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 2010

2010 ANNUAL RESULTS HIGHLIGHTS

- Revenue rose by 13.0% to RMB9,479 million
- Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 15.4% to RMB1,759 million
- Profit attributable to equity holders grew by 17.4% to RMB1,108 million
- Margin of profit attributable to equity holders increased by 0.4 percentage points to 11.7%
- Basic earnings per share increased by 16.6% to RMB105.84 cents
- Proposed a final dividend of RMB19.97 cents per ordinary share
- Number of LI-NING brand retail stores reached 7,915, a net increase of 666 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 2010, together with the comparative figures for 2009, as follows:

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December	
		2010	2009
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**720,578**	638,181
Land use rights		**380,550**	386,705
Intangible assets		**814,080**	869,911
Deferred income tax assets		**297,860**	193,109
Available-for-sale financial assets		**46,930**	–
Other receivables and prepayments		**108,207**	127,989
Total non-current assets		**2,368,205**	2,215,895
Current assets			
Inventories		**805,598**	631,528
Trade receivables	*4*	**1,612,690**	1,069,404
Other receivables and prepayments – current portion		**302,819**	194,446
Restricted bank deposits		**2,045**	2,254
Cash and cash equivalents		**1,470,435**	1,264,343
Total current assets		**4,193,587**	3,161,975
Total assets		**6,561,792**	5,377,870

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**111,364**	110,898
Share premium		**293,988**	243,553
Shares held for the Restricted Share Award Scheme		**(64,508)**	(53,239)
Other reserves		**346,647**	332,378
Retained profits			
– Proposed final dividend		**213,827**	236,049
– Others		**2,467,984**	1,804,869
		3,369,302	2,674,508
Non-controlling interests in equity		**190,080**	187,603
Total equity		**3,559,382**	2,862,111
LIABILITIES			
Non-current liabilities			
License fees payable		**482,936**	496,812
Deferred income tax liabilities		**85,508**	90,401
Deferred income		**62,324**	63,618
Total non-current liabilities		**630,768**	650,831
Current liabilities			
Trade payables	5	**1,190,960**	826,433
Other payables and accruals		**646,024**	570,780
License fees payable – current portion		**70,666**	59,330
Current income tax liabilities		**151,744**	148,415
Borrowings		**312,248**	259,970
Total current liabilities		**2,371,642**	1,864,928
Total liabilities		**3,002,410**	2,515,759
Total equity and liabilities		**6,561,792**	5,377,870
Net current assets		**1,821,945**	1,297,047
Total assets less current liabilities		**4,190,150**	3,512,942

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	**2010**	2009
		RMB'000	*RMB'000*
Revenue	*3*	**9,478,527**	8,386,910
Cost of sales	*6*	**(4,996,928)**	(4,417,046)
Gross profit		**4,481,599**	3,969,864
Distribution costs	*6*	**(2,511,175)**	(2,152,150)
Administrative expenses	*6*	**(618,280)**	(602,929)
Other income	*7*	**194,631**	127,111
Operating profit		**1,546,775**	1,341,896
Finance income	*8*	**14,917**	7,422
Finance costs	*8*	**(52,178)**	(66,188)
Finance costs – net	*8*	**(37,261)**	(58,766)
Profit before income tax		**1,509,514**	1,283,130
Income tax expense	*9*	**(377,378)**	(313,799)
Profit for the year		**1,132,136**	969,331
Attributable to:			
Equity holders of the Company		**1,108,487**	944,524
Non-controlling interests		**23,649**	24,807
		1,132,136	969,331
Earnings per share for profit attributable to equity holders of the Company ***(RMB cents)***			
– basic	*10*	**105.84**	90.75
– diluted	*10*	**104.39**	89.61
Dividends	*11*	**443,395**	377,486

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

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 16 March 2011.

