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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 2011

RESULTS HIGHLIGHTS

- Revenue was RMB8,929 million, decreased by 5.8%
- Earnings before interest, tax, depreciation and amortisation (EBITDA) was RMB891 million, decreased by 49.4%
- Profit attributable to equity holders was RMB386 million, decreased by 65.2%
- No final dividend is recommended
- Number of LI-NING brand retail stores reached 8,255, a net increase of 340 stores
- Annual results are broadly in line with the Group's performance guidance disclosed over the past year
- The Group will continue to proactively undertake reform measures to improve operational efficiency and enhance the effective implementation of strategies

ANNUAL RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2011, together with comparative figures for 2010, as follows:

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2011** *RMB'000*	2010 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**831,693**	720,578
Land use rights		**371,696**	380,550
Intangible assets		**751,836**	814,080
Deferred income tax assets		**445,857**	297,860
Available-for-sale financial assets		**46,930**	46,930
Investments in an associate	*4*	**11,303**	–
Other receivables and prepayments		**87,903**	108,207
Total non-current assets		**2,547,218**	2,368,205
Current assets			
Inventories		**1,132,965**	805,598
Trade receivables	*5*	**2,094,440**	1,612,690
Other receivables and prepayments – current portion		**344,527**	302,819
Restricted bank deposits		**13,194**	2,045
Cash and cash equivalents		**1,196,474**	1,470,435
Total current assets		**4,781,600**	4,193,587
Total assets		**7,328,818**	6,561,792
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**111,604**	111,364
Share premium		**312,379**	293,988
Shares held for Restricted Share Award Scheme		**(52,415)**	(64,508)
Other reserves		**370,106**	346,647
Retained profits			
– Proposed final dividend	*12*	**–**	213,827
– Others		**2,730,169**	2,467,984
		3,471,843	3,369,302
Non-controlling interests in equity		**192,816**	190,080
Total equity		**3,664,659**	3,559,382

	Note	As at 31 December 2011 RMB'000	2010 RMB'000
LIABILITIES			
Non-current liabilities			
License fees payable		**458,793**	482,936
Deferred income tax liabilities		**81,269**	85,508
Deferred income		**61,030**	62,324
Total non-current liabilities		**601,092**	630,768
Current liabilities			
Trade payables	*6*	**1,462,398**	1,190,960
Other payables and accruals		**662,480**	646,024
License fees payable – current portion		**71,649**	70,666
Current income tax liabilities		**28,481**	151,744
Borrowings		**838,059**	312,248
Total current liabilities		**3,063,067**	2,371,642
Total liabilities		**3,664,159**	3,002,410
Total equity and liabilities		**7,328,818**	6,561,792
Net current assets		**1,718,533**	1,821,945
Total assets less current liabilities		**4,265,751**	4,190,150

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2011 *RMB'000*	2010 *RMB'000*
Revenue	*3*	**8,928,526**	9,478,527
Cost of sales	*7*	**(4,814,013)**	(4,996,928)
Gross profit		**4,114,513**	4,481,599
Distribution costs	*7*	**(2,909,922)**	(2,511,175)
Administrative expenses	*7*	**(717,068)**	(618,280)
Other income – net	*8*	**143,433**	194,631
Operating profit		**630,956**	1,546,775
Finance income	*9*	**17,179**	14,917
Finance costs	*9*	**(99,231)**	(52,178)
Finance costs – net	*9*	**(82,052)**	(37,261)
Share of loss of an associate	*4*	**(1,527)**	–
Profit before income tax		**547,377**	1,509,514
Income tax expense	*10*	**(136,408)**	(377,378)
Profit for the year		**410,969**	1,132,136
Attributable to:			
Equity holders of the Company		**385,813**	1,108,487
Non-controlling interests		**25,156**	23,649
		410,969	1,132,136
Earnings per share for profit attributable to equity holders of the Company *(RMB cents)*			
– basic	*11*	**36.70**	105.84
– diluted	*11*	**36.56**	104.39
Dividends	*12*	**116,533**	443,395

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Profit for the year	**410,969**	1,132,136
Other comprehensive income:		
Currency translation differences	**3,762**	1,222
Total comprehensive income for the year	**414,731**	1,133,358
Attributable to:		
Equity holders of the Company	**389,575**	1,109,709
Non-controlling interests	**25,156**	23,649
	414,731	1,133,358

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.

