Li Ning Company Limited

（李寧有限公司）

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

2009 ANNUAL RESULTS HIGHLIGHTS

- Revenue rose by 25.4% to RMB8,387 million
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 42.4% to RMB1,525 million
- Profit attributable to equity holders grew by 31.0% to RMB945 million
- Margin of profit attributable to equity holders increased by 0.5 percentage points to 11.3%
- Return on equity holders' equity was up by 1.7 percentage points to 41.3%
- Basic earnings per share increased by 30.3% to RMB90.75 cents
- Proposed a final dividend of RMB22.54 cents per ordinary share
- Number of LI-NING brand retail stores reached 7,249, a net increase of 1,004 stores

ANNUAL RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009, together with the comparative figures for 2008, as follows:

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	**2009**	2008
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**638,181**	629,305
Land use rights		**386,705**	324,764
Intangible assets		**869,911**	329,035
Deferred income tax assets		**193,109**	69,441
Other non-current assets		**127,989**	166,440
Total non-current assets		**2,215,895**	1,518,985
Current assets			
Inventories		**631,528**	650,715
Trade receivables	*4*	**1,069,404**	1,090,576
Other receivables and prepayments		**194,446**	182,938
Restricted bank deposits		**2,254**	105,675
Cash and cash equivalents		**1,264,343**	788,040
Total current assets		**3,161,975**	2,817,944
Total assets		**5,377,870**	4,336,929

	Note	As at 31 December 2009 RMB'000	2008 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**110,898**	110,323
Share premium		**243,553**	200,758
Shares held for Restricted Share Award Scheme		**(53,239)**	(84,118)
Other reserves		**332,378**	257,610
Retained profits			
– Proposed final dividend		**236,049**	115,941
– Others		**1,804,869**	1,295,899
		2,674,508	1,896,413
Minority interests in equity		**187,603**	192,535
Total equity		**2,862,111**	2,088,948
LIABILITIES			
Non-current liabilities			
License fees payable		**496,812**	81,997
Deferred income tax liabilities		**90,401**	79,141
Deferred income		**63,618**	–
Total non-current liabilities		**650,831**	161,138
Current liabilities			
Trade payables	*5*	**826,433**	863,470
Other payables and accruals		**570,780**	541,865
License fees payable – current portion		**59,330**	28,747
Current income tax liabilities		**148,415**	45,281
Borrowings		**259,970**	607,480
Total current liabilities		**1,864,928**	2,086,843
Total liabilities		**2,515,759**	2,247,981
Total equity and liabilities		**5,377,870**	4,336,929
Net current assets		**1,297,047**	731,101
Total assets less current liabilities		**3,512,942**	2,250,086

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December **2009** *RMB'000*	2008 *RMB'000*
Revenue	*3*	**8,386,910**	6,690,073
Cost of sales	*6*	**(4,417,046)**	(3,469,699)
Gross profit		**3,969,864**	3,220,374
Distribution costs	*6*	**(2,152,150)**	(1,883,206)
Administrative expenses	*6*	**(602,929)**	(441,842)
Other income	*7*	**127,111**	64,887
Operating profit		**1,341,896**	960,213
Finance income	*8*	**7,422**	11,691
Finance costs	*8*	**(66,188)**	(42,666)
Finance costs – net	*8*	**(58,766)**	(30,975)
Profit before income tax		**1,283,130**	929,238
Income tax expense	*9*	**(313,799)**	(201,938)
Profit for the year		**969,331**	727,300
Attributable to:			
Equity holders of the Company		**944,524**	721,267
Minority interests		**24,807**	6,033
		969,331	727,300
Earnings per share for profit attributable to equity holders of the Company ***(RMB cents)***			
– basic	*10*	**90.75**	69.63
– diluted	*10*	**89.61**	68.64
Interim dividend, special dividend and proposed final dividend	*11*	**377,486**	516,743

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Profit for the year	**969,331**	727,300
Other comprehensive income:		
Currency translation differencies	**(28)**	–
Total comprehensive income for the year	**969,303**	727,300
Attributable to:		
Equity holders of the Company	**944,496**	721,267
Minority interests	**24,807**	6,033
	969,303	727,300

Notes:

1. General information

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

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

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

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 of the Company (the "Board") on 17 March 2010.

2. Basis of preparation and significant accounting policies

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

The following new standards and amendments to existing standards are mandatory for the first time for the financial year beginning 1 January 2009, which are relevant to the Group.

- IAS 1 (Revised), "Presentation of financial statements". The revised standard prohibits the presentation of items of income and expenses (that is "non-owner changes in equity") in the statement of changes in equity, requiring "non-owner changes in equity" to be presented separately from owner changes in equity. All "non-owner changes in equity" are required to be shown in a performance statement. Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). The Group has elected to present two statements: an income statement and a statement of comprehensive income. The financial statements have been prepared under the revised disclosure requirements. Such change only impacts presentation of the financial statements with no impact on the Group's earnings.

- IFRS 8, "Operating segments". IFRS 8 replaces IAS 14, "Segment reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes.

  This new accounting standard has resulted in an increase in the number of the reportable segments presented from one to four as follows, LI-NING brand, Double Happiness brand, Lotto brand and all other brands segments. Operating segments are reported in a manner consistent with the internal reports provided to the chief operating decision-maker of the Group ("management").

  Goodwill is allocated by management to groups of cash-generating units on a segment level. Goodwill relating to the previous acquisition of 57.5% equity interest in Shanghai Double Happiness Co., Ltd. ("Double Happiness") remains in Double Happiness brand segment. Goodwill relating to the acquisition of Kason Sports (Hong Kong) Limited ("Kason") is allocated in all other brands segment. The change in reportable segments has not resulted in any additional goodwill impairment. There has been no further impact on the measurement of the Group's assets and liabilities. Comparatives for 2008 have been provided.

The Group has early adopted IFRS 8 (Amendment), "Operating segments" (effective for the financial year beginning on or after 1 January 2010). This amendment clarifies that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The Group has not disclosed the measure of segment assets because this is not regularly reported to management. IFRS 8 (Amendment) is applied retrospectively.

Other new standards, amendments to standards and interpretations, which are mandatory for the first time for the financial year beginning 1 January 2009, are not currently relevant for the Group or do not have material impact on the Group in the year ended 31 December 2009.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

		Effective for accounting periods beginning on or after
IFRS 2 (Amendment)	Share-based payments	1 July 2009
IFRS 3 (Revised)	Business combinations	1 July 2009
IFRS 5 (Amendment)	Non-current assets held for sale and discontinued operations	1 January 2010
IFRS 9	Financial instruments	1 January 2013
IAS 1 (Amendment)	Presentation of financial statements	1 January 2010
IAS 7 (Amendment)	Statement of cash flows	1 January 2010
IAS 17 (Amendment)	Leases	1 January 2010
IAS 24 (Revised)	Related party disclosures	1 January 2011
IAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
IAS 36 (Amendment)	Impairment of assets	1 January 2010
IAS 38 (Amendment)	Intangible assets	1 July 2009
IAS 39 (Amendment)	Financial instruments: recognition and measurement	1 January 2010
IFRIC-Int 9 (Amendment)	Reassessment of embedded derivatives	1 July 2009
IFRIC-Int 16 (Amendment)	Hedges of a net investment in a foreign operation	1 July 2009
IFRIC-Int 17	Distribution of non-cash assets to owners	1 July 2009
IFRIC-Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010

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

3. Revenue and segment information

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

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

Revenue consists of sales from LI-NING brand, Double Happiness brand, Lotto brand and all other brands, which are RMB7,693,263,000, RMB427,088,000, RMB76,155,000 and RMB190,404,000 for the year ended 31 December 2009 and RMB6,354,238,000, RMB206,493,000, RMB5,741,000 and RMB123,601,000 for the year ended 31 December 2008 respectively.

