details.

During the year, the 2013 Convertible Securities in an aggregate principal amount of approximately HK$124,389,832 and the 2015 Convertible Securities in an aggregate principal amount of HK$57,416,658 had been converted into 39,079,432 Shares and 22,083,330 Shares respectively. As at 31 December 2016, the outstanding 2013 Convertible Securities amounted to approximately HK$402,792,634.43 and the outstanding 2015 Convertible Securities amounted to HK$324,322,031.80 entitling the conversion into a total of 126,544,968 Shares and 124,739,243 Shares respectively.

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 6 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 Director

Mr. Li Ning	*(Executive Chairman and Interim CEO)* *(re-elected on 3 June 2016)*

Non-executive Directors

Mr. Chen Yue, Scott	*(re-elected on 3 June 2016)*
Mr. Wu, Jesse Jen-Wei	*(re-elected on 3 June 2016)*

Independent non-executive Directors

Mr. Koo Fook Sun, Louis
Ms. Wang Ya Fei
Dr. Chan Chung Bun, Bunny, GBS, JP
Mr. Su Jing Shyh, Samuel

In accordance with article 87 of the Company's Articles of Association and the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Listing Rules, Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei and Mr. Su Jing Shyh, Samuel shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the 2017 AGM.

Each of Mr. Koo Fook Sun, Louis and Ms. Wang Ya Fei has served on the Board for more than nine years. The Board considers Mr. Koo and Ms. Wang to be independent of management and free of any relationship which could materially affect the exercise of their independent judgement. 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 Ms. Wang 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. Hence, the Board considers that the long service provided by Mr. Koo and Ms. Wang would not affect their exercise of independent judgement when serving the Company, and recommends each of Mr. Koo and Ms. Wang to be re-elected as an independent non-executive Director at the 2017 AGM.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of the Directors and senior management of the Group are set out in the section titled "Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2017 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.

PERMITTED INDEMNITY PROVISIONS

Under the Articles of Association, and subject to the applicable laws and regulations, the directors and officers of the Group shall be indemnified out of the assets and profits of the Company from or against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force throughout the Year. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

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 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, which are defined contribution retirement benefit plans, mandated by the Hong Kong Government, South Korea Government and the US Government.

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 listed as expenses as incurred. The Group's contributions to retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2016 were RMB50,194,000 (2015: RMB49,362,000).

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2016, save for the Convertible Bonds, the Convertible Securities, the 2014 Share Option Scheme and the 2016 Restricted Share Award Scheme of the Company (as set out in the sections of "Convertible Bonds", "Convertible Securities", "Share Option Schemes" and "Restricted Share Award Scheme" in this report), the Company has not entered into any equity-linked agreement, nor did any equity linked agreement subsist at the end of the year.

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 Option Scheme

At the annual general meeting of the Company held on 30 May 2014, the Shareholders approved (i) the adoption of 2014 Share Option Scheme and (ii) the termination of 2004 Share Option Scheme. The 2014 Share Option Scheme will be valid and effective for a period of 10 years commencing on 30 May 2014.

The purpose of the 2014 Share Option Scheme is to provide incentives to the new 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 employees, officers, agents, consultants or representatives of any member of the Group (including any executive and non-executive directors 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 his/her performance and/or years of service, or is regarded as valuable human resources of the Group based on his/her work experience, knowledge in the industry and other relevant factors.

The maximum number of Shares in respect of which options may be granted under the 2014 Share Option Scheme together with any options outstanding and yet to be exercised under the 2014 Share Option Scheme and any other scheme(s) of the Group in aggregate shall not exceed 30% of the Shares in issue from time to time. In addition, subject to the restrictions imposed by the Listing Rules, the total number of Shares which may be issued upon exercise of all options to be granted under the 2014 Share Option Scheme, together with all options to be granted under any other share option scheme(s) of the Group shall not in aggregate exceed 10% of the nominal amount of all the issued Shares as at 30 May 2014, being the date of adoption of the 2014 Share Option Scheme. On the basis of 1,370,236,257 Shares in issue on the date of adoption of the 2014 Share Option Scheme, the maximum number of Shares that may be issued upon exercise of options that may be granted under the 2014 Share Option Scheme is 137,023,625 Shares. Details of the 2014 Share Option Scheme and the terms thereof are set out in the Company's circular dated 10 April 2014.

The options granted under the 2004 Share Option Scheme which remained outstanding immediately prior to its termination on 30 May 2014 shall continue to be valid and exercisable in accordance with their terms of grant and the rules of the 2004 Share Option Scheme. The outstanding options granted under the 2004 Share Option Scheme as at 31 December 2016 entitled the holders to subscribe for 14,305,901 Shares. Details of movements of the options granted under the 2004 Share Option Scheme for the year ended 31 December 2016 are set out below and in note 34 to the consolidated financial statements.

				Number of Shares							
Grantees	Date of grant	Exercise price per Share HK$	Adjusted exercise price per Share upon the 2015 Open Offer HK$ *(Note 2)*	As at 01/01/2016	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31/12/2016	Vesting Period	Exercise Period
Executive Director											
Li Ning	17/01/2014	7.00	6.35	1,509,470	–	–	–	–	1,509,470	17/01/2014 – 31/12/2014	17/01/2014 – 31/12/2018
Non-executive Director											
Chen Yue, Scott	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Independent non-executive Directors											
Koo Fook Sun, Louis	15/07/2011	9.09 (Note 1)	8.25	250,873	–	–	–	–	250,873	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Wang Ya Fei	15/07/2011	9.09 (Note 1)	8.25	250,873	–	–	–	–	250,873	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chan Chung Bun, Bunny, GBS, JP	15/07/2011	9.09 (Note 1)	8.25	250,873	–	–	–	–	250,873	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Su Jing Shyh, Samuel	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Employees of the Group											
In aggregate	15/07/2011	9.09 (Note 1)	8.25	737,146	–	–	–	–	737,146	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
In aggregate	20/12/2012	4.92 (Note 1)	4.47	6,652,889	–	99,000 (Note 3(a))	2,592,158	–	3,961,731	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
In aggregate	13/08/2013	5.07	4.60	5,794,604	–	883,000 (Note 3(b))	3,228,072	–	1,683,532	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	18/12/2013	6.79	6.16	495,670	–	–	193,917	–	301,753	19/12/2014 – 19/12/2018	19/12/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	6.35	2,091,857	–	–	967,471	–	1,124,386	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
In aggregate	04/04/2014	5.10	4.63	687,799	–	138,500 (Note 3(c))	345,941	–	203,358	05/04/2015 – 05/04/2019	05/04/2015 – 31/12/2020
Other participants											
In aggregate	20/12/2012	4.92 (Note 1)	4.47	137,897	–	–	137,897	–	–	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
In aggregate	13/08/2013	5.07	4.60	136,571	–	–	13,657	–	122,914	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	6.35	7,547,354	–	–	7,547,354	–	–	17/01/2014 – 31/12/2014	17/01/2014 – 31/12/2018
In aggregate	17/01/2014	7.00	6.35	2,148,402	–	–	–	–	2,148,402	17/01/2014 – 01/09/2016	17/01/2014 – 30/09/2019
In aggregate	17/01/2014	7.00	6.35	40,971	–	–	4,096	–	36,875	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
				30,456,964	–	1,120,500	15,030,563	–	14,305,901		

Notes:

1. As a result of the 2013 Open Offer, the exercise prices were adjusted in accordance with the 2004 Share Option Scheme on 22 April 2013. Please refer to the announcement of the Company dated 25 April 2013 for details.

2. As a result of the 2015 Open Offer, the exercise prices were adjusted in accordance with the 2004 Share Option Scheme on 2 February 2015. Please refer to the announcement of the Company dated 30 January 2015 for details.

3. (a) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$5.15.

   (b) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$5.35.

   (c) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$4.85.

Details of movements of the options granted under the 2014 Share Option Scheme for the year ended 31 December 2016 are set out below and in note 34 to the consolidated financial statements.

Grantees	Date of grant	Exercise price per Share HK$	As at 01/01/2016	Granted during the year	Exercised during the year	Lapsed during the year	Number of Shares Cancelled during the year	As at 31/12/2016	Vesting Period	Exercise Period
Employees of the Group										
In aggregate	01/04/2015	4.44	32,400,000	–	733,000 (Note 2)	7,167,000	–	24,500,000	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
In aggregate	08/06/2016	3.30	–	3,000,000 (Note 1)	–	–	–	3,000,000	08/06/2017 – 08/06/2019	08/06/2017 – 07/06/2026
Other participants										
In aggregate	01/04/2015	4.44	800,000	–	–	–	–	800,000	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
			33,200,000	3,000,000	733,000	7,167,000	–	28,300,000		

Notes:

1. The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 8 June 2016 is HK$3.27 per Share.

2. The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$5.06.

Details of valuation of the share options granted during the year ended 31 December 2016 under the 2004 Share Option Scheme and 2014 Share Option Scheme are 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

At the Board meeting of the Company held on 2 June 2016, the Board adopted the 2016 Restricted Share Award Scheme with effect from 14 July 2016, the date on which the 2006 Restricted Share Award Scheme expired. The purpose of the 2016 Restricted Share Award Scheme is to facilitate the Company's objectives of attracting new talents, motivating existing talents and retaining both in the Company. Any individual being a director (including executive and non-executive director), employee, officer, agent or consultant of the Company or any of its subsidiaries is entitled to participate. 2016 Restricted Share Award Scheme shall be valid for a term of 10 years from 14 July 2016 and is administered by the administrative committee and the trustee of the scheme.

Pursuant to the 2016 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 granted to the selected participants (the "Restricted Shares") 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 the 2016 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 any sale, purchase, vesting or transfer of the Restricted Shares which shall be borne by the selected participants, vested Shares shall be transferred at no cost to the selected participants. As at the date of adoption of 2016 Restricted Share Award Scheme, the number of issued Shares of the Company is 1,885,494,074 Shares and the maximum number of Shares which may be administered under the Scheme is 94,274,703 Shares. Details of the 2016 Restricted Share Award Scheme and the terms thereof are set out in the announcement of the Company dated 14 July 2016.

The Restricted Shares granted under the 2006 Restricted Share Award Scheme which remained outstanding immediately prior to its expiry on 14 July 2016 shall continue to be valid and vest in accordance with their terms of grant and the rules of the 2006 Restricted Share Award Scheme. As at 31 December 2016, the number of unvested Restricted Shares granted under the 2006 Restricted Share Award Scheme is 14,483,800 Shares. Details of movements of the Restricted Shares granted under the 2006 Restricted Share Award Scheme for the year ended 31 December 2016 are set out below and in note 34 to the consolidated financial statements.

Date of grant	Fair value per Restricted Share HK$ *(Note 1)*	As at 01/01/2016	Number of Restricted Shares Granted during the year	Vested during the year	Lapsed during the year	As at 31/12/2016	Vesting period
03/09/2010	23.30	220,000	–	220,000	–	–	01/07/2011 – 01/07/2016
17/01/2014	6.71	1,370,073	–	1,370,073	–	–	*(Note 2)*
17/06/2016	3.20	–	15,865,800	–	1,382,000	14,483,800	01/04/2017 – 01/04/2019
		1,590,073	15,865,800	1,590,073	1,382,000	14,483,800	

Note:

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

2. The vesting of the 1,370,073 Restricted Shares is subject to certain conditions set out in the relevant grant letter instead of a vesting period.

Details of movements of the Restricted Shares under the 2016 Restricted Share Award Scheme for the year ended 31 December 2016 are as follows:

Date of grant	Fair value per Restricted Share HK$ *(Note)*	As at 01/01/2016	Number of Restricted Shares Granted during the year	Vested during the year	Lapsed during the year	As at 31/12/2016	Vesting period
15/08/2016	4.66	–	225,500	–	–	225,500	01/04/2017 – 01/04/2019
		–	225,500	–	–	225,500	

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

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

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

As at 31 December 2016, 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 SFO), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares	Total (Long Position)	Approximate % of total issued Shares*
Li Ning	Personal interest & Interests of controlled corporations	305,246,126 *(Note 1)*	256,090,913 *(Note 1)*	561,337,039	27.99%
Chen Yue, Scott	Personal interest	–	344,743 *(Note 2)*	344,743	0.02%
Koo Fook Sun, Louis	Personal interest	489,387	595,616 *(Note 2)*	1,085,003	0.05%
Wang Ya Fei	Personal interest	491,645	595,616 *(Note 2)*	1,087,261	0.05%
Chan Chung Bun, Bunny, GBS, JP	Personal interest	268,387	595,616 *(Note 2)*	864,003	0.04%
Su Jing Shyh, Samuel	Personal interest	–	344,743 *(Note 2)*	344,743	0.02%

* *The percentage has been calculated based on 2,005,317,338 Shares in issue as at 31 December 2016.*

Notes:

1. Mr. Li Ning ("Mr. Li") is interested in 305,246,126 Shares, among which 3,311,006 Shares are held as personal interest, and he is deemed to be interested in an aggregate of 301,935,120 Shares held by Viva China Holdings Ltd ("Viva China BVI") and Alpha Talent. Moreover, Mr. Li is deemed to be interested in 256,090,913 underlying Shares, among which (i) 1,509,470 Shares are share options granted by the Company, (ii) 4,753,900 Shares are unvested restricted shares granted by the Company, and (iii) convertible securities in the total amount of HK$722,478,136 which is convertible into 249,827,543 Shares, is held by Viva China BVI. Details are as follows:

   (a) Viva China BVI, a wholly-owned subsidiary of Viva China Holdings Limited ("Viva China"), is interested in 299,374,000 Shares and 249,827,543 underlying Shares, which comprise of (i) convertible securities in the total amount of HK$398,156,304 which is convertible into 125,088,377 Shares at the conversion price of HK$3.183 each, and (ii) convertible securities in the total amount of HK$324,321,831.60 which is convertible into 124,739,166 Shares at the conversion price of HK$2.60 each. Viva China is owned as to approximately 19.17% by Victory Mind Assets Limited ("Victory Mind"), approximately 24.33% by Lead Ahead Limited ("Lead Ahead") and approximately 22.82% by Dragon City Management (PTC) Limited ("Dragon City") respectively. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor). As a result, Mr. Li is deemed to be interested in the 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. Mr. Li is also the chairman and chief executive officer of Viva China.