2. Basis of preparation and significant accounting policies

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

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

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

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

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

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 RMB8,734,294,000, RMB458,291,000, RMB90,428,000 and RMB195,514,000 for the year ended 31 December 2010 and RMB7,693,263,000, RMB427,088,000, RMB76,155,000 and RMB190,404,000 for the year ended 31 December 2009 respectively.

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

The segment information provided to the management for the reportable segments for the years ended 31 December 2010 and 2009 is as follows:

	LI-NING brand	**Double Happiness brand**	**Lotto brand**	**All other brands**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Year ended 31 December 2010					
Total revenue	**8,734,294**	**459,352**	**177,652**	**232,037**	**9,603,335**
Inter-segment revenue	**–**	**(1,061)**	**(87,224)**	**(36,523)**	**(124,808)**
Revenue from external customers	**8,734,294**	**458,291**	**90,428**	**195,514**	**9,478,527**
Operating profit/(loss)	**1,602,602**	**71,865**	**(111,941)**	**(15,751)**	**1,546,775**
Distribution costs and administrative expenses	**2,784,365**	**113,418**	**144,136**	**87,536**	**3,129,455**
Depreciation and amortisation	**164,585**	**20,233**	**20,192**	**7,407**	**212,417**
Year ended 31 December 2009					
Total revenue	7,693,263	429,448	114,396	220,037	8,457,144
Inter-segment revenue	–	(2,360)	(38,241)	(29,633)	(70,234)
Revenue from external customers	7,693,263	427,088	76,155	190,404	8,386,910
Operating profit/(loss)	1,360,526	73,435	(76,913)	(15,152)	1,341,896
Distribution costs and administrative expenses	2,496,178	92,712	97,542	68,647	2,755,079
Depreciation and amortisation	141,817	16,357	19,978	4,863	183,015

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

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Operating profit	**1,546,775**	1,341,896
Finance income	**14,917**	7,422
Finance costs	**(52,178)**	(66,188)
Profit before income tax	**1,509,514**	1,283,130

Geographical information of revenue

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
The PRC (including the Hong Kong Special Administrative Region)	**9,313,357**	8,258,873
Other regions	**165,170**	128,037
Total	**9,478,527**	8,386,910

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

The Group has a large number of customers. For the year ended 31 December 2010, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Trade receivables

	2010	2009
	RMB'000	*RMB'000*
Accounts receivable	**1,613,155**	1,028,017
Notes receivable	**917**	42,571
	1,614,072	1,070,588
Less: provision for impairment of trade receivables	**(1,382)**	(1,184)
	1,612,690	1,069,404

Customers are normally granted credit terms within 90 days. As at 31 December 2010, trade receivables that were neither past due nor impaired amounted to RMB1,455,532,000 (2009: RMB1,027,215,000). Trade receivables that were past due but not impaired amounted to RMB157,158,000 (2009: RMB42,189,000) which relate to a number of independent customers for whom there is no recent history of default and with outstanding receivables aged from 91 to 180 days as at 31 December 2010.

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

	2010	2009
	RMB'000	*RMB'000*
0 – 30 days	**813,082**	506,049
31 – 60 days	**344,873**	314,897
61 – 90 days	**297,577**	206,269
91 – 180 days	**157,158**	42,189
181 – 365 days	**387**	1,000
Over 365 days	**995**	184
	1,614,072	1,070,588

As at 31 December 2010, trade receivables of RMB1,382,000 (2009: RMB1,184,000) were impaired on which full provision of impairment has been made. The impairment was firstly assessed individually for significant or long ageing balances, and the remaining balances were grouped for collective assessment according to their ageing and historical default rates as these customers were of similar credit risk.