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

The segment information provided to management for the reportable segments for the years ended 31 December 2009 and 2008 is as follows:

	LI-NING brand *RMB'000*	Double Happiness brand *RMB'000*	Lotto brand *RMB'000*	All other brands *RMB'000*	Total *RMB'000*
Year ended 31 December 2009					
Total revenue	**7,693,263**	**429,448**	**114,396**	**220,037**	**8,457,144**
Inter-segment revenue	**–**	**(2,360)**	**(38,241)**	**(29,633)**	**(70,234)**
Revenue from external customers	**7,693,263**	**427,088**	**76,155**	**190,404**	**8,386,910**
Operating profit/(loss)	**1,360,526**	**73,435**	**(76,913)**	**(15,152)**	**1,341,896**
Distribution costs and administrative expenses	**2,496,178**	**92,712**	**97,542**	**68,647**	**2,755,079**
Include:					
– depreciation and amortisation	**141,817**	**16,357**	**19,978**	**4,863**	**183,015**
Year ended 31 December 2008					
Total revenue	6,354,238	206,493	5,741	123,601	6,690,073
Inter-segment revenue	–	–	–	–	–
Revenue from external customers	6,354,238	206,493	5,741	123,601	6,690,073
Operating profit/(loss)	962,604	20,382	(12,401)	(10,372)	960,213
Distribution costs and administrative expenses	2,207,510	51,676	13,193	52,669	2,325,048
Include:					
– depreciation and amortisation	99,322	10,709	4	268	110,303

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

	2009 *RMB'000*	2008 *RMB'000*
Operating profit	**1,341,896**	960,213
Finance income	**7,422**	11,691
Finance costs	**(66,188)**	(42,666)
Profit before income tax	**1,283,130**	929,238

Geographical information of revenue

	2009 *RMB'000*	2008 *RMB'000*
The PRC (including the Hong Kong Special Administrative Region)	**8,258,873**	6,616,148
Other regions	**128,037**	73,925
Total	**8,386,910**	6,690,073

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

The Group has a large number of customers. For the year ended 31 December 2009, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Trade receivables

	2009	2008
	RMB'000	*RMB'000*
Accounts receivable	**1,028,017**	1,055,171
Notes receivable	**42,571**	40,710
	1,070,588	1,095,881
Less: provision for impairment of receivables	**(1,184)**	(5,305)
	1,069,404	1,090,576

Customers are normally granted credit terms within 90 days. As at 31 December 2009, trade receivables that were neither past due nor impaired amounted to RMB1,027,215,000 (2008: RMB941,481,000). Trade receivables that were past due but not impaired amounted to RMB42,189,000 (2008: RMB149,095,000) which relate to a number of independent customers for whom there is no recent history of default and with outstanding receivables aged from 91 to 180 days as at 31 December 2009.

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

	2009	2008
	RMB'000	*RMB'000*
0 – 30 days	**506,049**	382,364
31 – 60 days	**314,897**	301,836
61 – 90 days	**206,269**	257,281
91 – 180 days	**42,189**	149,095
181 – 365 days	**1,000**	2,708
Over 365 days	**184**	2,597
	1,070,588	1,095,881

As at 31 December 2009, trade receivables of RMB1,184,000 (2008: RMB5,305,000) were impaired on which full provision of impairment has been made. The impairment was firstly assessed individually for significant or long ageing balances, and the remaining balances were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk.

5. 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:

	2009	2008
	RMB'000	*RMB'000*
0 – 30 days	**786,082**	652,739
31 – 60 days	**9,340**	175,007
61 – 90 days	**18,851**	27,587
91 – 180 days	**9,726**	1,506
181 – 365 days	**1,053**	3,618
Over 365 days	**1,381**	3,013
	826,433	863,470

6. Expenses by nature

	2009	2008
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses included in cost of sales	**4,131,797**	3,274,036
Depreciation on property, plant and equipment	**94,302**	77,482
Amortisation of land use rights and intangible assets	**88,713**	32,821
Advertising and marketing expenses	**1,290,620**	1,171,175
Director and employee benefit expenses	**630,887**	472,415
Operating lease rentals in respect of land and buildings	**260,075**	212,760
Research and product development expenses	**229,806**	177,444
Transportation and logistics expenses	**123,800**	109,879
(Reversal of provision)/provision for impairment charge of receivables	**(2,279)**	1,477
Write-down of inventories to net realisable value	**4,375**	16,447
Auditor's remuneration	**4,050**	4,150
Management consulting expenses	**68,634**	50,999
Travelling and entertainment expenses	**128,752**	105,019
Other expenses	**118,593**	88,643
Total of cost of sales, distribution costs and administrative expenses	**7,172,125**	5,794,747

7. Other income

	2009	2008
	RMB'000	*RMB'000*
Government grants *(Note a)*	**127,111**	64,887

Note:

(a) This represented subsidies received from various local governments in the PRC for the year ended 31 December 2009.

8. Finance income and costs

	2009	2008
	RMB'000	*RMB'000*
Interest income on bank balances and deposits	**7,422**	11,691
Finance income	**7,422**	11,691
Amortisation of discount – license fees payable	**(40,417)**	(5,339)
Interest expense on bank borrowings	**(24,954)**	(33,921)
Net foreign currency exchange loss	**(817)**	(3,406)
Finance costs	**(66,188)**	(42,666)
Finance costs – net	**(58,766)**	(30,975)

9. Income taxes

	2009	2008
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax *(Note b)*	**4,501**	773
– The PRC corporate income tax *(Note c)*	**441,741**	240,272
	446,242	241,045
Deferred income tax	**(132,443)**	(39,107)
	313,799	201,938

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 2009 (2008: 16.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2008: 25%) on the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 20% (2008: 18%) under the relevant PRC tax rules and regulations.

10. Earnings per share

Basic

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

	2009	2008
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**944,524**	721,267
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme *(in thousands)*	**1,040,757**	1,035,916
Basic earnings per share *(RMB cents)*	**90.75**	69.63

Diluted

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

	2009	2008
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**944,524**	721,267
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme *(in thousands)*	**1,040,757**	1,035,916
Adjustment for share options and awarded shares *(in thousands)*	**13,276**	14,876
Weighted average number of ordinary shares for diluted earnings per share *(in thousands)*	**1,054,033**	1,050,792
Diluted earnings per share *(RMB cents)*	**89.61**	68.64

11. Dividends

	2009	2008
	RMB'000	*RMB'000*
Interim dividend paid of RMB13.58 cents (2008: RMB9.63 cents) per ordinary share	**141,437**	99,733
Special dividend paid of RMB nil cents (2008: RMB28.90 cents) per ordinary share	**–**	301,069
Proposed final dividend of RMB22.54 cents (2008: RMB11.14 cents) per ordinary share	**236,049**	115,941
	377,486	516,743

Note:

On 18 March 2009, the Board proposed a final dividend of RMB11.14 cents per ordinary share for the year ended 31 December 2008.

On 17 March 2010, the Board proposed a final dividend of RMB22.54 cents per ordinary share totalling RMB236,049,000 for the year ended 31 December 2009. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 December 2010.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB22.54 cents per ordinary share for the year ended 31 December 2009 (2008: RMB11.14 cents). The proposed dividend payment is subject to approval by the shareholders of the Company at the annual general meeting ("AGM") to be held on 14 May 2010 and is payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 14 May 2010. Upon shareholders' approval, the proposed final dividend will be paid on or about 24 May 2010 to shareholders whose names shall appear on the register of members of the Company on 14 May 2010.

Together with the interim dividend of RMB13.58 cents per ordinary share (2008: an interim dividend of RMB9.63 cents and a special dividend of RMB28.90 cents), the total dividend for the year ended 31 December 2009 will amount to RMB36.12 cents per ordinary share (2008: RMB49.67 cents).

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determination of entitlement to the final dividend and to attend and vote at the AGM, the register of members of the Company will be closed from Thursday, 13 May 2010 to Friday, 14 May 2010 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final dividend and be entitled to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 12 May 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

The impact of the financial crisis, which began in 2008, continued into 2009 and prompted the global economy, including China, to adjust amid the financial turmoil. China's economy began to pick up in mid-2009 due to the massive economic stimulus package implemented by the Central Government. The retail sector also began to stabilise following months of fluctuations. Meanwhile, the post-Beijing Olympics effect impacted the pace of growth of the sporting goods industry in 2009, and competition in the industry intensified.

Regardless of the challenging external environment, the Group achieved strong results in revenue, profit, return on equity and cash flow. In 2009, the Group recorded a 25.4% year-on-year growth in revenue, amounting to RMB8,386,910,000. Profit attributable to equity holders also increased by 31.0% year-on-year to RMB944,524,000. The return on equity holders' equity stood at 41.3%, up 1.7 percentage points from 2008. In addition to generating sound financial returns, the Group also increased its market share and brand awareness by enhancing its core competitiveness and stepping up its efforts to nurture new businesses, which validated the Group's business strategy and capability growth-oriented development model.

Financial Review

Key results and financial indicators of the Group for the year 2009 are set out below:

	Year ended 31 December 2009	2008	Change (%)
Items of key statements			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**8,386,910**	6,690,073	**25.4**
Gross profit	**3,969,864**	3,220,374	**23.3**
Operating profit	**1,341,896**	960,213	**39.7**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**1,524,911**	1,070,516	**42.4**
Profit attributable to equity holders	**944,524**	721,267	**31.0**
Net operating cash flow *(Note 1)*	**1,306,668**	698,967	**86.9**
Basic earnings per share *(RMB cents)* (*Note 2*)	**90.75**	69.63	**30.3**
Net asset value per share *(RMB cents)*	**273.92**	201.51	**35.9**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**47.3**	48.1	
Operating profit margin *(%)*	**16.0**	14.4	
Effective tax rate *(%)*	**24.5**	21.7	
Margin of profit attributable to equity holders *(%)*	**11.3**	10.8	
Return on equity holders' equity *(%)*	**41.3**	39.6	
Expenses as a % of revenue			
Director and employee benefit expenses *(%)*	**7.5**	7.1	
Advertising and marketing expenses *(%)*	**15.4**	17.5	
Research and product development expenses *(%)*	**2.7**	2.7	
Asset efficiency ratios			
Average inventory turnover *(days) (Note 3)*	**53**	61	
Average trade receivables turnover *(days) (Note 4)*	**47**	48	
Average trade payables turnover *(days) (Note 5)*	**70**	69	

	As at 31 December 2009	2008
Asset ratio		
Debt-to-equity ratio *(%) (Note 6)*	**94.1**	118.5

Notes:

1. The calculation of net operating cash flow is based on the difference between cash inflow generated from operating activities and cash outflow generated from operating activities.