   (b) 2,561,120 Shares are held by Alpha Talent, which is solely owned by Mr. Li. Mr. Li is therefore deemed to be interested in the 2,561,120 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.

   (c) Mr. Li is interested in 1,509,470 share options granted under the 2004 Share Option Scheme at an exercise price of HK$6.35 each and 4,753,900 unvested restricted shares under the 2006 Restricted Share Award Scheme.

2. The underlying Shares are the share options granted by the Company to the respective Directors under the 2004 Share Option Scheme.

Save as disclosed above, so far as was known to any Director, as at 31 December 2016, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2016, the register of substantial shareholders kept under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions which represent 5% or more of the Company's issued share capital:

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares	Total		Approximate % of total issued Shares*
Li Ning	Personal interest & Interests of controlled corporations	305,246,126	256,090,913	561,337,039 *(Note 1)*	(L)	27.99%
Li Chun	Interest of controlled corporations	299,374,000	249,827,543	549,201,543 *(Note 2)*	(L)	27.39%
Viva China Holdings Limited	Interest of controlled corporation	299,374,000	249,827,543	549,201,543 *(Note 1(a))*	(L)	27.39%
David Bonderman	Interest of controlled corporations	114,005,249	168,629,032	282,634,281 *(Note 3)*	(L)	14.09%
James G. Coulter	Interest of controlled corporations	114,005,249	168,629,032	282,634,281 *(Note 3)*	(L)	14.09%
Ministry of Finance of the People's Republic of China	Interest of controlled corporations	–	137,796,671	137,796,671 *(Note 4)*	(L)	6.87%
Lou Yunli	Interest of controlled corporations	134,583,330	–	134,583,330 *(Note 5)*	(L)	6.71%
James Christopher Kralik	Interest of controlled corporations	134,583,330	–	134,583,330 *(Note 5)*	(L)	6.71%
BlackRock, Inc.	Investment manager	102,093,363	–	102,093,363	(L)	5.09%
	Investment manager	14,967,734	–	14,967,734	(S)	0.75%

(L) – Long position, (S) – Short position

* *The percentage has been calculated based on 2,005,317,338 Shares in issue as at 31 December 2016.*

Notes:

1. Mr. Li Ning is interested in 305,246,126 Shares, among which 3,311,006 Shares are held as personal interest, and he is deemed to be interested in an aggregate of 301,935,120 Shares held by Viva China BVI and Alpha Talent. Moreover, Mr. Li is deemed to be interested in 256,090,913 underlying Shares, among which (i) 1,509,470 Shares are share options granted by the Company, (ii) 4,753,900 Shares are unvested restricted shares granted by the Company, and (iii) convertible securities in the total amount of HK$722,478,136 which is convertible into 249,827,543 Shares, is held by Viva China BVI. Details are as follows:

   (a) Viva China BVI, a wholly-owned subsidiary of Viva China, is interested in 299,374,000 Shares, and 249,827,543 underlying Shares, which comprise of (i) convertible securities in the total amount of HK$398,156,304 which is convertible into 125,088,377 Shares at the conversion price of HK$3.183 each, and (ii) convertible securities in the total amount of HK$324,321,831.60 which is convertible into 124,739,166 Shares at the conversion price of HK$2.60 each. Viva China is owned as to approximately 19.17% by Victory Mind, approximately 24.33% by Lead Ahead and approximately 22.82% by Dragon City respectively. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li and 40% by his brother, Mr. Li Chun respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor). As a result, Mr. Li is deemed to be interested in the 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. Mr. Li is also the chairman and chief executive officer of Viva China.

   (b) 2,561,120 Shares are held by Alpha Talent, which is solely owned by Mr. Li. Mr. Li is therefore deemed to be interested in the 2,561,120 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.

   (c) Mr. Li is interested in 1,509,470 share options granted under the 2004 Share Option Scheme at an exercise price of HK$6.35 each and 4,753,900 unvested restricted shares under the 2006 Restricted Share Award Scheme.

2. As disclosed in Note 1(a) above, Mr. Li Chun is deemed to be interested in 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. He is the brother of Mr. Li Ning.

3. TPG Stallion, L.P. ("TPG") is interested in 114,005,249 Shares and the convertible bonds with the principal amount of RMB561,000,000 due 2017 which is convertible into an aggregate of 168,629,032 Shares. TPG is wholly owned by TPG Asia Advisors V, Inc. and, in turn, it is owned as to 50% by Mr. David Bonderman and 50% by Mr. James G. Coulter.

4. According to the corporate substantial shareholder notice filed to the Stock Exchange by Ministry of Finance of the People's Republic of China ("MOF"), MOF is deemed to be interested in such long position of unlisted and physically settled derivative interest in 137,796,671 underlying Shares held by Lake Tai Investment Holdings Limited which is in turn wholly-owned by Huarong (HK) International Holdings Limited. China Huarong International Holdings Limited is owned as to 88.10% and 11.90% by Huarong Real Estate Co., Ltd. ("Huarong Real Estate") and Huarong Zhiyuan Investment & Management Co., Ltd. ("Huarong Zhiyuan") respectively. Both Huarong Real Estate and Huarong Zhiyuan are wholly-owned by China Huarong Asset Management Co., Ltd. which is in turn owned as to 77.49% by MOF.

5. Linden Street Capital Limited ("Linden"), a company owned as to 50% by Lou Yunli and 50% by James Christopher Kralik, is deemed to be interested in 134,583,330 Shares, among which 70,833,330 Shares are held by Milestone Capital Strategic Holdings Limited and 63,750,000 Shares are held by Milestone Sports Limited.

Save as disclosed above, as at 31 December 2016, 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.

CONTINUING CONNECTED TRANSACTIONS WITH VIVA CHINA

The Company and Viva China (Viva China and its subsidiaries, collectively the "Viva China Group") entered into a master agreement on 31 August 2010 ("Master Agreement") whereby the Viva China Group provided the Group with services in relation to (i) brand or product endorsement; (ii) sponsorship; and (iii) event management (the "Viva China Transactions") for three financial years ended 31 December 2012. The Master Agreement expired on 31 December 2012.

On 4 January 2013, the Company and Viva China entered into an agreement (the "2013 Renewed Master Agreement") to renew the Master Agreement with effect from 4 January 2013 to 31 December 2015. Please refer to the announcement of the Company dated 4 January 2013 in regard to the 2013 Renewed Master Agreement for details. The 2013 Renewed Master Agreement expired on 31 December 2015.

On 24 December 2015, the Company and Viva China entered into an agreement (the "2016 Renewed Master Agreement") to renew the Master Agreement with effect from 1 January 2016 to 31 December 2018 or the day on which Viva China ceases to be a connected person of the Company (whichever is earlier). Pursuant to the 2016 Renewed Master Agreement, the annual caps for the Viva China Transactions payable by the Group to the Viva China Group for the three financial years ending 31 December 2016, 2017 and 2018 are RMB140,000,000, RMB154,000,000 and RMB170,000,000 respectively. As the applicable percentage ratios for the annual caps under the 2016 Renewed Master Agreement for the three financial periods ending 31 December 2016, 2017 and 2018 are less than 5%, the Viva China Transactions are exempt from independent shareholders' approval but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 24 December 2015 in regard to the 2016 Renewed Master Agreement for details.

For the year ended 31 December 2016, there was an aggregate contracted amount of approximately RMB62,057,000 for the Viva China Transactions under the 2016 Renewed Master Agreement. 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 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 to the Group;

(3) on normal commercial terms; and

(4) in accordance with the relevant agreements governing them and 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 to 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 24 December 2015.

RELATED-PARTY TRANSACTIONS

The Viva China Transactions also constituted related-party transactions which, among others, are set out in note 36(d) to the consolidated financial statements.

Apart from the Viva China Transactions, other related-party transactions set out in note 36 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions which are subject to the reporting, annual review, announcement and/or independent shareholders approval requirements under Chapter 14A 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 2016. Except for the purchase of Shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the rules of Restricted Share Award Scheme, 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 2016 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2016, the Company has applied all the principles and complied with the code provisions of the Corporate Governance Code, except for certain deviations specified with considered reason as explained in the Corporate Governance Report.

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

BUSINESS REVIEW

A fair review of the business of the Company and further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, important events affecting the Group that have occurred since the end of the financial year 2016, if any, and an indication of likely future developments of the Group's business, can be found in the Chairman's Statement, the Management Discussion and Analysis, the Corporate Governance Report set out on pages 12 to 15, pages 16 to 39 and pages 40 to 55 of this annual report, respectively and the notes to the consolidated financial statements.

In addition, matters in relation to the Group's environment, employee, customer and supplier as well as compliance with the relevant laws and regulations that have a significant impact on the Company can be found in the Corporate Governance Report and the Environmental, Social and Governance Report set out on pages 40 to 55 and pages 56 to 66 of this annual report, respectively.

The discussions referred to above form a part of this Directors' Report.

AUDITOR

PricewaterhouseCoopers will retire as auditor of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the 2017 AGM.

By order of the Board
Li Ning
Executive Chairman and Interim CEO

Hong Kong, 22 March 2017

INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

Opinion

What we have audited

The consolidated financial statements of Li Ning Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 96 to 171, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Allowance for impairment of trade receivables
- Inventory provision
- The disposal of 10% equity interest in Shanghai Double Happiness Co., Ltd. (the "Double Happiness")

Key Audit Matter	How our audit addressed the Key Audit Matter
Allowance for impairment of trade receivables Refer to note 4 and note 13 to the consolidated financial statements As at 31 December 2016, the balance of trade receivables was RMB1,370 million (net of allowance for impairment of trade receivables of RMB414 million). Allowance for impairment of trade receivables reflects management's best estimate of amounts that are potentially uncollectible. This estimate requires significant management judgment based on a collective consideration of factors such as the credit-worthiness of each customer, default rates of prior years, historical payment pattern, ageing profile of receivable balances, and settlements subsequent to year end.	Our audit procedures to address the risk of material misstatement relating to allowance for impairment of trade receivables mainly included: • Understood, evaluated and validated key controls over the estimation of allowance for impairment; • Challenged management's judgment in estimating the amounts which are potentially uncollectible by performing procedures such as (1) inquiring management regarding the credit worthiness of individual customers, (2) checking historical payment pattern of customers, (3) analysing historical trade receivable turnover days and benchmarking against industry average, (4) testing the accuracy of the ageing schedule of trade receivables, and (5)obtaining and comparing to other external market information such as industry reports; • Sent out confirmations to major customers on sample basis to verify the receivables balances; • Conducted interviews with customers whom have significant trade receivable balances and newly added customers during the year, in order to understand their intention and ability to pay receivables when fall due; • Checked subsequent settlements up to 28 February 2017 against cash receipts or other supporting documents. Based on the results of the procedures above, we found that management's judgement in assessing the impairment of trade receivables as at 31 December 2016 to be reasonable.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Inventory provision Refer to note 4 and note 12 to the consolidated financial statements The Group's balance of gross inventories as at 31 December 2016 was RMB1,109 million, against which a provision of RMB143 million was made. The estimation of inventory provision involves significant management judgments based on consideration of key factors such as future sales projection, current year sales, and retail price per latest sales transaction.	Our audit procedures relating to inventory provision included: • Evaluated and validated key controls over the generation of inventory ageing schedule and the estimation of inventory provisions; • Assessed the reasonableness of methods and assumptions applied to estimate inventory provision by (1) inquiring of management and other relevant employees, (2) comparing against historical sales pattern and prior year experience including key inventory ratios (e.g. inventory turnover days) to estimate future sales projection, (3) assessing the impact of known external factors considered by management on inventory provision, (4) testing the accuracy of provision calculation by reviewing inventory ageing schedule, testing inventory movements to confirm that they were assigned to the correct ageing category by the system, and performing mathematic recalculation, and (5) comparing the selling price used in the net realisable value ("NRV") to actual selling price subsequent to year end; • Observed physical condition of inventories during stocktake to identify slow moving, damaged, or obsolete inventories, and inquired management if appropriate inventory provision had been provided for those inventories. Based on the results of the procedures above, we found that management's judgements in estimating the inventory provision at 31 December 2016 to be reasonable.

INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
The disposal of 10% equity interest in Shanghai Double Happiness Co., Ltd. (the "Double Happiness") Refer to note 16 to the consolidated financial statements In December 2016, the Group completed the disposal of 10% equity interest in Shanghai Double Happiness Co., Ltd. (the "Double Happiness", previously a 57.5% owned subsidiary of the Company) to a wholly owned subsidiary of Viva China Holdings Limited ("Viva China") in accordance with the share transfer agreement dated 23 October 2015. Accordingly, The Group lost control over Double Happiness and accounted for as an associate company of the Group as of 31 December 2016. The Group and Viva China also entered into an option agreement on the same date, in which the Group was granted a call option to purchase, and Viva China was granted a put option to sell, the 10% equity interest ("Disposed Equity Interest") at a fixed price to the extent that Double Happiness has not been listed on any major stock exchanges within 4 years after the completion of the disposal ("Conditions for Exercise"). The total consideration was RMB125 million ("Total Consideration"). The disposal transaction gave rise to a disposal gain of RMB330 million (before the income tax of RMB16 million). The accounting for this disposal transaction required significant management judgements. First the consideration for the Disposed Equity Interest was calculated by subtracting the fair value of the options from the Total Consideration("Step 1"), and the fair value of the Remaining Equity Interest in Double Happiness was allocated to the identifiable assets and liabilities of DHS based on the valuation of them ("Step 2"). The key judgements involved mainly relate to the valuations of the options in Step 1 and the valuations of the identifiable net assets in Step 2. Those valuations were performed by an independent external appraiser engaged by the Group. We focused on this area due to the significance of amounts involved and the level of judgements required in accounting for this transaction.	Our audit procedures relating to this disposal transaction included: • Evaluated the competence and objectivity of the external appraiser engaged by the Group. • Assessed the appropriateness of valuation models and the discount rate applied and compared against prevailing market practices with the assistance from our valuation experts. • For the valuation of the options, we also challenged management's key assumptions used in the valuation models by performing the following procedures: – Compared the expected volatility with the historical volatility of comparable companies; – Assessed probability of conditions for exercise by comparing the Company's conditions, including the projected financial position and performance with the initial public offering criteria and the exercise period with the average length of time needed for going public in major stock exchanges. • For the valuation of identifiable net assets, we also performed the following procedures: – Assessed the completeness of assets and liabilities identified; – Assessed the reasonableness of forecast cash flows and business plan of Double Happiness by reference to historical financial information; – Challenged management's key assumptions applied in valuing identified intangible assets such as the estimation of useful lives and the expected future cash flows to be generated from the use of the intangible assets by comparison to other market available information; and – Challenged management's key assumptions applied in estimating the fair value of properties and land use rights such as the registered land use, market value of properties and land use rights in similar areas. • We tested the mathematical accuracy of the disposal gain calculation. Based on the procedures performed, we considered management's judgments were supportable by available information and the key assumptions used fell within an acceptable range.