This consolidated financial information is presented in Renminbi ("RMB"), unless otherwise stated, and was approved for issue by the Board on 29 March 2012.

2. Basis of preparation and significant accounting policies

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

(a) New and amended standards adopted by the Group

The following amendments to standard are mandatory for the first time for the financial year beginning 1 January 2011 which are relevant to the Group's operations.

- IAS 24 (Revised), "Related Party Disclosures" is effective for annual period beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of IAS 24 for transactions among government-related entities and the government. Those disclosures are replaced with a requirement to disclose:

- The name of the government and the nature of their relationship;

- The nature and amount of any individually-significant transactions; and

- The extent of any collectively-significant transactions qualitatively or quantitatively.

It also clarifies and simplifies the definition of a related party.

(b) New and amended standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted.

The Group's and parent entity's assessment of the impact of the new and amended standards is set out below.

- IFRS 11 is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The group is in the process of assessing IFRS 11's full impact and intends to adopt IFRS 11 upon its effective date, which is for the accounting period beginning on or after 1 January 2013.

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

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 RMB8,164,794,000, RMB485,026,000, RMB119,641,000, and RMB159,065,000 for the year ended 31 December 2011 respectively and RMB8,734,294,000, RMB458,291,000, RMB90,428,000 and RMB195,514,000 for the year ended 31 December 2010 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 year ended 31 December 2011 and 2010 is as follows:

	LI-NING brand *RMB'000*	**Double Happiness brand** *RMB'000*	**Lotto brand** *RMB'000*	**All other brands** *RMB'000*	**Total** *RMB'000*
Year ended 31 December 2011					
Total revenue	**8,164,794**	**488,654**	**148,703**	**189,090**	**8,991,241**
Inter-segment revenue	**–**	**(3,628)**	**(29,062)**	**(30,025)**	**(62,715)**
Revenue from external customers	**8,164,794**	**485,026**	**119,641**	**159,065**	**8,928,526**
Operating profit/(loss)	**731,106**	**80,451**	**(130,556)**	**(50,045)**	**630,956**
Distribution costs and administrative expenses	**3,223,007**	**118,619**	**167,989**	**117,375**	**3,626,990**
Depreciation and amortisation	**215,332**	**17,504**	**20,509**	**7,958**	**261,303**
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

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

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Operating profit	**630,956**	1,546,775
Finance income	**17,179**	14,917
Finance costs	**(99,231)**	(52,178)
Share of loss of an associate	**(1,527)**	–
Profit before income tax	**547,377**	1,509,514

Geographical information of revenue

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
The PRC (including the Hong Kong Special Administrative Region)	**8,726,209**	9,313,357
Other regions	**202,317**	165,170
Total	**8,928,526**	9,478,527

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 2011 and 2010, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Share of loss of/investment in an associate

The Group has a 19.9% equity interest in Digital Li-Ning Company Limited ("Digital Li-Ning") which is a limited liability company incorporated in the Cayman Islands in 2011 with paid-up-capital of USD10,000,000. Digital Li-Ning is principally engaged in the marketing and distribution of sports goods in the United States.

The Group exercises significant influence over Digital Li-Ning by virtue of its contractual right to appoint director to the board of directors of Digital Li-Ning and has the power to participate in the financial and operating policy decisions of Digital Li-Ning.