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

3. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances divided by cost of sales and multiplied by 365 days.

4. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables divided by revenue and multiplied by 365 days.

5. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables divided by total purchases and multiplied by 365 days.

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

Revenue

The Group's revenue for the year 2009 amounted to RMB8,386,910,000, representing a growth of 25.4% as compared to 2008.

Revenue breakdown by brand and product category

	Year ended 31 December				
	2009		2008		**Revenue**
		% of total		% of total	**growth**
	RMB'000	**revenue**	*RMB'000*	revenue	**(%)**
LI-NING brand					
Footwear	**3,473,889**	**41.4**	2,917,788	43.6	**19.1**
Apparel	**3,787,648**	**45.2**	3,097,695	46.3	**22.3**
Equipment/accessories	**431,726**	**5.1**	338,755	5.1	**27.4**
Total	**7,693,263**	**91.7**	6,354,238	95.0	**21.1**
Double Happiness brand*					
Equipment/accessories	**427,088**	**5.1**	206,493	3.1	**106.8**
Total	**427,088**	**5.1**	206,493	3.1	**106.8**
Lotto brand**					
Footwear	**25,642**	**0.3**	1,546	0.0	**1,558.6**
Apparel	**47,335**	**0.6**	4,159	0.1	**1,038.1**
Accessories	**3,178**	**0.0**	36	0.0	**8,727.8**
Total	**76,155**	**0.9**	5,741	0.1	**1,226.5**
Other brands***					
Footwear	**56,813**	**0.7**	42,332	0.6	**34.2**
Apparel	**95,079**	**1.1**	77,650	1.2	**22.4**
Equipment/accessories	**38,512**	**0.5**	3,619	0.0	**964.2**
Total	**190,404**	**2.3**	123,601	1.8	**54.0**
Total					
Footwear	**3,556,344**	**42.4**	2,961,666	44.2	**20.1**
Apparel	**3,930,062**	**46.9**	3,179,504	47.6	**23.6**
Equipment/accessories	**900,504**	**10.7**	548,903	8.2	**64.1**
Total	**8,386,910**	**100.0**	6,690,073	100.0	**25.4**

* On 21 July 2008, the Group completed the acquisition of 57.5% equity interest in Shanghai Double Happiness Co., Ltd., which has been consolidated into the Group's accounts since then.

** The Group commenced the Lotto brand business since 1 January 2009.

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

The Group's core brand, the LI-NING brand achieved revenue of RMB7,693,263,000, which accounted for 91.7% of the Group's total revenue and represented an increase of 21.1% as compared to 2008.

The overall operating environment for China's sporting goods industry was challenging in 2009 due to the negative impact of the global financial crisis and the post-Beijing Olympics effect. In spite of these market uncertainties, LI-NING brand achieved stable revenue growth by: (i) continuing expansion of sales channel coverage, especially in second- and third-tier cities; (ii) establishing retail operation standards which enhanced the management of retail store operations; (iii) reinforcing new business development, such as the successful launch of the LI-NING brand badminton business; and (iv) increasing operational efficiency of the supply chain.

The Group continued to expand its multi-brand strategy and launched the Lotto brand business during the year. Through continuous marketing efforts, preliminary response from consumers to the fashion and quality characteristics of the Lotto brand has been encouraging.

Percentage of revenue of the respective brands by sales channel

	Year ended 31 December		
	2009	2008	
	% of revenue of the respective brands	% of revenue of the respective brands	**Change (%)**
LI-NING brand			
PRC market			
Sales to franchised distributors	**86.6**	86.4	**0.2**
Sales by directly-managed retail stores	**12.4**	12.8	**(0.4)**
International markets	**1.0**	0.8	**0.2**
Total	**100**	100	
Double Happiness brand*			
PRC market	**88.7**	89.6	**(0.9)**
International markets	**11.3**	10.4	**0.9**
Total	**100**	100	
Lotto brand**			
PRC market	**100**	100	
Total	**100**	100	
Other brands***			
PRC market	**100**	100	
Total	**100**	100	

* On 21 July 2008, the Group completed the acquisition of 57.5% equity interest in Shanghai Double Happiness Co., Ltd., which has been consolidated into the Group's accounts since then.

** The Group commenced the Lotto brand business since 1 January 2009.

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

As far as the LI-NING brand is concerned, revenue generated from sales to franchised distributors amounted to RMB6,660,497,000, representing a year-on-year increase of 21.4% and accounting for 86.6% of the total revenue of the LI-NING brand for the year. Revenue generated from sales by directly-managed retail stores amounted to RMB952,862,000, representing a year-on-year increase of 16.8% and accounting for 12.4% of the total revenue of the LI-NING brand for the year. This revenue growth trend was in line with the sales model for LI-NING brand, which employs franchised distributors as the major sales channel.

Revenue breakdown by geographical location

		Year ended 31 December				
		2009		2008		**Revenue**
	Note	***RMB'000***	**% of total revenue**	*RMB'000*	% of total revenue	**growth (%)**
LI-NING brand						
PRC market						
Eastern region	*1*	**3,016,914**	**36.0**	2,556,346	38.2	**18.0**
Northern region	*2*	**3,168,568**	**37.8**	2,599,215	38.9	**21.9**
Southern region	*3*	**1,427,876**	**17.0**	1,146,181	17.1	**24.6**
International markets		**79,905**	**1.0**	52,496	0.8	**52.2**
Double Happiness brand*						
PRC market		**378,956**	**4.5**	185,064	2.8	**104.8**
International markets		**48,132**	**0.6**	21,429	0.3	**124.6**
Lotto brand**						
PRC market		**76,155**	**0.9**	5,741	0.1	**1,226.5**
Other brands***						
PRC market		**190,404**	**2.2**	123,601	1.8	**54.0**
Total		**8,386,910**	**100.0**	6,690,073	100.0	**25.4**

* On 21 July 2008, the Group completed the acquisition of 57.5% equity interest in Shanghai Double Happiness Co., Ltd., which has been consolidated into the Group's accounts since then.

** The Group commenced the Lotto brand business since 1 January 2009.

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

Notes:

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

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

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

LI-NING brand has an extensive distribution network which covers all major cities in China. During the year, the Group further increased its network coverage in the second- and third-tier cities and stepped up its efforts in the implementation of retail operations standards and strengthening store operations management to ensure sustained and stable growth in different regions. At the same time, the Group increased its efforts in developing new international markets such as the Southeast Asian region, especially Singapore. As a result, LI-NING brand's revenue in the international markets increased by 52.2% as compared to 2008.

Cost of Sales and Gross Profit

In 2009, overall cost of sales for the Group amounted to RMB4,417,046,000 (2008: RMB3,469,699,000), and overall gross profit margin was 47.3% (2008: 48.1%). Overall gross profit margin was slightly lower than 2008, mainly due to (i) LI-NING brand's pricing strategy which provided profit concession to distributors; (ii) the increased proportion of Double Happiness brand's revenue of the Group's total revenue; (iii) the lower gross profit margin of Lotto brand caused by the relatively higher research and product development expenses; and (iv) the disposal of old products of Kason brand at discounted price.

Cost of sales of LI-NING brand amounted to RMB3,960,625,000 (2008: RMB3,249,010,000), and gross profit margin was 48.5% (2008: 48.9%). Faced with the uncertainties of the macro economy and weakness in consumer confidence in 2009, the Group adopted an appropriate pricing strategy in line with LI-NING brand's competitiveness in order to strengthen its competitiveness at the retail end and obtain a win-win situation with distributors. Such measure, together with greater cost control, enabled the Group to maintain a stable gross profit margin level.

Cost of sales of Double Happiness brand amounted to RMB263,985,000 (2008: RMB134,436,000), and gross profit margin was 38.2% (2008: 34.9%). Gross profit margin of Double Happiness brand was slightly higher than 2008, which is in line with its brand positioning.

Cost of sales of Lotto brand amounted to RMB55,526,000, and gross profit margin was 27.1%. In line with the Group's long-term sustainable development strategy towards Lotto brand, spending on research and development at the preliminary stage of development caused the relatively higher research and product development expenses being included under the cost of sales for the year, resulting in the lower gross profit margin. This treatment is consistently applied by the Group in its financial statements prepared in accordance with International Accounting Standards. The gross profit margin for Lotto brand, excluding such expenses, would have been 52.2%.