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INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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INDEPENDENT AUDITOR'S REPORT

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Ping Fai.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2017

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F:+852 2810 9888, www.pwchk.com

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	827,677	740,305
Land use rights	7	77,887	79,788
Intangible assets	8	282,696	265,570
Deferred income tax assets	24	207,458	230,868
Available-for-sale financial assets	9	14,000	26,000
Investments accounted for using the equity method	11	625,008	27,796
Derivative financial instruments		319	–
Other receivables and prepayments	14	95,009	43,615
Total non-current assets		2,130,054	1,413,942
Current assets			
Inventories	12	965,422	959,652
Trade receivables	13	1,370,254	1,439,513
Other receivables and prepayments – current portion	14	360,175	309,389
Restricted bank deposits	15	1,001	495
Cash and cash equivalents	15	1,953,588	1,812,572
		4,650,440	4,521,621
Assets of disposal group classified as held for sale	16	–	961,895
Total current assets		4,650,440	5,483,516
Total assets		6,780,494	6,897,458
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	17	188,021	177,492
Share premium	17	2,539,355	2,168,867
Shares held for Restricted Share Award Scheme	17	(50,605)	(2,084)
Other reserves	18	1,171,526	1,308,230
Retained earnings/(Accumulated deficit)	18	146,302	(472,602)
		3,994,599	3,179,903
Non-controlling interests in equity		2,550	230,637
Total equity		3,997,149	3,410,540

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2016 RMB'000	2015 RMB'000
LIABILITIES			
Non-current liabilities			
License fees payable	21	44,464	27,886
Borrowings	22	–	200,000
Convertible bonds	23	–	710,033
Derivative financial instruments		1,343	–
Deferred income tax liabilities	24	6,799	11,503
Deferred income	25	56,824	65,710
Total non-current liabilities		109,430	1,015,132
Current liabilities			
Trade payables	19	1,047,323	997,473
Other payables and accruals	20	807,885	696,168
License fees payable – current portion	21	41,603	63,357
Current income tax liabilities		9,118	3,777
Borrowings	22	200,000	366,499
Convertible bonds	23	567,986	12,500
		2,673,915	2,139,774
Liabilities of disposal group classified as held-for-sale	16	–	332,012
Total current liabilities		2,673,915	2,471,786
Total liabilities		2,783,345	3,486,918
Total equity and liabilities		6,780,494	6,897,458

The notes on pages 103 to 171 are an integral part of these financial statements.

The financial statements on pages 96 to 171 were approved by the Board of Directors on 22 March 2017 and were signed on its behalf.

Li Ning
Executive Director & Chairman

Chen Yue, Scott
Non-executive Director

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Continuing operations			
Revenue	5	8,015,293	7,089,495
Cost of sales	26	(4,310,065)	(3,896,836)
Gross profit		3,705,228	3,192,659
Distribution expenses	26	(2,969,341)	(2,720,361)
Administrative expenses	26	(424,129)	(346,149)
Other income and other gains – net	27	74,047	30,920
Operating profit		385,805	157,069
Finance income	29	7,460	6,343
Finance expenses	29	(115,035)	(139,546)
Finance expenses – net	29	(107,575)	(133,203)
Share of profit of investments accounted for using the equity method	11	9,716	6,948
Profit before income tax		287,946	30,814
Income tax expense	30	(32,435)	(73,768)
Profit/(loss) for the year from continuing operations		255,511	(42,954)
Discontinued operations			
Profit for the year	16	132,157	104,559
Gain on disposal of 10% equity interest in discontinued operations, net of income tax	16	313,201	–
Profit for the year from discontinued operations		445,358	104,559
Profit for the year		700,869	61,605
Attributable to:			
Equity holders of the Company		643,254	14,309
Non-controlling interests		57,615	47,296
Profit/(loss) attributable to equity holders of the Company arises from:			
Continuing operations		255,511	(42,954)
Discontinued operations	16	387,743	57,263
		643,254	14,309

The notes on pages 103 to 171 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	**2016 RMB'000**	2015 RMB'000
Earnings/(losses) per share from continuing and discontinued operations attributable to equity holders of the Company for the year (expressed in RMB cents per share)			
Basic earnings/(losses) per share	*31*		
From continuing operations		**11.53**	(1.99)
From discontinued operations		**17.50**	2.65
From profit for the year		**29.03**	0.66
Diluted earnings/(losses) per share	*31*		
From continuing operations		**11.50**	(1.99)
From discontinued operations		**17.45**	2.65
From profit for the year		**28.95**	0.66

The notes on pages 103 to 171 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	2016 RMB'000	2015 RMB'000
		Year ended 31 December	
Profit for the year		700,869	61,605
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Currency translation differences	18	1,213	(990)
Total comprehensive income for the year		702,082	60,615
Attributable to:			
Equity holders of the Company		644,467	13,319
Non-controlling interests		57,615	47,296
Total comprehensive income for the year		702,082	60,615
Total comprehensive income/(loss) attributable to equity holders of the Company arises from:			
Continuing operations		256,724	(43,944)
Discontinued operations	16	387,743	57,263
		644,467	13,319

The notes on pages 103 to 171 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company							
	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/ (accumulated deficits) RMB'000 (Note 18)	Subtotal RMB'000	Non-controlling interests in equity RMB'000	Total equity RMB'000
As at 1 January 2015	141,698	1,298,537	(3,719)	984,398	(469,056)	1,951,858	217,583	2,169,441
Total comprehensive (loss)/income for the year	–	–	–	(990)	14,309	13,319	47,296	60,615
Transactions with owners:								
Issuance of offer securities (Note 17 and 18)	35,722	870,251	–	293,435	–	1,199,408	–	1,199,408
Net proceeds from shares issued pursuant to share option schemes	10	426	–	–	–	436	–	436
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	–	14,882	–	14,882	–	14,882
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	(2,088)	–	2,088	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	1,635	(1,635)	–	–	–	–
Appropriations to statutory reserves	–	–	–	17,855	(17,855)	–	–	–
Shares converted from convertible securities	62	1,741	–	(1,803)	–	–	–	–
Dividends to non-controlling interests of a subsidiary	–	–	–	–	–	–	(34,242)	(34,242)
As at 31 December 2015	177,492	2,168,867	(2,084)	1,308,230	(472,602)	3,179,903	230,637	3,410,540
As at 1 January 2016	177,492	2,168,867	(2,084)	1,308,230	(472,602)	3,179,903	230,637	3,410,540
Total comprehensive income for the year	–	–	–	1,213	643,254	644,467	57,615	702,082
Transactions with owners:								
Net proceeds from share issuance pursuant to share option schemes	160	7,101	–	–	–	7,261	–	7,261
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	–	31,806	–	31,806	–	31,806
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	5,811	–	(5,811)	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	4,656	(4,656)	–	–	–	–
Shares purchased for Restricted Share Award Scheme	–	–	(53,177)	–	–	(53,177)	–	(53,177)
Appropriations to statutory reserves	–	–	–	24,350	(24,350)	–	–	–
Shares converted from convertible securities	5,469	149,561	–	(155,030)	–	–	–	–
Dividends to non-controlling interests of a subsidiary	–	–	–	–	–	–	(74,288)	(74,288)
Net proceeds from share issuance upon convertible bonds conversion	4,900	208,015	–	(28,576)	–	184,339	–	184,339
Release of non-controlling interests upon disposal of equity interest in a subsidiary	–	–	–	–	–	–	(211,414)	(211,414)
As at 31 December 2016	188,021	2,539,355	(50,605)	1,171,526	146,302	3,994,599	2,550	3,997,149

The notes on pages 103 to 171 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	1,059,481	735,429
Income tax paid		(64,005)	(48,386)
Net cash generated from operating activities		995,476	687,043
Cash flows from investing activities			
– purchases of property, plant and equipment		(382,944)	(311,220)
– purchases of intangible assets		(93,213)	(77,451)
– proceeds on disposal of property, plant and equipment		5,913	18,611
– interest received		8,230	7,315
– payment for investment in associates		(2,000)	–
– loan repayments from joint venture		5,237	–
– proceeds from the disposal of available-for-sale financial assets and partial disposal of a subsidiary		138,471	–
Net cash used in investing activities		(320,306)	(362,745)
Cash flows from financing activities			
– dividends paid to non-controlling interests of a subsidiary		(42,475)	(34,242)
– proceeds from issuance of ordinary shares		7,261	436
– shares purchased for Restricted Share Award Scheme		(53,177)	–
– proceeds from borrowings and loans		10,000	300,000
– repayments of borrowings and loans		(374,819)	(749,157)
– proceeds from issuance of offer securities		–	1,229,930
– transaction costs paid in relation to issuance of offer securities		–	(26,988)
– interest paid		(55,817)	(83,604)
Net cash (used in)/generated from financing activities		(509,027)	636,375
Net increase in cash and cash equivalents		166,143	960,673
Cash and cash equivalents at beginning of year		1,989,265	1,031,386
Exchange gains/(losses) on cash and cash equivalents		2,494	(2,794)
Cash of disposal group classified as held for sale		(204,314)	(176,693)
Cash and cash equivalents at end of year		1,953,588	1,812,572

The notes on pages 103 to 171 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

1. General information

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "Board") on 22 March 2017.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The accompanying consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

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.

In December 2016, the Group completed the disposal of 10% equity interest in Shanghai Double Happiness Co., Ltd. (the "Double Happiness", previously a 57.5% owned subsidiary of the Company) to a wholly-owned subsidiary of Viva China Holdings Limited ("Viva China"). Accordingly, Double Happiness is accounted for as an associate company of the Group as of 31 December 2016. The disposal transaction gave rise to a disposal gain of RMB330 million (before the income tax of RMB16 million). The related revenue, expenses, and other operating results before the completion of disposal and net disposal gain are presented as a single amount in the income statement as "profit for the year from discontinued operations". The assets and liabilities related to Double Happiness are presented as "held for sale" on consolidated balance sheet as of 31 December 2015.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policies and disclosures

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

The Group has adopted the following amendments to standards which are mandatory for the financial year beginning on 1 January 2016:

Annual Improvements Projects	Annual Improvements 2012-2014 cycle
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendment to IAS 27	Equity method in separate financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
Amendments to IAS 1	Disclosure initiative

The adoption of above amendments does not have any significant financial effect on these consolidated financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are not material to the Group.

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

The following are new standards and amendments to standards that have been issued but are not yet effective for the financial year beginning on 1 January 2016 and have not been early adopted.

Amendments to IAS 12	Income taxes (1)
Amendments to IAS 7	Statement of cash flows (1)
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture (2)
IFRS 9	Financial instruments (3)
IFRS 15	Revenue from contracts with customers (3)
IFRS 16	Leases (4)

(1) Effective for the accounting period beginning on 1 January 2017

(2) The amendments were originally intended to be effective for the accounting periods beginning on or after 1 January 2016. The effective date has now been deferred

(3) Effective for the accounting period beginning on 1 January 2018

(4) Effective for the accounting period beginning on 1 January 2019

The Group will apply the above new standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards.

In relation to IFRS 9, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

In relation to IFRS 15, the standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. IFRS 15 specifies how and when the Group will recognise revenue as well as requiring the Group to provide users of financial statements with more informative and relevant disclosures. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policies and disclosures *(Continued)*

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

Management is currently analysing the impact of the new standard on the Group's financial statements and has initially identified areas which are likely to be affected, including identification of separate performance obligations, the determination of stand-alone selling price and its relative allocation. The Group will continue to assess the impact of the new rules on the Group's financial statements. IFRS 15 is mandatory for the accounting periods commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

In relation to IFRS 16, the standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB823,014,000, see Note 35. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for accounting periods commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

2.2 Subsidiaries

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

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method 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 to the former owners of the acquiree 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. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) *Business combinations (Continued)*

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

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 2.9). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured 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.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(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.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

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

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. 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. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

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 of investments accounted for using the equity method' 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 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.4 Joint arrangements *(Continued)*

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 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.

2.6 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 currency translation differences are recognised in other comprehensive income.

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

2.7 Property, plant and equipment

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

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

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

Buildings	20 – 40 years
Leasehold improvement	Shorter of 2 years or the remaining lease terms
Mould	2 – 3 years
Machinery	3 –10 years
Office equipment and motor vehicles	1 – 8 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 2.11).

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.

2.8 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.

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates, joint ventures and business 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 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.

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

2.9 Intangible assets *(Continued)*

(a) Goodwill *(Continued)*

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

(b) License rights

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

License rights are amortised using the straight-line method to allocate the cost of the licenses over the period of the respective contractual rights varying from 2 to 10 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.

2.10 Disposal group held-for-sale and discontinued operations

The disposal group is classified as held for sale when the carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The disposal group (except for certain assets as explained below), is stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the disposal group constituting the discontinued operation. Comparatives figures are reclassified for consistent presentation purpose.

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

2.11 Impairment of investments in subsidiaries, investments accounted for using the equity method and other non-financial assets

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

2.12 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, available-for-sale financial assets and derivative instrument.

(i) Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(ii) 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 2.16 and 2.17).

(iii) 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.

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

2.12 Financial assets *(Continued)*

(b) Recognition and measurement *(Continued)*

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of profit or loss within 'Other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the statement of profit or loss as part of other income when the Group's right to receive payments is established.

At 31 December 2016, 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.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.14 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

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

2.14 Impairment of financial assets *(Continued)*

(b) Assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2.15 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.