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:

	2010	2009
	RMB'000	*RMB'000*
0 – 30 days	**892,826**	786,082
31 – 60 days	**275,566**	9,340
61 – 90 days	**11,282**	18,851
91 – 180 days	**5,215**	9,726
181 – 365 days	**3,347**	1,053
Over 365 days	**2,724**	1,381
	1,190,960	826,433

6. Expenses by nature

	2010	2009
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses included in cost of sales	**4,713,032**	4,131,797
Depreciation on property, plant and equipment *(Note a)*	**114,648**	94,302
Amortisation of land use rights and intangible assets	**97,769**	88,713
Impairment of intangible assets	**3,792**	–
Advertising and marketing expenses	**1,427,130**	1,290,620
Director and employee benefit expenses	**710,253**	630,887
Operating lease rentals in respect of land and buildings	**360,078**	260,075
Research and product development expenses *(Note a)*	**244,749**	229,806
Transportation and logistics expenses	**149,100**	123,800
Provision/(reversal of provision) for impairment charge of trade receivables	**474**	(2,279)
Write-down of inventories to net realisable value	**42,556**	4,375
Auditor's remuneration	**3,900**	4,050
Management consulting expenses	**65,945**	68,634
Travelling and entertainment expenses	**138,054**	128,752

Note:

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

7. Other income

	2010	2009
	RMB'000	*RMB'000*
Government grants *(Note a)*	**187,892**	127,111
License fee income	**6,739**	–
	194,631	127,111

Note:

(a) This represented subsidies received from various local governments in the PRC during the year.

8. Finance income and costs

	2010	2009
	RMB'000	*RMB'000*
Interest income on bank balances and deposits	**7,507**	7,422
Net foreign currency exchange gain	**7,410**	–
Finance income	**14,917**	7,422
Amortisation of discount – license fees payable	**(41,287)**	(40,417)
Interest expense on bank borrowings	**(10,891)**	(24,954)
Net foreign currency exchange loss	**–**	(817)
Finance costs	**(52,178)**	(66,188)
Finance costs – net	**(37,261)**	(58,766)

9. Income taxes

	2010	2009
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax *(Note b)*	**2,506**	4,501
– The PRC corporate income tax *(Note c)*	**466,346**	441,741
– Withholding income tax on dividends distributed from subsidiaries in PRC *(Note d)*	**18,170**	–
	487,022	446,242
Deferred income tax	**(109,644)**	(132,443)
	377,378	313,799

Notes:

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

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2010 (2009: 16.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2009: 25%) on the assessable income of each of the group companies, except that certain subsidiaries of the Company are taxed at preferential tax rates of 22% (2009: 20%) under the relevant PRC tax rules and regulations.

(d) Dividends derived from the Company's subsidiaries in the PRC earned after 1 January 2008 are subject to withholding tax at the rate of 5%. During the year ended 31 December 2010, the Group reassessed its needs to make distributions out of its subsidiaries in the PRC. As a result, withholding income tax has been provided for the dividends already distributed during the year and to the extent they are expected to be distributed in future.

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.

	2010	2009
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**1,108,487**	944,524
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme (in thousands)	**1,047,363**	1,040,757
Basic earnings per share (RMB cents)	**105.84**	90.75

Diluted

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

	2010	2009
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**1,108,487**	944,524
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme (in thousands)	**1,047,363**	1,040,757
Adjustment for share options and awarded shares (in thousands)	**14,502**	13,276
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**1,061,865**	1,054,033
Diluted earnings per share (RMB cents)	**104.39**	89.61

11. Dividends

	2010	2009
	RMB'000	*RMB'000*
Interim dividend paid of RMB22.15 cents (2009: RMB13.58 cents) per ordinary share	**229,568**	141,437
Proposed final dividend of RMB19.97 cents (2009: RMB22.54 cents) per ordinary share	**213,827**	236,049
	443,395	377,486

Note:

On 17 March 2010, the Board proposed a final dividend of RMB22.54 cents per ordinary share for the year ended 31 December 2009.

On 16 March 2011, the Board proposed a final dividend of RMB19.97 cents per ordinary share totalling RMB213,827,000 for the year ended 31 December 2010. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 December 2011.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB19.97 cents per ordinary share for the year ended 31 December 2010 (2009: RMB22.54 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 13 May 2011 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 13 May 2011. Upon shareholders' approval, the proposed final dividend will be paid on or about 23 May 2011 to shareholders whose names shall appear on the register of members of the Company on 13 May 2011.