Distribution Costs

In 2009, the Group's overall distribution costs amounted to RMB2,152,150,000 (2008: RMB1,883,206,000), accounting for 25.7% of the Group's total revenue (2008: 28.1%).

Distribution costs of LI-NING brand amounted to RMB1,973,612,000 (2008: RMB1,820,716,000), which accounted for 25.7% of the LI-NING brand's revenue and represented a decrease of 3.0 percentage points from 28.7% in 2008. Advertising and marketing expenses of LI-NING brand for the year amounted to RMB1,191,152,000 (2008: RMB1,128,240,000), representing a year-on-year increase of 5.6%. During the year, in line with its strategic plan, the Group focused its spending on major projects and enhanced efficiency in the use of resources, thereby lowering the percentage of advertising and marketing expenses to revenue of LI-NING brand. In addition, through effective management of expenses, the percentage of transportation and logistics costs to revenue of LI-NING brand decreased by 0.1 percentage points, the percentage of sundry expenses to revenue of LI-NING brand dropped by 0.5 percentage points, the percentage of rental expenses of stores, salaries and benefits of sales staff, depreciation expenses, etc. to revenue of LI-NING brand remained stable. As a result, the overall percentage of distribution costs of LI-NING brand to revenue of LI-NING brand decreased as compared to 2008.

Distribution costs of Double Happiness brand amounted to RMB36,009,000, which accounted for 8.4% of Double Happiness brand's revenue and was lower than the percentage of distribution costs of LI-NING brand to LI-NING brand's revenue. This matched with the fact that the gross profit margin level of Double Happiness brand was lower than that of LI-NING brand and was in line with the business characteristics of Double Happiness brand. The distribution cost of Double Happiness brand mainly comprised advertising expenses, sponsorship fees and other marketing expenses, as well as salaries and benefits for sales staff.

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

According to International Accounting Standards, the Lotto License carries a present value of RMB393,798,000 which was recognised as "Intangible assets – license rights" and amortised in each relevant period using straight-line method starting from the year 2009 and included in the distribution costs. In addition, recognition of the unrecognised finance cost amounted to RMB555,102,000 and was amortised in each relevant period using the effective interest rate method starting from the year 2009 and included in the finance costs. During the year, the amortisation fee of license rights amounted to RMB19,690,000 and the amortisation fee of finance cost was RMB30,414,000. The impact of these two costs on profit before tax for 2009 was RMB-50,104,000.

Being the new focus for the Group's business development, the Group launched extensive channel expansion and brand promotion for Lotto brand in 2009, resulting in a relatively higher level of marketing expenses for advertising, special promotions in shopping centres and channel establishment during the year.

Administrative Expenses

In 2009, the Group's overall administrative expenses amounted to RMB602,929,000 (2008: RMB441,842,000), which accounted for 7.2% of the Group's total revenue (2008: 6.6%).

Administrative expenses of LI-NING brand amounted to RMB522,566,000 (2008: RMB386,794,000), which mainly comprised directors' and staff costs, management consulting expenses, office rental, depreciation and amortisation charges and other sundry expenses. Administrative expenses of LI-NING brand accounted for 6.8% of LI-NING brand's revenue, which was higher than the 6.1% in 2008. To cater for the Group's strategic plan and mid- to long-term strategic needs, the Group increased its recruitment of management and design talent during the year, resulting in a rise in costs for human resources and a slight rise in total administrative expenses.

Administrative expenses of Double Happiness brand amounted to RMB56,703,000, which accounted for 13.3% of Double Happiness brand's revenue. Such expenses mainly comprised staff costs, depreciation and amortisation charges and other sundry expenses.

Administrative expenses of Lotto brand amounted to RMB5,569,000, which accounted for 7.3% of Lotto brand's revenue. Such expenses mainly comprised staff costs, depreciation and amortisation charges and other sundry expenses.

Earning Before Interest, Tax, Depreciation and Amortisation (EBITDA)

In 2009, the Group's EBITDA amounted to RMB1,524,911,000 (2008: RMB1,070,516,000), representing an increase of 42.4% as compared to 2008.

EBITDA of LI-NING brand, amounted to RMB1,502,344,000 (2008: RMB1,061,927,000), representing an increase of 41.8% as compared to 2008. This was mainly attributable to the growth of revenue, stable gross profit margin and the significant reduction of the ratio of distribution costs.

EBITDA of Double Happiness brand amounted to RMB89,792,000.

Lotto brand was at its preliminary stage of development and promotion, which involved relatively higher product research and development expenses and brand promotion expenses. As a result, EBITDA of Lotto brand during the year was RMB-56,935,000.

Finance Costs

In 2009, the Group's net finance costs amounted to RMB58,766,000 (2008: RMB30,975,000), representing 0.7% of the Group's total revenue, amongst which the interest expense charged in the year for the discounted license fee payable for the Lotto License was RMB30,414,000 (2008: Nil) using the effective interest rate method in accordance with International Accounting Standards.

Income Tax Expenses

In 2009, income tax expenses of the Group amounted to RMB313,799,000 (2008: RMB201,938,000). The effective tax rate was 24.5% (2008: 21.7%). This was mainly affected by the expiration of preferential tax rates of the Group's subsidiaries in low tax areas.

Consolidated Profitability

In 2009, the Group's profit attributable to equity holders amounted to RMB944,524,000 (2008: RMB721,267,000), representing an increase of 31.0% as compared to 2008. Margin of profit attributable to equity holders for the year was 11.3% (2008: 10.8%), representing an increase of 0.5 percentage points as compared to 2008.

During the year, the Group's return on equity was 41.3% (2008: 39.6%), representing an increase of 1.7 percentage points as compared to 2008. The Group's relatively higher return on equity recorded was a result of the management's goal of maximising the benefit for shareholders through full utilisation of the Group's resources, professional management and operation, and reasonable cost control.

Provision for Inventories

The Group's policy in respect of provision for inventories for 2009 was the same as that in 2008. Inventories are stated at the lower of cost and net realisable value. In the event that net realisable value falls below cost, the difference is taken as provision for inventories.

As at 31 December 2009, accumulated provision for inventories was RMB72,526,000 (31 December 2008: RMB68,151,000).

Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for 2009 was the same as that in 2008.

As at 31 December 2009, the accumulated provision for doubtful debts was RMB1,184,000 (31 December 2008: RMB5,305,000), accounting for 0.01% of the Group's total revenue (2008: 0.08%). During the year, the Group further optimised the ageing structure of trade receivables and strengthened the fund collection, thereby enhancing the efficiency of capital turnover significantly.

Liquidity and Financial Resources

The Group's net cash inflow from operating activities for the year 2009 amounted to RMB1,306,668,000 (2008: RMB698,967,000). As at 31 December 2009, cash and cash equivalents (including cash at banks and in hand, and fixed deposits held at banks with original maturity of no more than three months) amounted to RMB1,264,343,000, representing a net increase of RMB477,416,000 as compared with the position as at 31 December 2008. The increase was brought about by the following items:

Items	Year ended 31 December 2009 *RMB'000*
Net cash inflow generated from operating activities	**1,306,668**
Net capital expenditure*	**(198,441)**
Cash payment for acquisition of additional interests in a subsidiary**	**(6,420)**
Cash outflow for acquisition of Kason Sports (Hong Kong) Limited	**(112,318)**
Dividends paid	**(274,235)**
Net proceeds from bank borrowings	**(347,370)**
Net decrease of restricted bank deposits	**103,421**
Other net cash inflow	**6,111**
Net increase in cash and cash equivalents	**477,416**

* Net capital expenditure has deducted the amount of government grant received for purchase of a land use right.

** The subsidiary is Suzhou Double Happiness Guan Du Sports Goods Co. Ltd.

The Group has always pursued a prudent treasury management policy. The Group places strong emphasis on the safety and liquidity of funds and is in a strong liquidity position. Through effective finance management, bank borrowings as at the end of the year decreased to RMB259,970,000 from RMB607,480,000 at the beginning of the year, which reduced the interest expense related to bank borrowings.

The Group has sufficient standby bank credit facilities to cope with the funding needs arising from daily operations and future developments. As at 31 December 2009, the Group's available banking facilities amounted to RMB1,656,510,000, amongst which, the outstanding bank borrowings amounted to RMB259,970,000. The outstanding bank borrowings to equity holders' equity ratio (i.e. the gearing ratio) was 9.7% (31 December 2008: 32.0%).

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

Foreign Exchange Risk

The operation of the Group is mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. A small portion of the Group's cash and bank deposits are denominated in Hong Kong Dollars, United States Dollars, Euros and Singapore Dollars. The Company pays dividends in Hong Kong Dollars when dividends are declared. In addition, the Group pays certain license fees and sponsorship fees in United States Dollars or Euros, and repays part of bank borrowings in Hong Kong Dollars. During the year, the Group established a subsidiary in Singapore for expansion of international business and Singapore Dollars is used as the local functional currency. As international business of the Group continues to develop, transactions settled in foreign currencies will increase gradually.