2.16 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 allowance for impairment. An allowance 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 allowance 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.

2.17 Cash and cash equivalents

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

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

2.18 Share capital/Convertible securities

(a) 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 owners.

(b) Convertible securities

Convertible securities with no contractual obligation to be settled in cash are classified as equity upon initial recognition.

2.19 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.

2.20 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.

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.

2.21 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the 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.

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

2.23 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, except on conversion or expiry.

The 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.

2.24 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.

(a) 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.

(b) 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.

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

2.24 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

- *Outside basis differences*

  Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, 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. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

  Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) 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 tax 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.

2.25 Employee benefits

The Group operates various post-employment schemes, including defined contribution pension plans and post-employment medical plans.

(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 the United States and South Korea to which the Group also makes contributions.

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

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

2.25 Employee benefits *(Continued)*

(b) Share-based compensation

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

At the end of each reporting period, the Group 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.

2.26 Provisions

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

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

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

2.27 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.

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

2.27 Revenue recognition *(Continued)*

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 – wholesale

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. Revenue is adjusted for the value of expected returns. Delivery occurs when 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.

(b) Sales of goods – retail

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.

(c) Sales of goods – internet

Revenue from the sale of goods on the internet is recognised at the point that the risks and rewards of the inventory have passed to the customer, which is the point of dispatch. Transactions are settled by credit or payment card or through on-line payment platforms. Provisions are made for internet credit sales based on the expected level of returns, which in turn is based upon the historical rate of returns.

(d) 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 loans and receivables is recognised using the original effective interest rate.

(e) Dividend income

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

(f) License fee income

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

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

2.28 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.

2.29 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.

2.30 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, and trade receivables are denominated in Hong Kong dollars (HK$), United States dollars (US$), EURO (EUR) or South Korean Won (KRW) (Note 15). In addition, the Company is required to pay 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 2016.

As at 31 December 2016 and 2015, if RMB strengthened/weakened by 5% against HK$/US$/EUR/KRW 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 KRW denominated cash and cash equivalents, trade receivables, borrowings, license fees and other payables.

		2016 RMB'000	2015 RMB'000
Post-tax loss from continuing operations (decrease)/increase			
– Strengthened	5%	(1,699)	(13,218)
– Weakened	5%	1,699	13,218

(ii) *Cash flow and 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 million 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 bear fixed interest rates. The weighted average effective interest rates per annum of the borrowings were 4.66% (2015: 6.35%) for bank borrowings denominated in RMB and 4.41% (2015: 5.23%) for bank borrowings denominated in HK$ as disclosed in Note 22.

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. All of these major customers are with good credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements. 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.

	2016 RMB'000	2015 RMB'000
Banks*		
Bank A	1,102,456	724,708
Bank B	395,352	359,738
Bank C	281,804	321,002
	1,779,612	1,405,448

* All banks are prominent nationwide bank in the PRC (including the Hong Kong Special Administrative Region), or branch of international commercial bank in the PRC (including the Hong Kong Special Administrative Region) with good credit ratings.

Trade receivables were due within 90 days from the date of billing. The Company has launched a series of plans to manage the credit risk of the customers. Allowance is made for the balances past due when Management considers the loss from non-performance by these counterparties is likely.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Management. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 22) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
As at 31 December 2016				
Borrowings	200,000	–	–	–
Convertible bonds *(a)*	572,220	–	–	–
License fees payable	42,842	17,538	18,703	32,000
Trade payables	1,047,323	–	–	–
Other payables	431,220	–	–	–
	2,293,605	17,538	18,703	32,000
As at 31 December 2015				
Borrowings	385,230	206,637	–	–
Convertible bonds *(a)*	30,000	765,000	–	–
License fees payable	67,758	17,176	18,798	–
Trade payables	997,473	–	–	–
Other payables	370,189	–	–	–
	1,850,650	988,813	18,798	–

Note:

(a) 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 principal amount together with the unpaid interest upon maturity. The annual interest payment is RMB30 million. For details and subsequent conversion in February 2017, please refer to Note 23.

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 capital and reserves attributable to equity holders of the Company as shown in the consolidated balance sheet.

The gearing ratios at 31 December 2016 and 2015 were as follows:

	Including convertible bonds		Excluding convertible bonds	
	2016 RMB'000	2015 RMB'000	**2016 RMB'000**	2015 RMB'000
Total borrowings and loans	**767,986**	1,289,032	**200,000**	566,499
Capital and reserves attributable to equity holders	**3,994,599**	3,179,903	**3,994,599**	3,179,903
Gearing ratio	**19.2%**	40.5%	**5.0%**	17.8%

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 these 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.

The fair value of financial instruments that are not traded in an active market is determined by using valuation technique.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

(a) Allowance for impairment of trade receivables and other receivables

The Group's Management determines the allowance for impairment of trade receivables and other receivables in accordance with the accounting policy stated in Note 2.16. Such allowance 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 allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant 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 allowance for impairment, the Company evaluates, among other factors, the historical payment pattern and credit-worthiness of each customer, default rates of prior years, ageing 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 allowance may be required. This assessment is based on the specific facts and circumstances of each customer. Management reassesses the allowance at each balance sheet date to ensure the current allowance is still appropriate.

(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) Estimated impairment of goodwill, intangible assets, and other non-current assets

The Group tests whether goodwill, intangible assets and other non-current assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.9 and Note 2.11 respectively. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions (See Note 8). If future events do not correspond to such assumptions, the value in use amount will need to be revised, and this may have an impact on the Group's results of operation or balance sheet.

(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. During the year ended 31 December 2014, the Group had three reportable segments as follows, LI-NING brand, Double Happiness brand and all other brands segments. During the year ended 31 December 2015, the Group decided to dispose 10% equity interest in Shanghai Double Happiness Co., Ltd. ("Double Happiness") and announced its disposal plan on 23 October 2015. Double Happiness was classified as held-for-sale and discontinued operations as at and for the year ended 31 December 2015 (refer to Note 16 for further details). The disposal transaction was completed in December 2016, upon which the Group stops consolidating Double Happiness and accounts for it as an associate company (refer to Note 11 for details), thereby it was classified as discontinued operations for the year ended 31 December 2016 and it will not be a reportable segment of the Group in the future.

Management assesses the performance of the operating segments based on operating profit. Segment information provided to Management for decision making is measured in a manner consistent with that in the financial statements.

Revenue consists of sales from LI-NING brand, all other brands from continuing operations and Double Happiness brand from discontinued operations, which are RMB7,925,439,000, RMB89,854,000 and RMB700,181,000 for the year ended 31 December 2016 and RMB6,971,894,000, RMB117,601,000 and RMB722,636,000 for the year ended 31 December 2015, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

5. Segment information *(Continued)*

The segment information provided to Management for the reportable segments for the years ended 31 December 2016 and 2015 is as follows:

	Continuing			Discontinued	
	LI-NING brand RMB'000	All other brands RMB'000	Subtotal RMB'000	Double Happiness brand* RMB'000	Total RMB'000
Year ended 31 December 2016					
Total revenue	7,925,439	123,323	8,048,762	700,181	8,748,943
Inter-segment revenue	–	(33,469)	(33,469)	–	(33,469)
Revenue from external customers	7,925,439	89,854	8,015,293	700,181	8,715,474
Operating profit	361,432	24,373	385,805	170,827	556,632
Distribution expenses and administrative expenses	3,380,337	13,133	3,393,470	162,934	3,556,404
Depreciation and amortisation	312,795	4,831	317,626	–	317,626
Year ended 31 December 2015					
Total revenue	6,971,894	150,321	7,122,215	722,648	7,844,863
Inter-segment revenue	–	(32,720)	(32,720)	(12)	(32,732)
Revenue from external customers	6,971,894	117,601	7,089,495	722,636	7,812,131
Operating profit	127,817	29,252	157,069	137,833	294,902
Distribution expenses and administrative expenses	3,047,453	19,057	3,066,510	173,854	3,240,364
Depreciation and amortisation	222,421	7,515	229,936	23,940	253,876

* Double Happiness brand has been classified as discontinued operations, the related revenue, expenses and income tax are presented as a single amount in the income statement under "profit for the year from discontinued operations".

5. Segment information *(Continued)*

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

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Operating profit from continuing operations	**385,805**	157,069
Finance income	**7,460**	6,343
Finance expenses	**(115,035)**	(139,546)
Share of profit of investments accounted for using the equity method	**9,716**	6,948
Profit before income tax from continuing operations	**287,946**	30,814
Operating profit from discontinued operations	**170,827**	137,833
Finance income	**2,236**	1,347
Finance expenses	**(155)**	(108)
Gain on disposal of 10% equity interest in discontinued operations	**329,612**	–
Profit before income tax from discontinued operations	**502,520**	139,072

Geographical information of revenue

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
Continuing operations		
The PRC (including the Hong Kong Special Administrative Region)	**7,808,789**	6,938,051
Other regions	**206,504**	151,444
Revenue from continuing operations	**8,015,293**	7,089,495
Discontinued operations		
The PRC (including the Hong Kong Special Administrative Region)	**653,129**	668,257
Other regions	**47,052**	54,379
Revenue from discontinued operations	**700,181**	722,636
Total	**8,715,474**	7,812,131

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 2016 and 2015, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

6. Property, plant and equipment

	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 2015							
Cost	738,838	194,401	244,367	136,872	200,352	1,840	1,516,670
Accumulated depreciation	(168,567)	(93,223)	(197,177)	(50,300)	(146,230)	–	(655,497)
Net book amount	570,271	101,178	47,190	86,572	54,122	1,840	861,173
Year ended 31 December 2015							
Opening net book amount	570,271	101,178	47,190	86,572	54,122	1,840	861,173
Additions	438	194,166	38,896	1,767	9,558	22,777	267,602
Transfer out from construction-in-progress	1,894	–	–	927	60	(2,881)	–
Disposals	(43)	(4,072)	–	(1,483)	(827)	–	(6,425)
Depreciation charge	(26,564)	(102,775)	(33,729)	(12,249)	(18,474)	–	(193,791)
Transferred to disposal group classified as held-for-sale *(Note 16)*	(144,831)	–	–	(17,784)	(3,903)	(21,736)	(188,254)
Closing net book amount	401,165	188,497	52,357	57,750	40,536	–	740,305
As at 31 December 2015							
Cost	527,915	319,489	283,263	101,710	196,356	–	1,428,733
Accumulated depreciation	(126,750)	(130,992)	(230,906)	(43,960)	(155,820)	–	(688,428)
Net book amount	401,165	188,497	52,357	57,750	40,536	–	740,305
Year ended 31 December 2016							
Opening net book amount	401,165	188,497	52,357	57,750	40,536	–	740,305
Additions	30	334,604	28,846	4,477	15,467	–	383,424
Disposals	(146)	(17,696)	(6,105)	(232)	(1,814)	–	(25,993)
Depreciation charge	(18,525)	(200,974)	(29,118)	(9,512)	(11,930)	–	(270,059)
Closing net book amount	382,524	304,431	45,980	52,483	42,259	–	827,677
As at 31 December 2016							
Cost	527,685	582,750	251,057	105,040	194,810	–	1,661,342
Accumulated depreciation	(145,161)	(278,319)	(205,077)	(52,557)	(152,551)	–	(833,665)
Net book amount	382,524	304,431	45,980	52,483	42,259	–	827,677

Depreciation expenses (excluding the portion attributable to discontinued operations) of RMB36,080,000 (2015: RMB40,182,000) has been charged to cost of sales, RMB218,992,000 (2015: RMB125,493,000) to distribution expenses and RMB14,987,000 (2015: RMB16,206,000) to administrative expenses.

As at 31 December 2016, buildings with net book value of RMB369,121,000 (2015: RMB386,548,000) were pledged as securities for the Group's borrowings (Note 22).

7. Land use rights

	RMB'000
As at 1 January 2015	
Cost	428,839
Accumulated amortisation	(56,726)
Net book amount	372,113
Year ended 31 December 2015	
Opening net book amount	372,113
Amortisation charge	(9,695)
Transferred to disposal group classified as held-for-sale *(Note 16)*	(282,630)
Closing net book amount	79,788
As at 31 December 2015	
Cost	95,558
Accumulated amortisation	(15,770)
Net book amount	79,788
Year ended 31 December 2016	
Opening net book amount	**79,788**
Amortisation charge	**(1,901)**
Closing net book amount	**77,887**
As at 31 December 2016	
Cost	**95,558**
Accumulated amortisation	**(17,671)**
Net book amount	**77,887**

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.

As at 31 December 2016, land use rights with net book value of RMB77,804,000 (2015: RMB79,661,000) were pledged as securities for the Group's borrowings (Note 22).

Amortisation (excluding the portion attributable to discontinued operations) of RMB1,901,000 (2015: RMB1,901,000) has been charged to administrative expenses.

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(All amounts in RMB unless otherwise stated)

8. Intangible assets

	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 2015						
Cost	246,313	119,037	161,762	292,129	61,279	880,520
Accumulated amortisation and impairment	–	(45,583)	(110,780)	(245,230)	(32,528)	(434,121)
Net book amount	246,313	73,454	50,982	46,899	28,751	446,399
Year ended 31 December 2015						
Opening net book amount	246,313	73,454	50,982	46,899	28,751	446,399
Additions	–	–	29,369	–	–	29,369
Amortisation charge	–	(5,536)	(26,128)	(11,878)	(6,848)	(50,390)
Transferred to disposal group classified as held-for-sale *(Note 16)*	(106,839)	(52,969)	–	–	–	(159,808)
Closing net book amount	139,474	14,949	54,223	35,021	21,903	265,570
As at 31 December 2015						
Cost	139,474	25,682	191,131	292,129	61,279	709,695
Accumulated amortisation and impairment	–	(10,733)	(136,908)	(257,108)	(39,376)	(444,125)
Net book amount	139,474	14,949	54,223	35,021	21,903	265,570
Year ended 31 December 2016						
Opening net book amount	139,474	14,949	54,223	35,021	21,903	265,570
Additions	–	–	28,060	35,328	–	63,388
Amortisation charge	–	(1,299)	(22,717)	(14,801)	(6,849)	(45,666)
Disposal	–	–	(596)	–	–	(596)
Closing net book amount	139,474	13,650	58,970	55,548	15,054	282,696
As at 31 December 2016						
Cost	139,474	25,682	218,595	327,457	61,279	772,487
Accumulated amortisation and impairment	–	(12,032)	(159,625)	(271,909)	(46,225)	(489,791)
Net book amount	139,474	13,650	58,970	55,548	15,054	282,696

Note:

Amortisation (excluding of the portion attributable to discontinued operations) of RMB14,801,000 (2015: RMB11,878,000) to distribution expenses and RMB30,865,000 (2015: RMB34,276,000) to administrative expenses.