Together with the interim dividend of RMB22.15 cents per ordinary share (2009: RMB13.58 cents), the total dividend for the year ended 31 December 2010 will amount to RMB42.12 cents per ordinary share (2009: RMB36.12 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, 12 May 2011 to Friday, 13 May 2011 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for the final dividend and be entitled to attend and vote at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 11 May 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

MACRO ECONOMY AND INDUSTRY REVIEW

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

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

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

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

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

FINANCIAL REVIEW

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

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

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

Notes:

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the total sum of net profit, income tax, finance costs, depreciation of property, plant and equipment, and amortisation of intangible assets and land use rights.

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

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

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

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

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

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

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

Revenue

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

Revenue breakdown by brand and product category

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

* Including AIGLE, Z-DO and Kason.

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

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

Percentage of revenue of LI-NING brand by sales channel

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

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

Revenue breakdown of LI-NING brand by geographical location

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

Notes:

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

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

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

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

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

Cost of Sales and Gross Profit

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

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

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

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

Distribution Costs

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

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

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

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

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

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

Administrative Expenses

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

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

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

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

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

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

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

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

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

Finance Costs

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

Income Tax Expenses

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

Consolidated Profitability

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

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

Provision for Inventories

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

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

Provision for Doubtful Debts

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

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

Liquidity and Financial Resources

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

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

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

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

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

Foreign Exchange Risk

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

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

Pledge of Assets

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

Contingent Liabilities

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

BUSINESS REVIEW

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

LI-NING Brand

Brand Revitalisation

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

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

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

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

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

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

Brand Marketing and Promotion

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

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

Newly signed international sports sponsorship resources

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

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

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

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

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

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

Integrated Marketing Campaign for the Asian Games

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

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

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

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

Badminton

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

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

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

Running

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

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

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

Basketball

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

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

Fitness

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

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

Tennis

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

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

Community Marketing Events

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

- Sponsorship of the "Chinese University Football League" (CUFL) and organisation of the "LI-NING China Basketball Draft Camp";

- The Group's meticulously-planned "LI-NING Hero Vans" (李寧大篷車), aimed at encouraging sports enthusiasts to participate in sports activities and enjoy the pleasure of sports, was held for the third consecutive year in China. In 2010, the activity lasted for nine months and the vans travelled over 99,000 kms, staging 122 events in 119 cities covering 24 provinces, autonomous regions and municipalities, attracting about 420,000 participants;

- "The LI-NING Sports Theme Park in Beijing Chaoyang Park" (北京朝陽公園李寧體育園) built by the LI-NING brand has marked its third anniversary. With multi-purpose urban stadiums as its platform, the LI-NING brand continued to communicate with sports lovers through venue advertising, mini matches and brand outlets. During the year, various activities were organised, attracting tens of thousands of participants, who experienced a memorable and lasting impression of the brand. The exclusive LI-NING basketball court in the park has attracted the participation of many basketball fans, and is gradually developing into an iconic basketball venue in the local area; and

- "LI-NING Sports World" (李寧運動天地) went live on the sports section of the official website of CCTV, along with the introduction of the LI-NING online store. LI-NING brand's presence is also found in other mainstream national online media, all of which further creates a positive impact for the LI-NING brand.

Sales Channel Expansion and Management

Retail Stores

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

- 7,333 LI-NING brand franchised retail stores;

- 582 directly-operated LI-NING brand retail stores; and

- 90 distributors which was 38 distributors less as compared with the position as at 31 December 2009. This was mainly due to the integration of certain small-scale distributors by some large-scale distributors in the northern region of China in the second half of the year in order to improve management efficiency of the distribution channels.