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

Pledge of Assets

As at 31 December 2009, buildings with net book value of RMB29,799,000 (31 December 2008: RMB45,469,000) and land use rights with net book value of RMB39,324,000 (31 December 2008: RMB79,525,000) of the Group were pledged to secure certain bank borrowings of the group companies.

Contingent Liabilities

During the year, the Group terminated a financial guarantee for the benefit of an affiliated company in respect of a banking facility. As at 31 December 2009, the Group had no significant contingent liabilities.

Operation Review

2009 marked the year when the Group transitioned from the successful completion of its Beijing Olympics strategy to the beginning of its new five-year plan. In the midst of the worldwide macro-economic downturn and intense industry competition, the Group proactively managed the challenges by continuing its long-term efforts to enhance the capabilities in brand marketing and promotion, product design, research and development, sales channel expansion and management, as well as supply chain management. These ongoing efforts helped the Group to strengthen its competitiveness in the key areas of brand recognition, product performance, as well as entrance into new sports categories. Furthermore, the Group increased its market share and achieved stable business development.

LI-NING Brand

Brand Marketing and Promotion

Brand building is the focus of the Group's business and reflects the Group's core competence. The Group was awarded "2009 Best Advertisers" by Advertising Age, a professional publication in the communications industry, as well as the "2009 Creative Marketing in Chinese Media (Silver Award)" by the China Advertising Association. In August 2009, LI-NING brand was the only sporting goods brand honoured by CCTV in the "60th Anniversary of the Founding of the PRC – 60 Brands Promoting China's Economy and with Impact on People's Lives". This fully demonstrates the influence and the good brand image of the LI-NING brand.

During the year, the Group continued to cultivate its sports sponsorship resources:

- In March 2009, the Group announced the sponsorship of Elena Isinbayeva, a Russian pole vault athlete, who, in addition to being a two-time Olympics gold medalist, is also a three-time winner of the International Association of Athletics Federations' World Female Athlete of the Year and 27-time world record holder.

- In April 2009, the Group successfully signed up the Chinese National Badminton Team, expanding the Group's roster of sponsored Chinese National Teams which already includes the four gold medal-winning national teams in table tennis, diving, gymnastics and shooting.

In February 2010, the Group signed up Espanyol, a strong team in Spain La Primera, which became the first European football team sponsored by the Group. The Group's arsenal of international top-class sports sponsorship resources, including, the Spanish Basketball Team and the Argentina Basketball Team, continued to perform remarkably in various major sports tournaments after the Beijing Olympics, which effectively raised the professional image and profile of the LI-NING brand.

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

Badminton

During the year, the Group officially tapped into the badminton arena by signing up the Chinese National Badminton Team. In May 2009, the Chinese National Badminton Team claimed a sweeping victory in the Sudirman Cup in full LI-NING gear. Badminton enjoys a high level of participation in China and is one of the country's fastest growing sports. Tapping into the badminton market represents an important step in the Group's sports category differentiation strategy, and badminton products will be a key focus of the Group's strategic plan. During the year, the Group carried out a series of activities which integrated marketing, product and retail as a whole in the badminton sector, which significantly enhanced consumers' impression of LI-NING brand badminton products and the association of the LI-NING brand with badminton.

- Sponsored the "2009 LI-NING Sudirman Cup", "BWF Super Series – 2009 LI-NING China Masters" and "BWF Super Series – LI-NING China Open 2009", raising the profile of the LI-NING brand in professional badminton, while further promoting the cultural development of badminton tournaments.

- Continuously placed badminton product advertisements in CCTV sports channel (CCTV-5) and print sports media and developed a large sports community on the website of Sina.com. The Group also deepened its cooperation with professional badminton websites to make detailed online coverage on major badminton tournaments such as the Sudirman Cup. All these efforts helped nurture the LI-NING brand's recognition and popularity among the badminton community in China.

- During the year, LI-NING brand badminton products made their entry into Southeast Asia, one of the world's biggest badminton markets. In June 2009, the Group announced its sponsorship for the Singaporean National Badminton Team and the Singapore Open, and established the first badminton flagship store in the country's ION Orchard in July. During the East Asian Games in December, the Group opened its first badminton store at Tsim Sha Tsui, a busy shopping district in Hong Kong, which further promoted the Group's attempt of its internationalisation strategy and laid a solid foundation for the Group's overseas expansion.

Running

Running is also a sport that enjoys high popularity in China. The Group's promotion and sponsorship activities in this sector also focus on coverage of the general public.

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

- With the debut of the sixth generation of superlight series of running shoes "Cicada's Shadow" (蟬影) during the year, the Group launched the theme "Fun Run". In May, a night run themed activity "LI-NING FUNRUN Super Night" was held in Beijing. Approximately 5,000 participants experienced the pleasure of running the 6km night run, which reinforced the trendiness and consumers' positive impression of the brand.

- All of the 18 provincial track and field teams sponsored by the Group took part in the 11th National Games held during the year. Athletes wearing the LI-NING gear, including Huang Xiaoxiao (黃瀟瀟), a female 400m hurdle athlete, made a strong showing at the Games by netting a tally of 28 gold medals in track and filed, thus increasing the exposure of LI-NING brand.

Fitness

- The Group strived to highlight brand differentiation and brand personality in the promotion of fitness. Emphasizing the unique beauty of oriental women and the LI-NING brand personality, the Group collaborated with Beijing's Nirvana Yoga to launch the "Inner Shine" campaign. The campaign included the holding of the second session of the "Charming Yoga Lady" (魅力伽人) competition, which, together with a variety of communication platforms including television, the Internet and outdoor advertisements, resulted in extensive positive feedback from female consumers.

- The Group entered into a cooperation agreement with Beijing CSI Bally Total Fitness Investment Management Limited ("CSI") in June 2009. CSI is established by the first listed sporting group in China. The Group will collaborate with two clubs of CSI, namely "CSI Fitness Club" (community fitness club) and "CSI Bally Total Fitness Club" (commercial fitness club) on fitness promotions.

- In January 2010, the Group entered into an agreement with Lesmills China with respect to in-depth joint brand promotions on a nationwide basis. Lesmills is the leading international provider of products for the fitness industry. Lesmills China has over 200 franchise fitness clubs in Mainland China. It sets the industry standards and is the mainstream provider of fitness programmes.

The Group's collaboration with Beijing's Nirvana Yoga, CSI and Lesmills China all help further strengthen LI-NING brand's foothold in the fitness market.

Basketball
During the year, the Group carried out a series of marketing activities around its valuable international basketball sports marketing resources, including the launch of a limited edition of Shaquille O'Neal's All-star MVP Shoes at flagship stores and the running of the brand marketing campaign, "Fearless", which attracted a large number of consumers. In July, the three NBA players sponsored by the Group, Shaquille O'Neal, Baron Davis and Jose Calderon made a seven-day tour to China. During the tour, the three stars participated in a number of fan gatherings held in major cities such as Beijing and Shanghai. These activities generated a large number of media exposure and praises for the LI-NING brand among consumers.

During the year, the Group signed up another NBA player, Hasheem Thabeet, the second draft pick of the Memphis Grizzlies, which further enriched the valuable sports sponsorship resources the Group continues to build in the basketball sector.

Tennis
Tennis enjoys growing popularity among teenagers in China. During the year, in addition to the continuous sponsorship of LI-NING International Junior Tennis Championship, the Group maintained its collaboration with the Association of Tennis Professionals (ATP). The Group sponsored about 20 players under the "Apparel Sponsorship Plan for ATP Players", including Ivan Ljubicic, the champion of the 2009 ATP World Tour – Lyon tournament, and Wesley Moodie, a runner-up in the men's tennis doubles finals of the 2009 French Open. Meanwhile, Sun Shengnan (孫勝男), a tennis player sponsored by the Group, won the championship title in women's doubles at the 2009 China Open. During the year, the Group announced the sponsorship of Yan Zi (晏紫), the female tennis player who has achieved a glorious record in Chinese tennis and Yang Tsung-hua (楊宗樺), the Taipei-based player who was once ranked No. 1 in the international junior tennis league. At the beginning of 2010, the Group further signed up Peng Shuai (彭帥), another famous female tennis player in China, whose highest world ranking was 31 and won four golden medals in the 11th National Games, namely female singles, female doubles, mixed doubles and female team event. All the aforesaid players have become mainstays of the tennis resources of the Group.

Community Marketing Events
The Group also held marketing activities targeting the mass population through sponsorship and organisation of various sports events targeting sports enthusiasts and young people. These included:

- Sponsorship of the China University Football League (CUFL) and organisation of the LI-NING China Basketball Draft Camp and China Junior Basketball League, etc.

- The Group's meticulously planned programme, "LI-NING Hero Vans" (李寧英雄大篷車), which aims at encouraging sports enthusiasts to participate in sports activities and enjoying the pleasure of sports, featured a tour covering 68 cities over a span of 206 days during the year, attracting over 320,000 participants.