8. Intangible assets *(Continued)*

Impairment tests for goodwill

Goodwill is monitored by Management at the operating segment level (i.e. at the brand level). The following is a summary of goodwill allocation for each operating segment.

	Li Ning brand RMB'000	Kason brand RMB'000	Double Happiness brand RMB'000
As at 1 January 2015	67,087	72,387	106,839
Transferred to disposal group classified as held-for-sale *(Note 16)*	–	–	(106,839)
As at 31 December 2015	67,087	72,387	–
As at 1 January and 31 December 2016	67,087	72,387	–

The recoverable amounts for the CGUs have been determined based on values-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by Management. The weighted average revenue growth rate used for the sixth year to the tenth year for Li Ning brand and Kason brand are 5% and 3% per annum respectively. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operate. The pre-tax discount rates used are 10.8% and 14.5% which reflect specific risks relating to Li Ning brand and Kason brand respectively.

Management's assessment of the values-in-use of Li Ning brand and Kason brand exceeds their carrying values, therefore no impairment provision was recorded by Management.

9. Available-for-sale financial assets

The Group's available-for-sale financial assets include investments in three private companies. One of the investments was impaired as at 31 December 2015. In May 2016, the Group disposed its shares in Hubei Jie Zhi Xing Sports Industry Development Co., Ltd for RMB13,479,000 which resulted in a net disposal gain of RMB1,479,000 exclusive of income tax of RMB370,000.

	2016 RMB'000	2015 RMB'000
Unlisted investments, at cost	**14,000**	26,000

	2016 RMB'000	2015 RMB'000
As at 1 January	**26,000**	26,000
Disposals	**(12,000)**	–
As at 31 December	**14,000**	26,000

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10. Subsidiaries

The following is a list of the Group's subsidiaries as at 31 December 2016:

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	RMB50,000,000	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
上海少昊體育用品研發有限公司 (Shanghai Shao Hao Sports Goods Research and Development Co., Ltd.)	The PRC, 18 December 2001 Limited liability company	RMB3,000,000	100%	Product design, research and development
上海悦奧體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.)	The PRC, 5 March 2003 Limited liability company	RMB3,000,000	100%	Sale of sports goods
佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastic School Services Co., Ltd.)	The PRC, 31 October 1996 Limited liability company	RMB1,000,000	100%	Property management
廣東悦奧體育發展有限公司 (Guangdong Yue Ao Sports Development Co., Ltd.)	The PRC, 13 December 2001 Limited liability company	RMB8,241,000	100%	Manufacture of sports goods
李寧(中國)體育用品有限公司 (Li Ning (China) Sports Goods Co., Ltd.)	The PRC, 6 July 2007 Limited liability company	RMB1,416,670,000	100%	Sale of sports goods
Li Ning Korea Sports Ltd. (李寧韓國有限公司)	South Korea, 21 August 2013 Limited liability company	KRW100,000,000	100%	Research and development
單仕競(上海)體育用品有限公司 (Danskin (Shanghai) Sports Goods Co., Ltd.)	The PRC, 21 November 2016 Limited liability company	RMB5,000,000	100%	Sale of sports goods

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(All amounts in RMB unless otherwise stated)

10. Subsidiaries *(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
李寧(北京)體育用品商業有限公司 (Li Ning (Beijing) Sports Goods Commercial Co., Ltd.)	The PRC, 19 December 2007 Limited liability company	HK$10,000,000	100%	Sale of sports goods
上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.)	The PRC, 9 July 2001 Limited liability company	RMB10,000,000	100%	Sale of sports goods
鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.)	The PRC, 25 June 1998 Limited liability company	RMB2,750,000	100%	Sale of sports goods
廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.)	The PRC, 6 October 1998 Limited liability company	RMB3,200,000	100%	Sale of sports goods
瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.)	The PRC, 10 June 1999 Limited liability company	RMB3,000,000	100%	Sale of sports goods
濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003 Limited liability company	RMB1,000,000	100%	Sale of sports goods
武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.)	The PRC, 2 June 1999 Limited liability company	RMB1,000,000	100%	Sale of sports goods
北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.)	The PRC, 4 November 1997 Limited liability company	RMB5,000,000	100%	Sale of sports goods
上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.)	The PRC, 8 August 2000 Limited liability company	RMB5,000,000	100%	Sale of sports goods
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

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(All amounts in RMB unless otherwise stated)

10. Subsidiaries *(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
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
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
上海李寧電子商務有限公司 (Shanghai Lining E-business Co., Ltd.)	The PRC, 27 September 2008 Limited liability company	RMB10,000,000	100%	Sale of sports goods
李寧體育(天津)有限公司 (Lining Sports (Tianjin) Co., Ltd.)	The PRC, 19 January 2009 Limited liability company	RMB330,000,000	100%	Sale of sports goods
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	RMB400,000,000	100%	Sale of sports goods

10. Subsidiaries *(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
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	RMB20,000,000	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$2	100%	Sales of sports goods
李寧(湖北)體育用品有限公司 (Li Ning (Hubei) Sports Goods Co., Ltd.)	The PRC, 2 November 2010 Limited liability company	RMB411,844,000	100%	Manufacture and sale of sports goods
湖北李寧鞋業有限公司 (Hubei Li Ning Footwear Co., Ltd.)	The PRC, 18 April 2013 Limited liability company	RMB50,000,000	95%	Manufacture and sale of sports goods
哈爾濱一動體育用品銷售有限公司 (Harbin Edosports Goods Sales Co., Ltd.)	The PRC, 25 December 2013 Limited liability company	RMB1,000,000	100%	Sale of sports goods
大慶悅動體育用品銷售有限公司 (Daqing Yue Dong Sports Goods Sales Co., Ltd.)	The PRC, 25 December 2013 Limited liability company	RMB1,000,000	100%	Sale of sports goods
寧波一動體育用品有限公司 (Ningbo Edosports Goods Co., Ltd.)	The PRC, 2 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
重慶悅奧體育用品銷售有限公司 (Chongqing Yue Ao Sports Goods Sales Co., Ltd.)	The PRC, 15 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
溫州一動體育用品有限公司 (Wenzhou Edosports Goods Co., Ltd.)	The PRC, 22 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
貴陽悅奧體育用品有限公司 (Guiyang Yue Ao Sports Goods Co., Ltd.)	The PRC, 23 May 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
深圳悅奧商貿有限公司 (Shenzhen Yue Ao Trading Co., Ltd.)	The PRC, 7 December 2015 Limited liability company	RMB1,000,000	100%	Sale of sports goods
海口一動體育用品銷售有限公司 (Haikou Edosports Goods Sales Co., Ltd.)	The PRC, 6 June 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods

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11. Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	2016 RMB'000	2015 RMB'000
Associates	587,335	–
Joint ventures	37,673	27,796
As at 31 December	625,008	27,796

The (loss)/profit recognised in the income statement are as follows:

	2016 RMB'000	2015 RMB'000
Associates	(161)	–
Joint ventures	9,877	6,948
For the year ended 31 December	9,716	6,948

Investment in associates

The following is a list of the associates as at 31 December 2016:

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	Measurement method
Tianjin Kuan Mao Mi Children's Products Company Limited ("Tianjin Kuan Mao Mi")	The PRC, 24 May 2011 Limited liability company	RMB30,000,000	13.30%	Sale of sports goods	Equity
Tianjin Yue Hao Tuo Outdoor Sports Company Limited ("Tianjin Yue Hao Tuo")	The PRC, 3 August 2011 Limited liability company	RMB20,790,000	14.82%	Sale of sports goods	Equity
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	47.5%	Manufacture and sale of sports goods	Equity
北京悦網金服信息科技有限公司 (Beijing Yue Wang Jin Fu Information Technology Co., Ltd.)	The PRC, 16 November 2015 Limited liability company	RMB5,000,000	40%	Investment	Equity

* The Group's Management and shareholders had approved the disposal of 10% equity interest in Double Happiness on 23 October 2015, and 4 December 2015, respectively. The disposal transaction was completed in December 2016.

11. Investments accounted for using the equity method *(Continued)*

The Group exercises significant influence over these 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.

The Group does not have any share of loss from continuing operations and total comprehensive income of Tianjin Kuan Mao Mi and Tianjin Yue Hao Tuo for the year ended 31 December 2016 and 2015.

The Group is entitled to dividend payments of RMB96,959,000 from Double Happiness for the year ended 31 December 2016, out of which RMB53,917,000 was received in October 2016.

Summarised financial information for associates

Set out below are the summarised financial information for Double Happiness which are accounted for using the equity method.

Summarised balance sheet

	2016 RMB'000
Current	
Assets	338,166
Liabilities	375,545
Non-current	
Assets	982,192
Liabilities	164,912

Summarised statement of comprehensive income

	2016 RMB'000
Revenue	700,181
Profit before income tax	172,908
Income tax expense	(40,751)
Profit for the year	132,157
Other comprehensive income	–
Total comprehensive income	132,157

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(All amounts in RMB unless otherwise stated)

11. Investments accounted for using the equity method *(Continued)*

Reconciliation of summarised financial information

Set out below is the reconciliation of the summarised financial information presented to the carrying amount of its interest in associates.

Summarised financial information

	2016 RMB'000
Net assets of an associate as at 31 December 2016	779,901
Interest in an associate (47.5%)	370,453
Goodwill	216,882
Carrying value	587,335

Investment in joint venture

	2016 RMB'000	2015 RMB'000
As at 1 January	27,796	20,848
Share of profit	9,877	6,948
As at 31 December	37,673	27,796

The joint venture listed below has share capital consisting solely of ordinary shares, which is indirectly held by the Group.

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
Li-Ning Aigle Ventures Company Limited ("Li-Ning Aigle Ventures")	Hong Kong, 3 July 2005 Limited liability company	HK$48,600,000	50%	Investment holding

The Group has a 50% equity interest in 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.

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12. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	1,763	1,319
Work in progress	2,727	3,172
Finished goods	1,104,135	1,124,858
	1,108,625	1,129,349
Less: provision for write-down of inventories to net realisable value	(143,203)	(169,697)
	965,422	959,652

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB4,214,265,000 for the year ended 31 December 2016 (2015: RMB3,789,740,000). Inventory provision and the amount of reversal have been included in cost of sales in the consolidated income statement for the years ended 31 December 2016 and 2015.

13. Trade receivables

	2016 RMB'000	2015 RMB'000
Accounts receivable	1,777,665	1,889,870
Notes receivable	6,726	25,400
	1,784,391	1,915,270
Less: allowance for impairment of trade receivables	(414,137)	(475,757)
	1,370,254	1,439,513

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

	2016 RMB'000	2015 RMB'000
0 – 30 days	667,529	539,433
31 – 60 days	191,606	242,387
61 – 90 days	225,382	251,607
91 – 180 days	323,546	509,786
Over 180 days	376,328	372,057
	1,784,391	1,915,270

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13. Trade receivables *(Continued)*

Customers are normally granted credit terms within 90 days. As at 31 December 2016, trade receivables of RMB699,874,000 (31 December 2015: RMB881,843,000) were past due. As discussed in Note 4(a), the Group's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant 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, ageing of the trade receivable, and the latest communication with individual customers. Management have been closely monitoring the credit risk of each customer and actively pursuing collection of those receivables until all efforts are exhausted. An allowance for impairment of RMB414,137,000 has been made as at 31 December 2016 (31 December 2015: RMB475,757,000).

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.

As of 31 December 2016, trade receivables of RMB285,737,000 (2015: RMB406,086,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2016 RMB'000	2015 RMB'000
91 – 180 days	**285,737**	406,086

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

	2016 RMB'000	2015 RMB'000
As at 1 January	**475,757**	596,766
Reversal of provision for impairment of trade receivables	**(61,121)**	(120,832)
Trade receivables written off during the year as uncollectible	**(499)**	(177)
As at 31 December	**414,137**	475,757

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.

14. Other receivables and prepayments

	2016 RMB'000	2015 RMB'000
Prepaid rentals and other deposits	264,852	222,567
Advances to suppliers	18,812	23,122
Dividend receivable	43,042	–
Loans to a joint venture *(a)*	18,536	22,613
Prepayment for advertising expenses	1,812	1,507
Staff advances and other payments for employees	1,095	1,198
Licence fees receivable	15,687	596
Others	91,348	81,401
	455,184	353,004
Less: non-current portion	(95,009)	(43,615)
Current portion	360,175	309,389

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

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.

(a) As at 31 December 2016, loan of HK$20,000,000 to Li-Ning Aigle Ventures was unsecured, interest free, and with no fixed maturity date.

15. Cash, cash equivalents and restricted bank deposits

As at 31 December 2016, the Group had the following cash, cash equivalents and restricted bank deposits mainly held at banks in the PRC (including the Hong Kong Special Administrative Region):

	2016 RMB'000	2015 RMB'000
Cash and cash equivalents	1,953,588	1,812,572
Restricted bank deposits	1,001	495
	1,954,589	1,813,067

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(All amounts in RMB unless otherwise stated)

15. Cash, cash equivalents and restricted bank deposits *(Continued)*

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

	2016 RMB'000	2015 RMB'000
Denominated in RMB	1,909,348	1,799,031
Denominated in HK$	31,004	2,525
Denominated in US$	13,460	7,522
Denominated in EUR	414	3,011
Denominated in KRW	363	978
	1,954,589	1,813,067

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.