Number of franchised and directly-operated retail stores

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

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

Number of retail stores by geographical location

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

Notes:

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

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

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

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

- Advanced distribution channel reform in order to exercise more influence on the management capability and service quality of the sales channel, including the distributors, sub-distributors and retail stores, with a view to enhancing store efficiency and retail market share. At the same time, the Group increased the integration and acquisition of sub-distributors by distributors so as to reduce the number of sub-distributors operating single stores and enhance the sub-distributors' capability in operational risk management.

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

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

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

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

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

E-Commerce

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

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

Product Design, Research and Development

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

Research and Design Centres

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

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

Products for Professional Sponsorships

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

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

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

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

- The “Champion” (奪帥) professional badminton shoes for the famous men’s badminton singles player, Lin Dan (林丹);
- The sports shoes and apparel for the world’s No.1 pole vault athlete, Elena Isinbayeva;
- Professional LI-NING branded javelin shoes, apparel and accessories tailor-made for the “Prince of Javelin”, Andreas Thorkildsen;
- The professional gear for Jamaican sprinter, Asafa Powell;
- The basketball shoes developed for NBA stars, such as “BD Doom” for Baron Davis, “G-Shark” (年輪) shoes for Shaquille O’Neal, “Master V” (馭帥V) for Jose Calderon and professional shoes for Evan Turner and Hasheem Thabeet; and
- The “Fish Fin” (奇魚) tennis shoes for tennis star Ivan Ljubicic, and tennis gear for the rising tennis star Marin Cilic. Also, the professional tennis gear for domestic tennis stars Yan Zi (晏紫) and Peng Shuai (彭帥).

Footwear Products

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

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

Apparel Products

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

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

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

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

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

- Attached importance to the relations between apparel product design and the brand's DNA and used the logo of Lucky Line and applied for appearance patent;

- In line with efforts to revitalise the LI-NING brand, the Group launched the LI-NING "Urban Sports" series catering to urban dwellers, which underscores the concept of sports life and successfully exemplifies the integration of innovation with modern technology;

- Introduced crossover collaboration marked by the perfect combination of LI-NING brand products with the creative ideas of high-calibre artists; further improved basic garment blocks to refine different series of sports products and provide consumers with a wider choice;

- Participated in environmental projects, which included promoting organic cotton products, and collaborating with core suppliers to extend the Eco-circle series and promote the vitality and low-carbon green apparel concept; and

- Regulated and standardised basic data, developed different development manuals and construction mock-up innovative project to form an internal knowledge system.

Supply Chain Management

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

- Continued to improve supply chain planning that regulates output based on demand and purchase based on output, in an effort to further reduce the minimum required inventory level and warehousing time. The Group also stepped up the implementation of direct delivery and streamlined the whole process to alleviate the gridlock built up in logistics operations and speed up the supply chain response time. The average inventory turnover cycle in 2010 amounted to 52 days, one day less compared with 2009;

- Continued to enhance the Group's channel logistic capacity with logistic operations of 19 subsidiaries consolidated according to plans during the year. A logistic platform that combines wholesaling with retailing was established, which enables unified management of logistic outsourcing, information technology application as well as visibility of inventory;

- Provided distributors with logistic consultation services in different forms of logistic capabilities, including network design and operation optimisation solutions, to help distributors in outsourcing logistic tasks and provide direct delivery to sub-distributors and factories;

- The Group foresaw the rapid escalation in the labour cost and prices of raw materials in China and predicted that there would be labour shortages in the traditional processing and manufacturing bases in coastal areas such as the Pearl River Delta and the Yangtze River region in the next few years. Therefore, it proactively initiated a shift toward central China and invited its core suppliers to establish production facilities in Jingmen, Hubei Province. This has mitigated much of the pressure rising from the surge in costs and also alleviated problems related to production capacity resulting from the shrinking labour force in coastal areas, which has also enhanced efficiency in supply chain management; and