- During the year, the "LI-NING Sports World" (李寧運動天地) website went live on the sports section of the official website of CCTV, and the LI-NING online store also came into operation. The presence of LI-NING brand in mainstream online media in China creates a positive impact on promoting the brand.

LI-NING was once again voted the "Most Favourite Brand by University Students" in 2009, demonstrating the brand's strong recognition among university students and young consumers. Anchoring the Group's marketing activities on this important group of existing and potential consumers of sports products will have a positive impact on brand-building and the Group's long-term development.

Product Design, Research and Development

The Group places strong emphasis on product design and innovation in research and development with a view to offering products that cater best to the needs of both consumers and professionals.

R&D and Design Centre
The Group has design, research and development centres in mainland China, Hong Kong and Portland, Oregon in the United States, each staffed by an excellent team of professionals. The Group has also worked on an ongoing basis with reputable education institutions and professional bodies in conducting research and development. Established in November 2008, the Li Ning Sports Science Research and Development Centre specialises in sports science research, product testing, research and development of core technology and enhancement of product functionality, taking the Group's technological standard to a higher level.

Products for Professional Sponsorships
The Group's domestic and international sports sponsorship resources are grounded on solid strength in product design, research and development:

- Badminton has a high technological requirement on its sports gear. With in-depth knowledge of the latest trends in badminton technology and in light of the characteristics of the sport, the Group's research and development team has used special techniques in developing a comprehensive range of specialised professional products for the Chinese National Badminton Team. Armed with full LI-NING gear, the Chinese National Badminton Team won the Sudirman Cup held in May 2009. The technological performance and practical experience of the LI-NING badminton gear, including the handle grip and attacking power of rackets, comfort and protection of footwear products, as well as fitting, moisture-absorption and quick-dry ability of apparel products, have all met the professional needs of the Chinese National Badminton Team.

- The Group tailor-makes professional sports products for a number of world-renowned athletes. It has designed the professional badminton shoes, "Champion" (奪帥), for men's single badminton player, Lin Dan (林丹). The shoes fully meet Lin's specific needs in terms of product functionality, aesthetics and other personalised features. The Group has also designed sports shoes and apparel for Elena Isinbayeva, the world's No. 1 pole vault athlete, who has heaped praise on the products. The "BD Doom" shoes developed for NBA star, Baron Davis, have not only gone beyond Davis' own expectations, but also been well received by consumers in the US market. In addition, the golden spike shoes which the Group designed for hurdler Huang Xiaoxiao (黄瀟瀟), the "Fish Fin" (奇魚) sports shoes for tennis star Ivan Ljubicic and the tennis gear used by Yan Zi (晏紫) at the French Open have all won strong recognition and appreciation from these first-class athletes, reflecting the Group's capabilities in design, research and development.

Footwear Products
The Group continued its in-depth development of the core patented "LI-NING BOW" (李寧弓) anti-shock technology, the "LI-NING Shoe Tree" (李寧楦) technology used in developing the shoe tree that best fits the foot shape of most Chinese consumers, as well as the development and improvements in shoe sole technology.

The Group attaches much importance to product segmentation and strives to highlight the unique positioning of its products. Apart from providing professional gear to athletes, it also offers a vast array of product options for general sports lovers. "Cicada's Shadow" (蟬影), the sixth generation of the superlight series of running shoes launched during the year, employs the principle of bionics in design. This places strong emphasis on reducing the weight of the shoes and ensuring superior ventilation, while maintaining support and protection in the shoe front as well as a powerful grip configuration in the sole. This series has been well received by consumers. From the first generation of super lightweight series of running shoes, "Runfree", to the sixth generation "Cicada's Shadow" (蟬影), each generation of the lightweight LI-NING running shoes has provided consumers with the experience of comfort, while attaining professional standards in lightweight and stability, demonstrating the Group's innovation and competence in research and development.

The Group is well recognised by the industry for its achievements in footwear design and research and development. In October 2009, three LI-NING brand products, namely basketball shoes "Dragon Scale" (龍鱗) and "G-Shark" (年輪), and football shoes "Taichi" (太極), won the "iF Design Award China 2009". This highly authoritative and influential award is judged by 10 attributes including quality of design, craftsmanship, innovation and creativity, environmental protection, practicality, safety and brand value. In December 2009, "G-Shark" (年輪) basketball shoes also won the "China Red Star Design Award 2009" (2009年中國創新設計紅星獎). The Group's "X-Claw" (貓爪5代) wild running shoes and "Fossil" (化石) upstream shoes were also among the winners. The "China Red Star Design Award" (中國創新設計紅星獎) attaches importance to product innovation and ground-breaking features in terms of function, appearance, materials and environmental friendliness, creativity, vision and orientation.

Apparel Products

On the apparel technology front, the Group continued to collaborate with core material suppliers for the development of a series of functional products applying the AT DRY SMART technology to improve moisture-absorption and ventilation, bringing better comfort to consumers.

It has been an invariable goal of LI-NING brand to be a professional and international brand. The Group is also committed to demonstrating its mixed style of sports and fashion in other areas with a view to strengthening consumer loyalty to its products. In November 2009, the Group formally launched the Lin Dan (林丹) sports lifestyle series, which took many style-savvy consumers by storm.

The Group has also launched the Thinsulate cotton series, the LI-NING Eco-circle series and the LI-NING green organic cotton series. The new products embody the Group's environmental protection efforts and its full support for the viability of green apparel.

The Group also places great emphasis on improving the efficiency of product design, research and development and streamlining the flow of research and development. During the year, the apparel division has started to adopt the Product Lifecycle Management System, with an aim to applying information technology management on apparel products from product planning, design, development to ordering, enabling internal share of information, and making the workflow more professional and efficient. The Group has also set up the libraries of apparel materials in Beijing, Foshan and Hong Kong to share the latest technological information and industry trends. In addition, the Group has established an innovative product R&D lab, which is of great importance to product segmentation and in-depth product research.

Sales Channel Expansion and Management

During the year, the number of LI-NING brand retail stores continued to grow steadily. As at 31 December 2009, there were 7,249 LI-NING brand retail stores in China, representing a net increase of 1,004 stores for the year and the distribution and retail networks comprised:

- 128 distributors operating a total of 6,854 LI-NING brand franchised retail stores across China; and

- a total of 395 directly-managed LI-NING brand retail stores in Beijing, Shanghai and 15 provinces in China.

Number of franchised and directly-managed retail stores

LI-NING brand stores	**31 December 2009**	31 December 2008	**Change (%)**
Franchised retail stores	**6,854**	5,935	**15.5**
Directly-managed retail stores	**395**	310	**27.4**
Total	**7,249**	6,245	**16.1**

The Group considers the second- and third-tier cities in China to have the highest growth potential and has increased its investments in sales channel development in these market segments. More than 80% of the newly-opened LI-NING brand stores and the newly expanded sales area during the year were located in these cities, which further enhanced the density of store coverage. In addition to the strategic channel penetration focusing on second- and third-tier cities, there is a nationwide distribution and retail network of the LI-NING brand products, covering all provinces and municipalities in China.

Number of stores by geographical location

LI-NING brand stores	**31 December 2009**	31 December 2008	**Change (%)**
Eastern region *(Note 1)*	**3,071**	2,587	**18.7**
Northern region *(Note 2)*	**2,545**	2,204	**15.5**
Southern region *(Note 3)*	**1,633**	1,454	**12.3**
Total	**7,249**	6,245	**16.1**

Notes:

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

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

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

Apart from these integrated retail stores, the Group has, since 2008, expanded new types of sales channels, including specialty stores which sell single-category or limited categories products.

During the year, the following measures were implemented to expand and manage the sales channels for the LI-NING brand:

- Actively expanded the sales channel coverage, with the total number of stores growing satisfactorily, and in which the second- and third-tier cities were the major markets for sales channel expansion;

- Promoted the sales channel reform with a focus on increasing the influence on the management capability and service quality of the distributors, sub-distributors and retail stores, aiming at enhancing store efficiency and retail market share in all aspects;

- Continued to open flagship stores in major cities in China to increase market influence of the LI-NING brand and boost sales. As at 31 December 2009, there were a total of 11 LI-NING brand flagship stores operating in China; and

- Continued to upgrade the store image and launched the sixth-generation image pilot stores at the end of the year. The trendy and stylish decor of these stores echoes the professionalism of sports and the oriental ambience so as to better demonstrate LI-NING brand's characteristics, values and spirit and to promote the sporting and consumption experience among consumers.