16. Non-current assets held-for-sale and discontinued operations

The assets and liabilities related to Double Happiness, a former 57.5% owned subsidiary of the Company, have been presented as held for sale following the approval of the Group's Management and shareholders to dispose 10% equity interest in Double Happiness to a wolly-owned subsidiary of Viva China at a consideration of RMB124,992,000 on 23 October 2015, and 4 December 2015, respectively. Given Double Happiness is classified as discontinued operation, a single amount is presented in the income statement. Further, to the extent the shares of Double Happiness has not been listed on any major stock exchanges within four years following the completion of the disposal transaction, the Company has the right to call back the 10% equity interest and Viva China has a right to put back the 10% equity interest to the Company at a price of RMB124,992,000 plus 6.5% interest per annum after deducting the relevant cash dividends entitled. The disposal transaction was completed in December 2016.

16. Non-current assets held-for-sale and discontinued operations *(Continued)*

(a) The assets and liabilities of disposal group classified as held for sale

	2015 RMB'000
Assets	
Property, plant and equipment/Land use rights	470,884
Intangible assets	159,808
Deferred income tax assets	16,173
Inventories	123,842
Trade receivables	10,894
Other receivables and prepayments	3,601
Cash and cash equivalents	176,693
Total	961,895
Liabilities	
Deferred income tax liabilities	60,009
Trade payables	76,792
Other payables and accruals	184,694
Current income tax liabilities	10,517
Total	332,012

(b) Discontinued operations

	2016 RMB'000	2015 RMB'000
Revenue	**700,181**	722,636
Expenses	**(527,273)**	(583,564)
Profit before income tax	**172,908**	139,072
Income tax expense	**(40,751)**	(34,513)
Profit for the year	**132,157**	104,559
Gain on disposal of 10% equity interest in discontinued operations, net of income tax (Note)	**313,201**	–
Profit for the year from discontinued operations	**445,358**	104,559
Profit for the year from discontinued operations attributable to:		
– Equity holders of the company	**387,743**	57,263
– Non-controlling interests	**57,615**	47,296
Profit for the year from discontinued operations	**445,358**	104,559

16. Non-current assets held-for-sale and discontinued operations *(Continued)*

(b) Discontinued operations *(Continued)*

Note:

In December 2016, the Group completed the disposal of 10% equity interest in Double Happiness. Accordingly, Double Happiness is accounted for as an associate company of the Group as of 31 December 2016. The disposal transaction gave rise to a disposal gain of RMB330 million (before the income tax of RMB16 million). Details of the gain on disposal are as follows:

	2016 RMB'000
Non-current assets	684,041
Current assets	338,166
Total assets	1,022,207
Non-current liabilities	60,009
Current liabilities	375,547
Total Liabilities	435,556
Non-controlling interest	(211,414)
Net assets disposed	375,237
Cash consideration received	124,992
Less: derivative financial liability	(1,343)
Gain on disposal – remeasurement of remaining 47.5% equity interest	587,335
Total	710,984
Less: disposal cost	(6,135)
Gain on disposal	329,612

(c) Cash flows

	2016 **RMB'000**	2015 RMB'000
Cash flows from operating activities	**159,489**	137,939
Cash flows from investing activities	**(36,944)**	(22,022)
Cash flows from financing activities	**(96,391)**	(79,324)
Net increase in cash and cash equivalents	**26,154**	36,593

17. Ordinary shares and shares held for Restricted Share Award Scheme

Issued and fully paid

	Number of share of HK$0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Subtotal RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
As at 1 January 2015	1,433,488	141,698	1,298,537	1,440,235	(3,719)	1,436,516
Issuance of ordinary shares *(Note 18 (b))*	450,630	35,722	870,251	905,973	–	905,973
Net proceeds from shares issued pursuant to share option schemes *(Note (a))*	124	10	426	436	–	436
Shares converted from convertible securities *(Note 18 (d))*	786	62	1,741	1,803	–	1,803
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(2,088)	(2,088)	–	(2,088)
Shares vested under Restricted Share Award Scheme	220	–	–	–	1,635	1,635
As at 31 December 2015	1,885,248	177,492	2,168,867	2,346,359	(2,084)	2,344,275
As at 1 January 2016	**1,885,248**	**177,492**	**2,168,867**	**2,346,359**	**(2,084)**	**2,344,275**
Net proceeds from share issuance pursuant to share option schemes *(Note (a))*	**1,854**	**160**	**7,101**	**7,261**	**–**	**7,261**
Shares converted from convertible securities *(Note 18 (e))*	**61,163**	**5,469**	**149,561**	**155,030**	**–**	**155,030**
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	**–**	**–**	**5,811**	**5,811**	**–**	**5,811**
Shares vested under Restricted Share Award Scheme	**1,590**	**–**	**–**	**–**	**4,656**	**4,656**
Shares purchased under Restricted Share Award Scheme	**(13,650)**	**–**	**–**	**–**	**(53,177)**	**(53,177)**
Net proceeds from share issuance upon convertible bonds conversion	**56,811**	**4,900**	**208,015**	**212,915**	**–**	**212,915**
As at 31 December 2016	**1,993,016**	**188,021**	**2,539,355**	**2,727,376**	**(50,605)**	**2,676,771**

(a) During the year ended 31 December 2016, the Company issued 1,854,000 shares (2015: 124,000 shares) to certain directors and employees of the Group at weighted-average issue price of HK$4.53 (2015: HK$4.47) per share pursuant to the Company's 2004 and 2014 Share Option Scheme (see Note 34).

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18. Reserves

	Capital reserves RMB'000	Statutory reserve funds RMB'000	Share-based compensation reserves RMB'000	Convertible bonds reserves RMB'000	Convertible securities reserves RMB'000	Currency translation difference RMB'000	Subtotal RMB'000	Retained Earnings/ (accumulated deficit) RMB'000	Total RMB'000
As at 1 January 2015	78,814	267,683	99,234	113,395	420,859	4,413	984,398	(469,056)	515,342
Profit for the year	–	–	–	–	–	–	–	14,309	14,309
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	14,882	–	–	–	14,882	–	14,882
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	2,088	–	–	–	2,088	–	2,088
Issuance of convertible securities *(Note)*	–	–	–	–	293,435	–	293,435	–	293,435
Appropriations to statutory reserves	–	17,855	–	–	–	–	17,855	(17,855)	–
Shares vested under Restricted Share Award Scheme	–	–	(1,635)	–	–	–	(1,635)	–	(1,635)
Share options lapsed	39,216	–	(39,216)	–	–	–	–	–	–
Shares converted from convertible securities *(Note)*	–	–	–	–	(1,803)	–	(1,803)	–	(1,803)
Translation difference of foreign currency financial statements	–	–	–	–	–	(990)	(990)	–	(990)
As at 31 December 2015	118,030	285,538	75,353	113,395	712,491	3,423	1,308,230	(472,602)	835,628
As at 1 January 2016	118,030	285,538	75,353	113,395	712,491	3,423	1,308,230	(472,602)	835,628
Profit for the year	–	–	–	–	–	–	–	643,254	643,254
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	31,806	–	–	–	31,806	–	31,806
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(5,811)	–	–	–	(5,811)	–	(5,811)
Appropriations to statutory reserves	–	24,350	–	–	–	–	24,350	(24,350)	–
Shares vested under Restricted Share Award Scheme	–	–	(4,656)	–	–	–	(4,656)	–	(4,656)
Share options lapsed	19,253	–	(19,253)	–	–	–	–	–	–
Shares converted from convertible securities *(Note)*	–	–	–	–	(155,030)	–	(155,030)	–	(155,030)
Shares converted from convertible bonds *(Note 23)*	–	–	–	(28,576)	–	–	(28,576)	–	(28,576)
Translation difference of foreign currency financial statements	–	–	–	–	–	1,213	1,213	–	1,213
As at 31 December 2016	137,283	309,888	77,439	84,819	557,461	4,636	1,171,526	146,302	1,317,828

(a) In April 2013, the Company issued convertible securities (the "2013 CS") in the aggregate principal amount of approximately HK$1,847,838,000 (equivalent to approximately RMB1,480,488,000). The 2013 CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK$3.5 per ordinary share of the Company (subject to standard anti-dilution adjustments). Upon issuance, the 2013 CS can be converted into 527,953,814 ordinary shares of the Company.

18. Reserves *(Continued)*

(b) In January 2015, the Company issued offer securities (qualifying shareholders can select either of subscribing ordinary shares or convertible securities collectively; referred to as "Offer Securities") in the aggregate principal amount of approximately HK$1,553,530,000 (equivalent to approximately RMB1,229,930,000), under which 450,630,034 ordinary shares and 146,881,496 convertible securities (the "2015 CS") were issued. The 2015 CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK$2.6 per ordinary share of the Company (subject to standard anti-dilution adjustments). Upon issuance, the 2015 CS can be converted into 146,881,496 ordinary shares of the Company.

(c) The 2013 CS and 2015 CS (collectively referred to as "CS") cannot be redeemed unless the Company exercises the pre-emption right (but shall not be obliged) to redeem (or procure the purchase of) all or part of the principal amount of the CS.

The CS do not meet the definition of financial liabilities under International Accounting Standards 32 "Financial Instruments: Presentation", as (1) the Company has no contractual obligation to settle the CS in cash, it is the Company's own choice to redeem all or part of the principal amount of the CS, the CS holder has no right to receive and the Company has no obligation to deliver cash (i.e. there will be no exchange of cash for shares when the holders exercise the conversion right) or any financial assets; and (2) both the principal amount and the conversion price of the CS are denominated in HK$, the number of shares to be issued upon conversion is therefore fixed. As a result, all of the CS are classified as equity upon initial recognition.

(d) Net proceeds raised via the issuance of the Offer Securities in January 2015 are HK$1,515,030,000 (net of total transaction costs of HK$38,500,000), which is equivalent to approximately RMB1,199,408,000.

In relation to the issuance of the Offer Securities in January 2015, the Company paid underwriting commission expense of HK$11,908,000, HK$6,315,000, HK$5,000,000 and HK$2,277,000 to Viva China, TPG Stallion, L.P. ("TPG"), Mr. Lo Yu Sai and Milestone Capital Strategic Holdings Limited, respectively (equivalent to approximately to RMB9,427,000, RMB4,999,000, RMB3,959,000 and RMB1,803,000 respectively) which had been included as part of the transaction costs.

(e) As at 31 December 2016, CS with carrying value of HK$1,458,997,000 (equivalent to approximately RMB1,177,458,000) had been converted into ordinary shares of the Company, amongst which carrying value of HK$173,367,000 (equivalent to approximate RMB155,030,000) were converted into 61,163,000 ordinary shares of the Company during the year ended 31 December 2016 (Note 17).

19. Trade payables

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

	2016 RMB'000	2015 RMB'000
0 – 30 days	**645,967**	665,265
31 – 60 days	**302,661**	240,779
61 – 90 days	**85,887**	82,316
91 – 180 days	**3,064**	4,708
181 – 365 days	**5,107**	1,935
Over 365 days	**4,637**	2,470
	1,047,323	997,473

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20. Other payables and accruals

	2016 RMB'000	2015 RMB'000
Accrued sales and marketing expenses	293,222	255,743
Wages and welfare payables	101,712	125,941
Advances from customers	84,655	60,808
Other tax payables	35,405	28,968
Payable for property, plant and equipment	12,693	5,271
Others	280,198	219,437
	807,885	696,168

21. License fees payable

The Group entered into several license agreements with entities 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 2015	135,314
Payment of license fees	(60,866)
Amortisation of discount *(Note 29)*	13,787
Adjustment for exchange difference	3,008
As at 31 December 2015	91,243
As at 1 January 2016	91,243
Additions	47,869
Payment of license fees	(65,152)
Amortisation of discount *(Note 29)*	9,146
Adjustment for exchange difference	2,961
As at 31 December 2016	86,067

	2016 RMB'000	2015 RMB'000
Analysis of license fees payable:		
Non-current		
– the second to fifth year	28,426	27,886
– more than five years	16,038	–
Current	41,603	63,357
	86,067	91,243

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

21. License fees payable *(Continued)*

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

	2016 RMB'000	2015 RMB'000
Less than 1 year	42,842	67,758
Between 1 and 5 years	36,241	35,974
Over 5 years	32,000	–
	111,083	103,732

22. Borrowings

	2016 RMB'000	2015 RMB'000
Borrowings		
– non-current	–	200,000
– current	200,000	366,499
	200,000	566,499
Borrowings denominated in		
– RMB	200,000	250,000
– US$	–	316,499
	200,000	566,499
Borrowings		
– secured	200,000	516,499
– unsecured	–	50,000
	200,000	566,499

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 4.66% (2015: 6.35%) for those borrowings denominated in RMB and 4.41% (2015: 5.23%) for those borrowings denominated in other currencies for the year ended 31 December 2016.

Bank borrowings amounting to RMB200,000,000 and RMB516,499,000 were secured by the Group's buildings and land use rights, as at 31 December 2016 and 31 December 2015, respectively (Notes 6 and 7).

As at 31 December 2016, the Group has undrawn borrowing facilities within one year amounting to RMB900,000,000 (2015: RMB150,000,000). These facilities have been arranged to finance the Group's working capital.

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(All amounts in RMB unless otherwise stated)

22. Borrowings *(Continued)*

Movement in borrowings is analysed as follows:

	RMB'000
As at 1 January 2015	849,023
Additions	300,000
Effect of change in exchange rate	18,714
Repayments	(601,238)
As at 31 December 2015	566,499
As at 1 January 2016	**566,499**
Additions	**10,000**
Effect of change in exchange rate	**(1,680)**
Repayments	**(374,819)**
As at 31 December 2016	**200,000**

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet date are as follows:

	2016 RMB'000	2015 RMB'000
– Less than 6 months	**–**	50,000
– Between 6 and 12 months	**200,000**	316,499
– Between 1 and 2 years	**–**	200,000
	200,000	566,499

23. Convertible bonds

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). It was subsequently reset to HK$4.50 per ordinary share of the Company (as a result of the amendment agreement which modified the initial conversion price) and to HK$4.092 per ordinary share of the Company (as a result of the issuance of the 2015 CS) on 23 January 2013 and 30 January 2015, respectively.

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.

The initial fair value of the liability component and the equity conversion component was determined based on net proceeds at issuance/upon modification. The fair value of the liability component was calculated by using a market interest rate for an equivalent non-convertible bond. The residual amount of RMB113,395,000, representing the value of the equity conversion component, was included in shareholders' equity as other reserves.