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

Double Happiness Brand

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

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

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

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

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

Lotto Brand

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

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

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

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

Other Brands

AIGLE

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

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

- Further and more clearly defined product positioning and established unique competitive edge by developing functional, yet fashionable, products;

- Enhanced brand awareness and image by appropriate marketing investment and continuous placement of print advertising in travel and outdoor magazines;

- Continued collaboration with Asia product lines of AIGLE France and AIGLE Hong Kong to enhance product mix and to lower costs, and worked with suppliers in France and Hong Kong to develop a localised production and supply chain;

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

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

Kason

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

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

Z-DO

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

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

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

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

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

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

HUMAN RESOURCES

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

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

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

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

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

PROSPECT AND STRATEGIES

Macro-economy and Industry Outlook

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

The sporting goods sector is set to benefit from the growth in the sporting population, the rise in income, and the shift of China's economy from an investment-driven to a consumption-driven model. However, consumer confidence is not strong enough and the growth in income levels has not quite translated into a sustainable increase in purchasing power for sporting goods. In addition, due to the increase in competition from casual brands in certain sub-segments of the sporting goods industry and the lack of major sports tournaments, it is anticipated that growth in the sporting goods industry in 2011 will be affected to a certain degree. Based on orders from trade fairs that the Group hosted for the first and second quarters of 2011, total order value (based on tagged retail prices) for the first quarter increased by 12% as compared to the corresponding period in 2010, and remained at the same level as in the corresponding period in 2010 for the second quarter. As the distribution channel reform and the improvement of retail environment take time, it is expected that the trade fairs for the third and the fourth quarters will not achieve order growth rates higher than the levels achieved for the first two quarters.

Market positioning underpinned by long-term strategy

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

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

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

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

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

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

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

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

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

Execution strategy

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

- **Investing more on branding to upgrade the brand image and win greater recognition from consumers to instilling more value to the brand:**

  - Further increase spending on brand marketing and promotion, and strengthen the efficient management of investments in branding

  - Further upgrade the brand image by highlighting brand personality and differentiation while strengthening professional sports attributes of the products

  - Target value-oriented consumers in cities in China, win support from target consumers through better products and better integrated marketing, and implement customised promotion activities for different market segments

  - Prepare for the 2012 London Olympics

  - Increase the number of sixth-generation stores through new store openings and renovation of existing stores in the metropolitan, first-tier and second-tier cities, to effectively boost consumers' experience of the new brand assets at the retail end

- **Enhance retail efficiency through deepening reforms in the distribution channels to pursue a healthier growth model:**

  - Strengthen the cooperation with large multi-brand distributors in order to secure our foothold in retail channels that possess greater competitive advantage

  - Consolidate low efficiency sub-distributors

  - Optimise store structure and improve product lifecycle management

  - Strengthen professional training for distributors/sub-distributors in order to enhance their retail management capabilities and, in turn, increase their profitability

  - Implement a new wholesale discount policy to maintain and improve the profit margin of the distributors/sub-distributors

- **Improve the product offering structure and raise product competitiveness to bring more value to our consumers:**

  - Establish a product innovation structure that works consistently with the Group's brand positioning

  - Offer products that are closer to market needs and are more suitable to the preferences of different regions

  - Offer consumers better experiences on product value in order to support the Group's brand positioning and product pricing

  - Raise the proportion of footwear in the product portfolio and enhance the competitiveness of our footwear products in the mid- to high-end market segments

- **Establish a corporate culture that stresses management by objectives and high efficiency:**

  - Enhance staff cohesion with the Company's culture as the core

  - Continue to increase investment in human resources in professional fields such as brand marketing and product design and research and development as well as in corporate management in order to attract high calibre talent

  - Strengthen implementation of business strategies and measurement of performance

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

CORPORATE GOVERNANCE

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

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

For the year 2010, 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 2010.

The Audit Committee of the Company, consisting of three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2010.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Friday, 13 May 2011 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 2010, on or about 1 April 2011 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, 16 March 2011

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. 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.