	2011	2010
	RMB'000	*RMB'000*
Share of net assets, as at 1 January	**–**	–
New investment	**12,830**	–
Share of loss	**(1,527)**	–
Share of net assets, as at 31 December	**11,303**	–

5. Trade receivables

	2011	2010
	RMB'000	*RMB'000*
Accounts receivable	**2,105,590**	1,613,155
Notes receivable	**250**	917
	2,105,840	1,614,072
Less: provision for impairment of trade receivables	**(11,400)**	(1,382)
	2,094,440	1,612,690

Customers are normally granted credit terms within 90 days. As at 31 December 2011, trade receivables that were neither past due nor impaired amounted to RMB1,575,401,000 (31 December 2010: RMB1,455,532,000). Trade receivables that were past due but not impaired amounted to RMB519,039,000 (31 December 2010: RMB157,158,000) 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 2011.

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

	2011	2010
	RMB'000	*RMB'000*
0 – 30 days	**728,962**	813,082
31 – 60 days	**386,433**	344,873
61 – 90 days	**460,006**	297,577
91 – 180 days	**519,039**	157,158
181 – 365 days	**10,496**	387
Over 365 days	**904**	995
	2,105,840	1,614,072

As at 31 December 2011, trade receivables of RMB11,400,000 (31 December 2010: RMB1,382,000) 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.

6. 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:

	2011	2010
	RMB'000	*RMB'000*
0 – 30 days	**750,535**	892,826
31 – 60 days	**456,955**	275,566
61 – 90 days	**128,992**	11,282
91 – 180 days	**116,675**	5,215
181 – 365 days	**1,742**	3,347
Over 365 days	**7,499**	2,724
	1,462,398	1,190,960

7. Expenses by nature

	2011	2010
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses included in cost of sales	**4,547,477**	4,713,032
Depreciation on property, plant and equipment *(Note a)*	**158,562**	114,648
Amortisation of land use rights and intangible assets	**102,741**	97,769
Impairment of intangible assets	**–**	3,792
Advertising and marketing expenses	**1,567,927**	1,427,130
Staff costs, including directors' emoluments	**772,518**	710,253
Operating lease rentals in respect of land and buildings	**539,347**	360,078
Research and product development expenses *(Note a)*	**231,004**	244,749
Transportation and logistics expenses	**180,145**	149,100
Provision for impairment charge of trade receivables	**10,246**	474
Write-down of inventories to net realisable value	**72,427**	42,556
Auditor's remuneration	**3,510**	3,900
Management consulting expenses	**62,846**	65,945
Travelling and entertainment expenses	**132,351**	138,054

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.

8. Other income – net

	2011	2010
	RMB'000	*RMB'000*
Government grants *(Note a)*	**140,717**	187,892
License fee income	**9,084**	6,739
Others	**(6,368)**	–
	143,433	194,631

Note:

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

9. Finance income and costs

	2011	2010
	RMB'000	*RMB'000*
Interest income on bank balances and deposits	**6,198**	7,507
Net foreign currency exchange gain	**10,981**	7,410
Finance income	**17,179**	14,917
Amortisation of discount – license fees payable	**(40,389)**	(41,287)
Interest expense on bank borrowings	**(49,104)**	(4,399)
Others	**(9,738)**	(6,492)
Finance costs	**(99,231)**	(52,178)
Finance costs – net	**(82,052)**	(37,261)

10. Income taxes

	2011 *RMB'000*	2010 *RMB'000*
Current income tax		
– Hong Kong profits tax *(Note b)*	**1,362**	2,506
– The PRC corporate income tax *(Note c)*	**271,182**	466,346
– Withholding income tax on dividends distributed from subsidiaries in PRC *(Note d)*	**16,100**	18,170
	288,644	487,022
Deferred income tax	**(152,236)**	(109,644)
	(136,408)	377,378

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 2011 (2010: 16.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2010: 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 24% (2010: 22%) 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 2011, 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.

11. 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.