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

	2016 RMB'000	2015 RMB'000
Liability component as at 1 January	**722,533**	688,921
Payment of interest	**(30,000)**	(30,000)
Interest expenses	**59,792**	63,612
Conversion into ordinary shares and share premium	**(184,339)**	–
Liability component as at 31 December	**567,986**	722,533
Less: current portion	**(567,986)**	(12,500)
Non-current portion	**–**	710,033

The face value of the CB as at 31 December 2016 is RMB561,000,000. The carrying value of the liability component is calculated using cash flows discounted at a risk adjusted market interest rate of 9.51% per annum. The carrying value of the liability component approximates its fair value as of 31 December 2016.

CB with a carrying amount of RMB189,000,000 was converted into the ordinary shares of the Company on 18 August 2016. Subsequent on 3 February 2017, CB with a carrying amount of RMB561,000,000 was converted into the ordinary shares of the Company.

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24. Deferred income tax

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

	Provisions 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 2015	18,013	9,449	–	40,818	212,894	29,907	311,081
(Charged)/credited to income statement	(4,282)	16,985	–	(33,738)	(39,221)	(3,784)	(64,040)
Transferred to disposal group classified as held for sale *(Note 16)*	(6,823)	(3,065)	–	–	(6,285)	–	(16,173)
As at 31 December 2015	6,908	23,369	–	7,080	167,388	26,123	230,868
As at 1 January 2016	**6,908**	**23,369**	**–**	**7,080**	**167,388**	**26,123**	**230,868**
(Charged)/credited to income statement	**(5,960)**	**1,244**	**–**	**29,885**	**(61,735)**	**13,156**	**(23,410)**
As at 31 December 2016	**948**	**24,613**	**–**	**36,965**	**105,653**	**39,279**	**207,458**
Deferred income tax liabilities							
As at 1 January 2015	–	–	(74,113)	–	–	(2,297)	(76,410)
Credited/(Charged) to income statement	–	–	5,090	–	–	(192)	4,898
Transferred to disposal group classified as held for sale *(Note 16)*	–	–	60,009	–	–	–	60,009
As at 31 December 2015	–	–	(9,014)	–	–	(2,489)	(11,503)
As at 1 January 2016	**–**	**–**	**(9,014)**	**–**	**–**	**(2,489)**	**(11,503)**
Credited to income statement	**–**	**–**	**1,976**	**–**	**–**	**2,728**	**4,704**
As at 31 December 2016	**–**	**–**	**(7,038)**	**–**	**–**	**239**	**(6,799)**

24. Deferred income tax *(Continued)*

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

	2016 RMB'000	2015 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	134,101	190,679
– to be recovered after more than 12 months	73,357	40,189
	207,458	230,868
Deferred income tax liabilities		
– to be recovered within 12 months	(1,737)	(4,466)
– to be recovered after more than 12 months	(5,062)	(7,037)
	(6,799)	(11,503)

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 RMB335,727,000 (2015: RMB479,604,000) in respect of tax losses amounting to RMB1,342,909,000 (2015: RMB1,928,267,000) that can be carried forward against future taxable income and will expire between 2017 and 2021 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 RMB7,329,000 (2015: RMB12,515,000) 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 totaling RMB146,575,000 (2015: RMB250,301,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

25. Deferred income

Deferred income consists of government grants, and vouchers granted and points accumulated under the customer loyalty programme.

	Government grants RMB'000	Customer loyalty programme RMB'000	Total RMB'000
As at 1 January 2015	62,718	–	62,718
Addition	560	5,702	6,262
Credited to income statement	(1,294)	(1,976)	(3,270)
As at 31 December 2015	61,984	3,726	65,710
As at 1 January 2016	61,984	3,726	65,710
Addition	330	4,880	5,210
Credited to income statement	(6,945)	(7,151)	(14,096)
As at 31 December 2016	55,369	1,455	56,824

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26. Expenses by nature

	2016 RMB'000	2015 RMB'000
Cost of inventories recognised as expenses and included in cost of sales	4,214,265	3,789,740
Depreciation on property, plant and equipment *(Note a)*	270,059	181,881
Amortisation of land use rights and intangible assets	47,567	48,055
Advertising and marketing expenses	983,086	1,015,671
Commission and trade fair related expenses	117,435	61,279
Staff costs, including directors' emoluments *(Note 28)*	778,355	701,961
Operating lease rentals in respect of land and buildings and related expenses	771,091	758,051
Research and product development expenses *(Note a)*	125,682	132,455
Transportation and logistics expenses	302,221	254,290
Reversal of provision for impairment of trade receivables	(61,121)	(120,832)
Auditor's remuneration	5,357	5,129
– Audit services	4,400	4,710
– Non-audit services	957	419
Management consulting expenses	50,144	54,079
Travelling and entertainment expenses	40,139	39,545

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

27. Other income and other gains – net

	2016 RMB'000	2015 RMB'000
Government grants	53,658	17,549
License fee income	18,591	13,371
Profit on disposal of available-for-sale financial assets	1,479	–
Financial assets at fair value through profit or loss	319	–
	74,047	30,920

28. Staff costs

	2016 RMB'000	2015 RMB'000
Wages and salaries	295,990	294,359
Contributions to retirement benefit plan *(Note b)*	50,194	49,362
Share options and restricted shares granted to directors and employees	31,806	14,882
Housing benefits	18,585	19,005
Other costs and benefits	381,780	324,353
	778,355	701,961

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28. Staff costs *(Continued)*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one (2015: one) director for the year ended 31 December 2016, and his emoluments are reflected in the analysis shown in Note 39. The aggregate amounts of emoluments paid and payable to the remaining four (2015: four) individuals whose emoluments were the highest in the Group for the years are as follows:

	2016 RMB'000	2015 RMB'000
Salaries and allowances	**9,800**	6,938
Other benefits	**6,211**	6,584
Contributions to retirement benefit scheme	**317**	308
	16,328	13,830

The emoluments fell within the following bands:

	Number of individuals	
	2016	2015
Emoluments bands		
HK$3,000,001 to HK$3,500,000	**1**	–
HK$3,500,001 to HK$4,000,000	**–**	2
HK$4,500,001 to HK$5,000,000	**2**	2
HK$5,500,001 to HK$6,000,000	**1**	–
	4	4

(b) 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.

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29. Finance income and expenses

	2016 RMB'000	2015 RMB'000
Interest income on bank balances and deposits	7,460	6,343
Finance income	7,460	6,343
Amortisation of discount – license fees payable *(Note 21)*	(9,146)	(13,787)
Interest expense on bank and other borrowings	(15,401)	(30,205)
Interest expense on convertible bonds	(59,792)	(63,612)
Net foreign currency exchange loss	(4,642)	(8,994)
Others	(26,054)	(22,948)
Finance expenses	(115,035)	(139,546)
Finance expenses – net	(107,575)	(133,203)

30. Income tax expense

	2016 RMB'000	2015 RMB'000
Current income tax		
– Hong Kong profits tax *(Note b)*	2,223	1,302
– The PRC corporate income tax *(Note c)*	6,639	1,037
– Withholding income tax on interest income from subsidiaries in PRC *(Note d)*	4,867	3,055
	13,729	5,394
Deferred income tax	18,706	68,374
Income tax expense	32,435	73,768

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 2016 (2015: 16.5%).

(c) Provision for the PRC corporate income tax is calculated based on the statutory tax rate of 25% (2015: 25%) on the assessable income of each of the group companies.

(d) This mainly arose from the interests due by the Company's subsidiaries in the PRC to other group companies in Hong Kong during the years ended 31 December 2016 and 2015, which are subject to withholding tax at the rate of 7%.

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30. Income tax expense *(Continued)*

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

	2016 RMB'000	2015 RMB'000
Profit before income tax	287,946	30,814
Tax calculated at a tax rate of 25% (2015: 25%)	71,987	7,704
Effects of different overseas tax rates	(1,787)	(3,154)
Temporary differences and tax losses for which no deferred income tax asset is recognised	33,932	38,955
Utilisation of previously unrecognized tax losses	(146,539)	(20,882)
Expenses not deductible for tax purposes	72,603	48,105
Income not subject to tax	–	(15)
Withholding tax on interest income	2,239	3,055
Tax charge	32,435	73,768

31. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of shares in issue less shares held for Restricted Share Award Scheme during the year. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company had completed the issuance of Offer Securities. The below market subscription price of these two events had effectively resulted in 70,553,000 ordinary shares (31 December 2015: 80,391,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share. The shares issued for nil consideration arising from the issuance of offer securities have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2015.

	2016 RMB'000	2015 RMB'000
Profit/(loss) from continuing operations attributable to equity holders of the Company	255,511	(42,954)
Profit from discontinued operations attributable to equity holders of the Company	387,743	57,263
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (in thousands)	2,216,001	2,158,877
Basic earnings/(losses) per share – from continuing operations	11.53	(1.99)
Basic earnings per share – from discontinued operations	17.50	2.65
Basic earnings per share (RMB cents)	29.03	0.66

31. Earnings per share *(Continued)*

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential shares. The Company's dilutive potential shares comprise shares to be issued under convertible bonds, share option schemes and Restricted Share Award Scheme. In relation to shares issued under share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2016 RMB'000	2015 RMB'000
Profit/(loss) from continuing operations attributable to equity holders of the Company, used to determine diluted earnings/(losses) per share	**255,511**	(42,954)
Profit from discontinued operations attributable to equity holders of the Company	**387,743**	57,263
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (in thousands)	**2,216,001**	2,158,877
Adjustment for the restricted shares (in thousands)	**6,274**	–
Deemed weighted average number of ordinary shares for diluted earnings per shares (in thousands)	**2,222,275**	2,158,877
Diluted earnings/(losses) per share – from continuing operations	**11.50**	(1.99)
Diluted earnings per share – from discontinued operations	**17.45**	2.65
Diluted earnings per share (RMB cents)	**28.95**	0.66

Note:

As at 31 December 2016, there were 14.7 million restricted shares have a dilutive impact on continuing operations; 43 million share options and 169 million ordinary shares assuming conversion of convertible bonds that could potentially have a dilutive impact on continuing operations in the future but were anti-dilutive during the year ended 31 December 2016. As at 31 December 2015, there were 64 million share options, 1.6 million restricted shares, and 225 million ordinary shares assuming conversion of convertible bonds that could potentially have a dilutive impact on continuing operations in the future but were anti-dilutive during the year ended 31 December 2015.

32. Dividends

The Board did not propose final dividend for the years ended 31 December 2016 and 2015.

33. Statement of cash flows

Reconciliation of profit before income tax including discontinued operations to cash used in operations are as follows:

	2016 RMB'000	2015 RMB'000
Profit before income tax including discontinued operations	790,466	169,886
Adjustments for:		
Depreciation	270,059	193,791
Amortisation	47,567	60,085
Loss on disposal of property, plant and equipment and land use rights	23,809	2,077
Gain on disposal of available-for-sale financial assets	(1,479)	–
Gain on partial disposal of a subsidiary	(329,612)	–
Reversal of provision for impairment of trade receivables	(61,121)	(120,832)
Reversal of provision for write-down of inventories to net realisable value	(26,494)	(68,754)
Share options and restricted shares granted to directors and employees	31,806	14,882
Finance expenses – net	92,036	140,587
Amortisation of deferred income	(14,096)	(3,270)
Share of profit of investments accounted for using the equity method	(9,716)	(6,948)
Operating profit before working capital changes	813,225	381,504
Decrease in inventories	45,327	274,591
Decrease/(increase) in trade receivables	109,362	(69,444)
(Increase)/decrease in other receivables and prepayments	(63,979)	14,844
Increase in trade payables	80,316	120,836
Increase in other payables and accruals	75,736	11,000
(Increase)/decrease in restrict bank deposits	(506)	2,098
Cash generated from operations	1,059,481	735,429

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2016 RMB'000	2015 RMB'000
Net book amount	29,081	6,425
Loss on disposal of property, plant and equipment	(23,809)	(2,077)
Decrease in other receivables and prepayments	641	14,263
Proceeds from disposal of property, plant and equipment	5,913	18,611

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34. Share-based compensation

(a) 2004 Share Option Scheme

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

The purpose of the 2004 Share Option Scheme is to provide incentives to eligible participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are any individuals being employees, officers, agents, consultants or representatives of any member of the Group who, based on the board of directors' discretion, have made valuable contributions to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge of the industry and other factors.

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

The maximum number of shares that may be granted under the 2004 Share Option Scheme 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 2004 Share Option Scheme.

An option may be exercised in accordance with the terms of the 2004 Share Option Scheme 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.

The 2004 Share Option Scheme was terminated on 30 May 2014. The options which have been granted and remained outstanding as of that date shall continue to follow the provisions of the 2004 Share Option Scheme.

34. Share-based compensation *(Continued)*

(a) 2004 Share Option Scheme *(Continued)*

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

	2016		2015	
	Weighted average exercise price (per share) HK$	**Outstanding options (Thousands)**	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	**5.535**	**30,457**	7.203	55,334
Adjustment in relation to issuance of the Offer Securities *(Note i)*	**–**	**–**	6.118	4,854
Exercised	**4.592**	**(1,121)**	4.470	(124)
Lapsed	**5.589**	**(15,030)**	7.734	(29,607)
As at 31 December	**5.551**	**14,306**	5.535	30,457
Exercisable as at 31 December	**5.763**	**10,493**	5.867	19,064

(i) As a result of the issuance of the Offer Securities in January 2015, the exercise prices and the number of the shares to be allotted and issued upon full exercise of the outstanding share options were adjusted in accordance with the 2004 Share Option Scheme. The above adjustments have taken effect from 2 February 2015. Save for the above adjustments, all other terms and conditions of the share options granted under the 2004 Share Option Scheme remain unchanged.

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

	2016		2015	
Expiry date	**Exercise price (per share) HK$**	**Share options (Thousands)**	Exercise price (per share) HK$	Share options (Thousands)
15 July 2017	**8.250**	**1,490**	8.250	1,490
31 December 2018	**4.470**	**5,686**	4.470	8,515
31 December 2018	**6.350**	**1,510**	6.350	9,056
30 September 2019	**6.350**	**2,148**	6.350	2,148
31 December 2019	**4.600**	**1,806**	4.600	5,931
31 December 2019	**6.160**	**302**	6.160	496
31 December 2020	**6.350**	**1,161**	6.350	2,133
31 December 2020	**4.630**	**203**	4.630	688
		14,306		30,457

The fair value of the 2004 Share Option Scheme is charged/reversed to the consolidated income statement over the vesting period of the option. The amount reversed during the year ended 31 December 2016 was RMB2,045,000 (2015: RMB8,653,000).