Supply Chain Management

The Group endeavoured to transform its traditional supply chain system into a demand-driven, flexible and effective one. During 2009, the Group undertook the following measures in respect of LI-NING brand's supply chain management:

- Hosted four large-scale order fairs of new products of LI-NING brand for distributors;

- Continued to improve supply chain planning that regulates output based on demand, and purchases based on outputs, in an effort to further reduce the minimum required inventory level and warehousing time. The Group also stepped up the implementation of direct delivery to alleviate the gridlock built up in logistics operations. The order-taking mechanism was also streamlined to smoothen the entire supply chain process;

- Optimised the procurement system and the cost management, established procurement centres, integrated resources to improve the procurement efficiency and reduce procurement costs;

- Introduced the retail logistics, launched the direct delivery project and integrated the logistics operation of subsidiaries to enhance efficiency in retail logistics operations;

- Established a supplier information database to enable monitoring of the order statistics by delivery dates, accumulated output of finished goods, unfinished goods and goods in the pipeline, and to provide support for future demand shift;

- Invited a number of core suppliers to set up production facilities in Jingmen Industrial City, Hubei in order to ensure that the supply chain can adapt to the needs of the market in a timely manner while mitigating the pressure from increasing costs. The first phase of construction of the production facilities commenced in September 2009. The Group is also planning to set up the "LI-NING Logistics Centre" in Jingmen Industrial City, which will be developed into an integrated base for both manufacturing and distribution, in order to enhance the response of the supply chain;

- Continued to optimise supply chain and inventory management which shortened the inventory turnover to 53 days from 61 days in 2008, underscoring the improvements in asset turnover capability; and

- Exercised prudent credit control and improved the management of receivables, which shortened the average trade receivables turnover to 47 days from 48 days in 2008.

In the future, the Group will continue to improve the supply chain management so as to better accommodate business growth.

Double Happiness Brand

The Group holds 57.5% equity interest in Shanghai Double Happiness Co., Ltd. ("SH Double Happiness"), which together with its subsidiaries (collectively, "Double Happiness") is principally engaged in the manufacture, research and development, marketing and sale of table tennis and other sports equipment. Its brands include the Double Happiness brand, which is internationally known for its high quality table tennis equipment.

Double Happiness continued to adopt sponsorship of sports stars and sports events as its core marketing and promotion strategy. Double Happiness signed up leading table tennis players in China including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞) as spokesmen for its table tennis equipment. In addition, Double Happiness also actively sponsored various professional tournaments in China and around the world. In 2009, Double Happiness sponsored the Table Tennis World Tour (with 17 stops), Table Tennis World Cup (Male and Female) as well as China Table Tennis Super League by providing professional competition equipment. Early in the year, Double Happiness and the International Table Tennis Federation ("ITTF") finalised an umbrella agreement for the provision of professional table tennis equipment for more than 10 major tournaments, including the 2010 Singapore Youth Olympics and 2012 London Olympics.

Double Happiness maintains a strong product research, development and design capability. In line with the reform stipulated by ITTF, Double Happiness commenced research and development in inorganic glue in 2007 and, in about two years, has made remarkable breakthroughs in the development of a new generation of inorganic glue and related equipment. These products have passed ITTF's examination and have become one of the first batches of professional gear to be used in international tournaments. The gear was also used and tested in the 50th World Table Tennis Championships held in Yokohama in 2009 where it earned recognition from the Chinese National Table Tennis Team. In addition to professional gear, Double Happiness also successfully rolled out the "Inorganic Product Solutions" in 2009, under which new product series such as the "NEO" series have been launched. These product series cater to the demand of different consumers, and fill the gaps in the inorganic glue market. Double Happiness also continued to step up its market survey efforts, while strengthening new product development. New products developed in 2009 are expected to be launched in 2010.

Double Happiness also paid attention to the reform of its product appearance. Based on the original "Rainbow" table tennis tables, it launched a new series called "Golden Rainbow" during the year, which was used in the China Table Tennis Open held in June 2009.

Double Happiness brand products are distributed mainly via wholesale and integrated sporting goods stores. It has adopted a wholesale model with a relatively stable clientele across 30 provinces and municipalities in China. Apart from introducing sales incentive policies to motivate customers in early 2009, Double Happiness stepped up its investment in the retail market by establishing specialised areas dedicated to displaying the full range of Double Happiness brand products in about 400 professional equipment stores.

To cater for market demand and to establish a competitive supply chain, Double Happiness embraced the following strategies during the year:

- Implemented the SAP-R/3 software system to streamline business operations and shorten the product supply cycle;

- Improved the inventory management to ensure sufficient product supply and satisfy customers' needs; and

- Adjusted the business model to outsource the manufacturing work of low value-added products under the OEMs in order to lower production costs.

On 5 November 2009, SH Double Happiness entered into an equity transfer agreement with Wujiang Daoboer Sporting Goods Co., Ltd. (吳江道勃爾體育用品有限公司) ("Daoboer"), pursuant to which SH Double Happiness acquired 20% equity interest in Suzhou Double Happiness Guan Du Sports Goods Co., Ltd. (蘇州紅雙喜冠都體育用品有限公司) ("Suzhou DHS") for a consideration of RMB6,420,000. The acquisition was completed at the end of 2009. The equity interest in Suzhou DHS held by SH Double Happiness therefore increased to 75% from 55%. Suzhou DHS is principally engaged in the manufacture of table tennis equipment and related sports goods, and is the major production base of table tennis equipment of Double Happiness brand. In light of the growing production role of Suzhou DHS to Double Happiness brand, it is in the interest of the Company's shareholders as a whole for SH Double Happiness to increase its equity interest in Suzhou DHS.

Indoor sports enjoy immense popularity in China, with many players reaching top-notch international standards. Given its competitive edge in table tennis, the Group believes that Double Happiness will help solidify the Group's position in the table tennis sector in China. LI-NING and Double Happiness brands will continue to enjoy synergies in respect of brand marketing and promotion, sports tournament sponsorships and sales channel expansion.

Lotto Brand

Lotto Sport H.K. Limited has granted a wholly-owned subsidiary of the Group an exclusive license of 20 years to use specified Lotto trademarks in China in connection with the development, manufacture, marketing, distribution and sale of licensed products of Lotto brand. Lotto is one of the leading sports brands in Europe, with an impressive track record in soccer and tennis.

During the first half of 2009, a brand launch press conference featuring the main theme "Live it up" (represents style, personality, creativity and energy) was successfully staged. Leveraging Lotto brand's positioning as a brand of taste and sensuality, the Group rolled out an all-rounded brand promotion strategy supported with the following major measures:

- Researched into the brand's positioning to establish and implement a branding strategy, implemented integrated marketing events to draw consumers' attention, enhance their awareness of the brand and establish Lotto's image as a brand of style;

- Developed and implemented a specific product strategy based on Lotto's brand positioning in order to establish a unique style of product design, which has won preliminary recognition from consumers;

- Implemented digital marketing initiatives, including the launch of the Lotto brand's official website in China as the major channel of communications with consumers; and

- Enhanced the brand's influence and awareness through media placements, marketing communications, event marketing and a series of entertainment and marketing initiatives, including sponsorships of television programmes, drama series, events and artistes.

During the year, Lotto brand has developed 29 distributors covering 53 cities in 20 provinces in China. Lotto brand stores are mostly shop-in-shop in landmark malls in metropolitan and first-tier cities and ground shops located in prime commercial districts in China. As at 31 December 2009, there were 171 Lotto brand stores, of which 58 were directly managed by the Group and 113 were managed by distributors.

2009 marked the first year the Group started its new business of Lotto brand. Revenue of Lotto brand for the year outperformed the target albeit an operation loss which was controlled within the budgeted level. The Group will continue to improve the product structure and design to establish a unique brand personality for Lotto brand, expand its retail network coverage and raise the public awareness of the brand so as to capture market share.

The sports lifestyle market in China has experienced a rapid growth in recent years as consumers continued to lead a more versatile and leisure-filled lifestyle. Leveraging its solid distribution platform, as well as its deep understanding of the China market, the Group plans to achieve good development of the Lotto brand within the next 2 to 3 years.

Other Brands

Kason

The Group has completed the acquisition of the entire issued share capital of Kason Sports (Hong Kong) Limited for a consideration of RMB165,000,000. Kason Sports (Hong Kong) Limited and its subsidiary (collectively, "Kason") have been consolidated into the Company's accounts since May 2009. Kason is principally engaged in the research and development, manufacture and sale of professional badminton equipment, including rackets, strings, shuttlecocks, apparel, footwear and accessories under Kason brand. Kason brand was established in 1991 and is a well-known badminton equipment brand in China. Its sponsorships include the Chinese National Youth Badminton Team and a number of provincial badminton teams in China.

The acquisition of Kason forms an integral part of the Group's badminton strategy. It not only combines Kason's leading manufacturing techniques and research and development capabilities with the Group's core competitive edges, but also fully utilises the mutual advantages in sports marketing resources, thus enabling the Group to increase its market share in the badminton sector.

At present, the Group has completed the integration and streamlining of Kason's business, including the integration of functions, reorganisation and staff reallocation, while retaining Kason's key professional management and technical teams. The Group will establish a research and development and production centre for LI-NING brand badminton products based on Kason's existing technology research and development centre and manufacturing facilities. The Group will also continue to rearrange and consolidate Kason's brand positioning, product mix, research and development and sales channel.

Z-DO

Z-DO is a subsidiary brand of the Group, which adopts hypermarkets as its sales channel and shares resources with the LI-NING brand to achieve economies of scale. However, there are large differences between the two brands in terms of sales model, sales network and product portfolio. Z-DO brand's operation model is maturing and is projecting a positive development trend.

During the year, the major operation measures implemented for Z-DO brand included the following:

- Shifting the sales model gradually from solely shop-in-shop in hypermarkets set up by distributors to establishing direct cooperation with hypermarkets to take better advantage of the characteristics of the hypermarket channel;

- Continuing to expand its sales network. As at 31 December 2009, Z-DO brand products were available in 702 stores in 169 cities across China via 62 distributors;

- Enhancing store efficiency through improving store layouts to uplift the brand image;

- Optimising the structure of suppliers and improving the supply chain system, while implementing reasonable cost control to enable suitable pricing for the hypermarket channel, thereby increasing the competitiveness of Z-DO brand products among its competitors;

- Completing consolidation of the distributors, assisting in improving the distributors' operating system while attracting high quality distributors to establish a sizeable core distributor system; and

- In-depth research into the consumption behaviour, product preferences and purchasing power of target consumers, streamlining the product mix, enhancing product design and planning capability, thereby significantly increasing the price to value correlation to meet the demand of the target consumers of hypermarkets.

AIGLE

AIGLE brand specialises in high-end outdoor sports and casual apparel and footwear products. It serves as the Group's stepping stone to explore the outdoor sporting goods sector. AIGLE brand products are sold mostly to metropolitan and first-tier cities in China and its business model is maturing. Customers are increasingly favouring core products of AIGLE brand due to the unique competitiveness of the brand. During the year, AIGLE brand reported satisfactory performance of its new stores and a substantial growth in same store sales. It is expected that the AIGLE brand business can achieve a break-even level in the near future.

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

- Defining a clear product position and building unique competitive edges by developing functional yet fashionable products;

- Appropriate spending of marketing expenses including continuous placement of print advertisements in travel and other outdoor magazines to enhance brand image and awareness;

- Launching the membership system to develop a core customer group;

- Collaborating with Asia product lines of AIGLE France and AIGLE Hong Kong to enhance product mix and to lower the costs as well as working with suppliers in France and Hong Kong to develop a localised production supply chain;

- Applying the management style and experience of the directly-managed retail stores and key strategic stores in metropolitan cities to the stores established by distributors in order to promote the channel and market expansion; and

- Upgrading the quality of retail stores by adopting the international standards on store layout promulgated by the AIGLE brand.

The Group envisages a bright future for the high-end outdoor sporting goods market in China. The Group will continue to exploit opportunities in this segment through strengthening the product and retail management of the AIGLE brand while expanding the sales channel on the basis of improving same store growth so as to boost sales and to develop the AIGLE brand as a complement to the LI-NING brand.

Human Resources

As at 31 December 2009, the Group had 4,432 employees (31 December 2008: 4,001). The Group outsourced selected functions and continued to improve organisation efficiency, with the core team remaining stable.

The Group regards its workforce as an important asset and has placed special emphasis on the recruitment, nurturing, motivation and retention of staff. During the year, to meet its strategic development needs, the Group made significant investments in human resources for the establishment of the organisation structure and organisation efficiency monitoring system, the recruitment system, the talent development and motivation systems, the human resources information system and the professional and leadership skills development system. The Group has strived to be a trustworthy employer who is able to meet the professional career development needs of its staff.

The Group adopts a comprehensive capability-based performance management system for its staff, which provides solid support for its sustainable development and pursuit of outstanding performance. The system not only aims to motivate staff to meet short-term targets, but also focuses on comprehensive development of their leadership skills, professional capabilities and other potential. The system tailors individual career development plans for its staff and encourages staff to improve their capabilities to meet performance targets. The system also emphasizes a comprehensive management process from the establishment of individual goals, tracking and counseling, to feedback and reward or penalty, so as to ensure that the strategic goals will be achieved at individual levels.

With respect to remuneration, the compensation packages for individual staff members are an effective integration of corporate performance, departmental objectives and individual merit. This system serves to reward outstanding staff and motivate staff's passion and creativity in their work, while aligning individual goals to the overall strategic objectives. In addition to the base salary, key employees with outstanding performance will be rewarded by way of cash, restricted shares, share options, individual awards, or a combination of them, with a view to effectively aligning the interests of the employees to that of the Company.

In December 2009, the Company was once again awarded the "Top-50 Working Environments in China" (中國50佳第一工作場所) and "The Most Respected Enterprise in China" (中國最受尊敬企業) , endorsing the Company's principle of being a people-oriented enterprise with a high sense of social responsibilities.

Outlook

While the fast-moving consumer goods industry in which the Group operates was battered by the economic crisis in 2009, the sporting goods industry continued to exhibit attractive, long-term growth opportunities. China's expansionary macro-economic policies helped revive China's economy, making it more reasonable to expect resurgence in the year 2010. The Central Economic Work Conference held in late 2009 stipulated a gradual relaxation of residency constraints in small and medium cities, encouraging continued urbanisation. Such measures are expected to stimulate consumption and are, therefore, good news to the sporting goods industry as a whole. Based on order value from trade fairs for the first and second quarters of 2010 hosted by the Group for LI-NING brand, which grew by 11.6% and 15.4%, respectively, the Group envisages stronger growth for the sporting goods industry in 2010 than 2009.

From a medium- to long-term viewpoint, China's sporting goods industry is in the midst of a major growth trend and still has ample room for further development. As urbanisation continues to gather pace, the disposable income of urban residents and domestic consumption power will grow steadily. Their increasing aspiration for sports and leisure activities will drive the medium-to-long term growth of the sporting goods market. The successful hosting of the Beijing Olympics boosted the Central Government's determination to develop the country into a sports superpower. This provides a layer of policy protection for the sporting goods industry. Following the 2008 Beijing Olympics, the 11th National Games and the East Asian Games held in late 2009, and the forthcoming Asian Games 2010 to be held in Guangzhou, the sporting goods industry will continue to gain attention of the public with such continuous sports events.

Challenges breed opportunities. While key macro-economic data indicates that China's economy will start to recover in 2010 with an improving operating environment, there are still large uncertainties in the macro-economic environment while major issues in the economy of the world and the PRC are yet to be eliminated. Meanwhile, competition in the sporting goods industry will continue to be fierce. Industry players with advantages will continue to invest more resources, leading to increasing concentration among a few major brands in the increasingly intensified environment.

The Group will continue to implement its proactive, yet prudent strategy to cope with its strategic objectives for years 2009-2013. In 2010, the Group will concentrate on the following areas:

- Further establish the unique positioning and personality of the LI-NING brand to enhance its core competences through effective integration of brand, products and retail-level operations focusing on targeted consumer groups;

- Promote same store performances by speeding up reforms in the sales channel system and boosting retail management capabilities, while reinforcing and enhancing the LI-NING brand's market standing by intensifying expansion and penetration of the retail network;

- Continue to develop and expand strategic business lines. Following the successful roll-out of the businesses in badminton and sports lifestyle in 2009, the Group will strive to increase its share in the badminton market by further leveraging its advantages in sales channels, products and integrated marketing capabilities. The Group will also seek to promote the establishment of a sustainable, healthy rapid-growth model for its sports lifestyle business; and

- Enhance the response, efficiency and flexibility of its supply chain through ongoing system optimisation to cope with the Group's rapid development.

In parallel, the Group will continue to strengthen its organisation and execution capabilities in pursuit of excellence in operational performance so as to ensure steady operation and sustainable development and to create better returns for shareholders and investors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its shares during the year ended 31 December 2009. Apart from the Restricted Share Award Scheme Trust, neither the Company, nor any of its subsidiaries, purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company is committed to upholding a high standard of corporate governance by continual review and enhancement of its corporate governance practices. During the year 2009, the Company complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Details of the Company's corporate governance practices can be found in the Corporate Governance Report set out in the Company's annual report 2009.

The Audit Committee of the Company, consisting of three non-executive Directors (two of whom are independent non-executive Directors), has reviewed the accounting principles and practices adopted by the Group and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2009.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 14 May 2010 at 11:00 a.m. A notice of the annual general meeting will be dispatched to the shareholders together with the Company's annual report 2009, on or about 8 April 2010 and published on the Company's websites (www.lining.com and www.irasia.com/listco/hk/lining) and The Stock Exchange of Hong Kong Limited's website (www.hkex.com.hk).

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

Hong Kong, 17 March 2010

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Zhang Zhi Yong and Mr. Chong Yik Kay. The non-executive directors are Mr. Lim Meng Ann, Mr. Stuart Schonberger, Mr. Chu Wah Hui and Mr. James Chun-Hsien Wei. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei and Mr. Chan Chung Bun, Bunny.

This results announcement is published on the Company's websites (www.lining.com and www.irasia.com/listco/hk/lining) and The Stock Exchange of Hong Kong Limited's website (www.hkex.com.hk).