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34. Share-based compensation *(Continued)*

(b) 2014 Share Option Scheme

Pursuant to a shareholders' resolution passed on 30 May 2014, the Company approved (i) the adoption of a new share option scheme (the "2014 Share Option Scheme"), and (ii) the termination of the 2004 Share Option Scheme. The 2014 Share Option Scheme will be valid and effective for a period of 10 years commencing on 30 May 2014.

The Board proposes the adoption of the 2014 Share Option Scheme with the purposes, similar to the 2004 Share Option Scheme, to provide such 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. There is no material difference between the terms of the 2004 Share Option Scheme and the 2014 Share Option Scheme.

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

	2016		2015	
	Weighted average exercise price (per share) HK$	**Outstanding options (Thousands)**	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	**4.440**	**33,200**	–	–
Granted	**3.300**	**3,000**	4.440	38,200
Exercised	**4.440**	**(733)**	–	
Lapsed	**4.440**	**(7,167)**	4.440	(5,000)
As at 31 December	**4.319**	**28,300**	4.440	33,200
Exercisable as at 31 December	**4.440**	**8,367**	–	–

Share options outstanding under this scheme as at 31 December 2016 and 31 December 2015 have the following expiry date and exercise price:

	2016		2015	
Expiry date	**Exercise price (per share) HK$**	**Share options (Thousands)**	Exercise price (per share) HK$	Share options (Thousands)
31 December 2020	**4.440**	**25,300**	4.440	33,200
7 June 2026	**3.300**	**3,000**	–	–
		28,300		33,200

34. Share-based compensation *(Continued)*

(b) 2014 Share Option Scheme *(Continued)*

The fair value of the options granted under the 2014 Share Option Scheme during the years ended 31 December 2016 and 2015 determined by using Black-Scholes valuation model were as follows:

	2016 RMB'000	2015 RMB'000
The 2014 Share Option Scheme	4,316	56,966

Significant inputs into the model were as follows:

	2016	2015
The 2014 Share Option Scheme		
Weighted average share price (HK$)	3.300	4.440
Weighted average exercise price (HK$)	3.300	4.440
Expected volatility	51.3%	51.8%
Expected option life (years)	5.95	3.88
Weighted average annual risk free interest rate	1.2%	0.9%
Expected dividend yield	0.0%	0.0%

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

The fair value of the 2014 Share Option Scheme is charged to the consolidated income statement over the vesting period of the option. The amount charged during the year ended 31 December 2016 was RMB13,298,000 (2015: RMB22,183,000).

(c) 2006 Restricted Share Award Scheme

The Company adopted Restricted Share Award Scheme (the "2006 Restricted Share Award Scheme") on 14 July 2006 with a duration of 10 years commencing from the adoption date. The objective of 2006 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 allocate to selected participants on a pro rata basis.

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34. Share-based compensation *(Continued)*

(c) 2006 Restricted Share Award Scheme *(Continued)*

The maximum number of Restricted Shares shall not exceed 5% of the Company's share capital in issue from time to time. 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 2006 Restricted Shares Award Scheme was based on the market value of the Company's shares at the grant date.

Movements in the number of 2006 Restricted Shares Award Scheme granted and related fair value are as follows:

	2016		2015	
	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	9.005	1,590	10.743	1,810
Granted	3.200	15,866	–	–
Vested	9.005	(1,590)	23.300	(220)
Lapsed	3.200	(1,382)	–	–
As at 31 December	3.200	14,484	9.005	1,590

The fair value of 2006 Restricted Shares Award Scheme charged to the consolidated income statement was RMB20,252,000 during the year ended 31 December 2016 (2015: RMB1,352,000).

(d) 2016 Restricted Share Award Scheme

Following the expiration of the 2006 Restricted Share Award Scheme on 14 July 2016, the Company approved the adoption of a new Restricted Share Award Scheme (the "2016 Restricted Share Award Scheme") on 2 June 2016. The 2016 Restricted Share Award Scheme will be valid and effective for a period of 10 years commencing on 14 July 2016.

The Board proposes the adoption of the 2016 Restricted Share Award Scheme with the purposes, similar to the 2006 Restricted Share Award Scheme, to attract new talents, motivate existing talents and retain both in the Company which include directors, employees, officers, agents or consultants of the Company or any of its subsidiaries.

The maximum number of Restricted Shares under 2016 Restricted Share Award Scheme shall not exceed 5% of the Company's share capital in issue from time to time. For each selected participant, the maximum number of Restricted Shares under 2016 Restricted Share Award Scheme granted in aggregate shall not exceed 18,855,000 shares, being 1% of the Company's issued share capital as at the adoption date of 14 July 2016. There is no material difference between the terms of the 2006 Restricted Share Award Scheme and the 2016 Restricted Share Award Scheme.

The fair value of 2016 Restricted Share Award Scheme was based on the market value of the Company's shares at the grant date.

34. Share-based compensation *(Continued)*

(d) 2016 Restricted Share Award Scheme *(Continued)*

Movements in the number of 2016 Restricted Share Award Scheme granted and related fair value are as follows:

	2016	
	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)
As at 1 January	–	–
Granted	4.660	225
As at 31 December	4.660	225

The fair value of 2016 Restricted Share Award Scheme charged to the consolidated income statement was RMB301,000 during the year ended 31 December 2016 (2015: nil).

35. Commitments

(a) Capital commitments

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

	2016 RMB'000	2015 RMB'000
Property, plant and equipment of Double Happiness	–	127,720

There is no capital expenditure authorised but not contracted for as at 31 December 2016.

(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:

	2016 RMB'000	2015 RMB'000
Not later than 1 year	331,982	242,694
Later than 1 year and not later than 5 years	473,695	275,556
Later than 5 years	17,337	11,734
	823,014	529,984

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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.

Besides as disclosed elsewhere in these consolidated financial statements, the Group has following related-party transactions during the year:

(a) Sales of goods to:

	2016 RMB'000	2015 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd., all being controlled by a key management personnel of a non-wholly owned subsidiary	1,868	4,910

(b) Purchases of goods from:

	2016 RMB'000	2015 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	23,476	20,716
Subsidiary of Li-Ning Aigle Ventures	10,707	8,761
Tianjin Yue Hao Tuo (an associate of the Group)	441	10,826
	34,624	40,303

(c) Sales of services to:

	2016 RMB'000	2015 RMB'000
License fee from:		
Tianjin Kuan Mao Mi (an associate of the Group)	15,624	10,422
Tianjin Yue Hao Tuo	–	1,428
Rental fee from:		
Subsidiary of Viva China	1,301	1,301
Subsidiary of Li-Ning Aigle Ventures	728	441
	17,653	13,592

36. Related-party transactions *(Continued)*

(d) Purchases of services from:

	2016 RMB'000	2015 RMB'000
Subsidiaries of Viva China	**62,057**	64,854

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.

(e) Key management compensation

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

	2016 RMB'000	2015 RMB'000
Salaries and other benefits	**14,898**	17,470
Contribution to retirement benefit scheme	**388**	616
Employee share schemes for value of services provided	**15,482**	5,693
	30,768	23,779

(f) Year-end balances

	2016 RMB'000	2015 RMB'000
Receivables from related parties:		
Shanghai Double Happiness Co., Ltd. (an associate of the Group)	**46,042**	–
Prepayments to subsidiaries of Viva China	**35,425**	–
Tianjin Kuan Mao Mi	**15,624**	–
Subsidiary of Viva China	**153**	108
	97,244	108
Payables to related parties:		
Subsidiaries of Viva China	**500**	8,011

The receivables from related parties arise mainly from sale transactions and are due three months after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2015: nil).

The payables to related parties arise mainly from purchase transactions and on average are due two months after the date of purchase. The payables bear no interest.

37. Events after the balance sheet date

On 3 February 2017, CB with a carrying amount of RMB561,000,000 was converted into 168,629,000 ordinary shares of the Company. This conversion resulted an increase of ordinary shares of RMB14,937,000 and share premium of RMB546,063,000, with a corresponding decrease of the convertible bonds' reserve of RMB84,819,000.

38. Balance sheet and reserve movement of the Company

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		3,835,464	3,447,084
Total non-current assets		3,835,464	3,447,084
Current assets			
Dividends receivable		740,100	693,187
Cash and cash equivalents		1,474	1,179
Total current assets		741,574	694,366
Total assets		4,577,038	4,141,450
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		188,021	177,492
Share premium		2,539,355	2,168,867
Other reserves	*(Note a)*	795,875	958,139
Retained earnings	*(Note a)*	473,901	106,042
Total equity		3,997,149	3,410,540
LIABILITIES			
Non-current liabilities			
Convertible bonds		–	710,033
Current liabilities			
Other payables and accruals		11,903	8,377
Convertible bonds		567,986	12,500
Total current liabilities		579,889	20,877
Total liabilities		579,889	730,910
Total equity and liabilities		4,577,038	4,141,450

The balance sheet of the Company was approved by the Board of Directors on 22 March 2017 and was signed on its behalf

Li Ning	**Chen Yue, Scott**
Executive Director & Chairman	*Non-executive Director*

38. Balance sheet and reserve movement of the Company *(Continued)*

(a) Reserve movement of the Company

	Retained earnings RMB'000	Capital reserves RMB'000	Share-based compensation reserves RMB'000	Convertible bonds reserves RMB'000	Convertible securities reserves RMB'000	Total RMB'000
As at 1 January 2015	78,034	17,684	99,234	113,395	420,859	729,206
Total comprehensive income for the year	28,008	–	–	–	–	28,008
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	14,882	–	–	14,882
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	2,088	–	–	2,088
Issuance of convertible securities	–	–	–	–	293,435	293,435
Share options lapsed	–	39,216	(39,216)	–	–	–
Shares converted from convertible securities	–	–	–	–	(1,803)	(1,803)
Shares vested under Restricted Share Award Scheme	–	–	(1,635)	–	–	(1,635)
As at 31 December 2015	106,042	56,900	75,353	113,395	712,491	1,064,181
As at 1 January 2016	**106,042**	**56,900**	**75,353**	**113,395**	**712,491**	**1,064,181**
Total comprehensive income for the year	**367,859**	**–**	**–**	**–**	**–**	**367,859**
Value of services provided under share option schemes and Restricted Share Award Scheme	**–**	**–**	**31,806**	**–**	**–**	**31,806**
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	**–**	**–**	**(5,811)**	**–**	**–**	**(5,811)**
Shares vested under Restricted Share Award Scheme	**–**	**–**	**(4,656)**	**–**	**–**	**(4,656)**
Share options lapsed	**–**	**19,253**	**(19,253)**	**–**	**–**	**–**
Shares converted from convertible bonds	**–**	**–**	**–**	**(28,576)**	**–**	**(28,576)**
Shares converted from convertible securities	**–**	**–**	**–**	**–**	**(155,030)**	**(155,030)**
As at 31 December 2016	**473,901**	**76,153**	**77,439**	**84,819**	**557,461**	**1,269,773**

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39. Benefits and interests of directors

The remuneration of each director for the year ended 31 December 2016 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Allowance and benefits in kind *(Note (i))* RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Mr. Li Ning	–	3,710	9,557	106	13,373
Mr. Wu, Jesse Jen-Wei *(Note (iii))*	215	–	–	–	215
Ms. Wang Ya Fei	270	–	50	–	320
Mr. Koo Fook Sun, Louis	270	–	50	–	320
Mr. Chan Chung Bun, Bunny	250	–	50	–	300
Mr. Chen Yue, Scott	215	–	50	–	265
Mr. Su Jing Shyh, Samuel	270	–	50	–	320

The remuneration of each director for the year ended 31 December 2015 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Allowance and benefits in kind *(Note (i))* RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Mr. Li Ning	–	3,710	9	156	3,875
Mr. Jin-Goon Kim *(Note (ii))*	254	–	–	–	254
Mr. Wu, Jesse Jen-Wei *(Note (iii))*	83	–	–	–	83
Ms. Wang Ya Fei	270	–	80	–	350
Mr. Koo Fook Sun, Louis	270	–	80	–	350
Mr. Chan Chung Bun, Bunny	250	–	80	–	330
Mr. Chen Yue, Scott	250	–	80	–	330
Mr. Su Jing Shyh, Samuel	270	–	80	–	350

(i) Other benefits include insurance premium and fair value of share options charged to the consolidated income statement during the year.

(ii) Mr. Jin-Goon Kim ceased to be an executive director of the Company with effect from 4 July 2015.

(iii) Mr. Wu, Jesse Jen-Wei appointed to be a non-executive director of the Company with effect from 12 August 2015.

The following disclosures are made pursuant to section 383 (1)(a) to (f) of the Companies Ordinance Cap. 622 and Parts 2 to 4 of the Companies (Disclosure of Information about Benefits of Directors) Regulation Cap. 622G:

During the year, no emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2015: nil). No consideration was provided to or receivable by third parties for making available directors' services (2015: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2015: none).

39. Benefits and interests of directors *(Continued)*

No director of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2015: none).

No director of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which another group undertaking was a party that subsisted at the end of the year or at any time during the year (2015: none).

GLOSSARY

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

"2004 Share Option Scheme"	the share option scheme adopted by the Company on 5 June 2004, amended on 15 May 2009 and 11 October 2012 and terminated on 30 May 2014
"2006 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006, as amended on 30 April 2009 and 4 July 2012 and expired on 14 July 2016
"2013 Open Offer"	the open offer of convertible securities issued by the Company as set out in the listing document of the Company dated 27 March 2013
"2014 Share Option Scheme"	the share option scheme adopted by the Company on 30 May 2014
"2015 Open Offer"	the open offer of offer securities issued by the Company as set out in the listing document of the Company dated 9 January 2015
"2016 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2016
"Alpha Talent"	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning
"Articles of Association"	the articles of association of the Company
"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
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules
"PRC" or "China"	the People's Republic of China
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholders"	shareholders of the Company
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	per cent.

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