	2011 *RMB'000*	2010 *RMB'000*
Profit attributable to equity holders of the Company	**385,813**	1,108,487
Weighted average number of ordinary shares in issue less shares held for the Restricted Share Award Scheme *(in thousands)*	**1,051,127**	1,047,363
Basic earnings per share *(RMB cents)*	**36.70**	105.84

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 period) 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:

	2011	2010
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**385,813**	1,108,487
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,051,127**	1,047,363
Adjustment for share options and awarded shares *(in thousands)*	**4,069**	14,502
Weighted average number of ordinary shares for diluted earnings per share *(in thousands)*	**1,055,196**	1,061,865
Diluted earnings per share *(RMB cents)*	**36.56**	104.39

12. Dividends

	2011	2010
	RMB'000	*RMB'000*
Interim dividend paid of RMB11.13 cents (2010: RMB22.15 cents) per ordinary share	**116,533**	229,568
Proposed final dividend of nil (2010: RMB19.97 cents) per ordinary share	**–**	213,827
	116,533	443,395

On 16 March 2011, the Board proposed a final dividend of RMB19.97 cents per ordinary share for the year ended 31 December 2010. The Board did not propose final dividend for the year ended 31 December 2011.

13. Subsequent events

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

The issue of the Convertible Bonds was completed on 8 February 2012. Convertible Bonds in the principal amount of RMB561,000,000 were issued to TPG Stallion Holdings, L.P. (which is an affiliate of TPG) and Convertible Bonds in the principal amount of RMB189,000,000 were issued to GIC Investor.

DIVIDEND

In light of the current operating environment, the Board considers it appropriate to retain cash for the future development of the Group, therefore, it does not recommend the payment of a final dividend for the year ended 31 December 2011 (2010: RMB19.97 cents per ordinary share). An interim dividend of RMB11.13 cents per ordinary share was paid during the year (2010: RMB22.15 cents), and the total dividend payout ratio for the year was 30.3%.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During 2011, the macroeconomic environment in China was much more complex than that seen in previous years, with the overall growth trend showing a general slowdown. China experienced high inflation and adopted tight monetary policies throughout the year. Albeit with a steady growth in investment and consumption, the rate of economic growth slowed significantly as compared with that of previous years.

The Group's analysis shows that, despite the sporting goods industry in China recording low double digit growth in overall sales, the growth did not translate into a major turn-around as compared to 2010. Inventory pressure still existed at the retail end and industry competition continued to intensify. In addition, rising costs have had far-reaching impact on the overall structure of the industry, and have exerted profound influence on each segment of the industry value chain. The sporting goods industry in China is also experiencing new challenges resulting from consumers' increasing awareness of branding and sports functionality. The Group believes that the sporting goods sector will undergo transformation over the next two to three years.

Against the backdrop of China's macroeconomic conditions and the overall industry landscape, the Group's operations faced various challenges in 2011. Nevertheless, the Group adhered to its core strategy and mission – focusing on the essence of sports while endeavouring to enhance its brand and product innovation and competing on differentiation. During the year, the Group kept close watch on external changes against its development strategies and continued to proactively implement reform initiatives to strengthen operational efficiency and the effectiveness of the execution of our strategic reforms, which will enable us to adapt to the development of the industry as well as to meet corporate growth needs in the current phase.

FINANCIAL REVIEW

Consistent with the Group's communications with the capital market over the past year, in view of the current market situation of the sporting goods industry in China, as well as the challenges the Group is facing in the current phase of its corporate development, the Group's financial performance will be affected in the short term. The key operating and financial indicators of the Group for the year ended 31 December 2011 are set out below:

	Year ended 31 December 2011	2010	Change (%)
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**8,928,526**	9,478,527	**(5.8)**
Gross profit	**4,114,513**	4,481,599	**(8.2)**
Operating profit	**630,956**	1,546,775	**(59.2)**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 1)*	**890,732**	1,759,192	**(49.4)**
Profit attributable to equity holders	**385,813**	1,108,487	**(65.2)**
Basic earnings per share *(RMB cents) (Note 2)*	**36.70**	105.84	**(65.3)**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**46.1**	47.3	
Operating profit margin *(%)*	**7.1**	16.3	
Effective tax rate *(%)*	**24.9**	25.0	
Margin of profit attributable to equity holders *(%)*	**4.3**	11.7	
Return on equity holders' equity *(%)*	**11.3**	36.7	
Expenses as a % of revenue			
Staff costs *(%)*	**8.7**	7.5	
Advertising and marketing expenses *(%)*	**17.6**	15.1	
Research and product development expenses *(%)*	**2.6**	2.6	
Asset efficiency			
Average inventory turnover *(days) (Note 3)*	**73**	52	
Average trade receivables turnover *(days) (Note 4)*	**76**	52	
Average trade payables turnover *(days) (Note 5)*	**94**	71	

	31 December 2011	31 December 2010
Asset ratios		
Debt-to-equity ratio *(%) (Note 6)*	**105.5**	89.1
Interest-bearing debt-to-equity ratio *(%) (Note 7)*	**24.1**	9.3
Net asset value per share *(RMB cents)*	**348.22**	339.04

Notes:

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the 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 ordinary shares held for the Restricted Share Award Scheme.

3. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances of the year 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 of the year 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 of the year 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 calculation methods as those provided by other issuers.

Revenue

The Group's revenue for the year ended 31 December 2011 amounted to RMB8,928,526,000, representing a decrease of 5.8% as compared to 2010.

Revenue breakdown by brand and product category

	Year ended 31 December				
	2011		2010		
	RMB'000	**% of total revenue**	*RMB'000*	% of total revenue	**Revenue change (%)**
LI-NING brand					
Footwear	**3,411,874**	**38.2**	3,829,982	40.4	**(10.9)**
Apparel	**4,225,100**	**47.3**	4,383,625	46.2	**(3.6)**
Equipment/accessories	**527,820**	**5.9**	520,687	5.5	**1.4**
Total	**8,164,794**	**91.4**	8,734,294	92.1	**(6.5)**
Double Happiness brand					
Total	**485,026**	**5.4**	458,291	4.8	**5.8**
Lotto brand					
Total	**119,641**	**1.3**	90,428	1.0	**32.3**
Other brands*					
Total	**159,065**	**1.9**	195,514	2.1	**(18.6)**
Total	**8,928,526**	**100.0**	9,478,527	100.0	**(5.8)**

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

In 2011, the Group's core brand, LI-NING brand, generated revenue of RMB8,164,794,000, which accounted for 91.4% of the Group's total revenue, representing a decrease of 6.5% as compared to 2010. Among the different product categories, revenue from equipment products generally remained flat while that from other product categories recorded declines. During the year, due to the overall economic condition and industry landscape, the competition in the retail market of the sporting goods industry in China had been heating up. Increasing costs for labour and rentals led to further shrinking profit margins in the retail end. In 2011, forward orders for LI-NING brand decreased as compared to 2010 due to the sales performance in the retail market and the transitional effects of the distribution channel reform initiated by the Group. Meanwhile, the Group rendered effective support to our distributors by offering a larger discount rate to them and undertook measures such as consolidation of sub-distributors and enhancement of the efficiency of retail management with a view to assisting our distributors in maintaining their profitability and ability of continuing operation amid such highly competitive environment. In order to expedite the clearance of stock and optimise the inventory structure in retail end, the Group bought back a portion of outdated stock from distributors during the year. We also actively set up factory outlets and discount stores and boost sales via online platform to clear up inventory so as to accelerate the turnover of retail stocks.

Among the various brands under the Group, revenue of Double Happiness brand maintained a steady growth rate of 5.8%. Lotto brand achieved a 32.3% revenue boost through improvement of store efficiency. As for other brands, AIGLE brand products recorded a significant year-on-year increase of 115.2% in revenue which reflected its value advantage; Kason brand recorded a stable revenue growth of 19.5%. As the Group gradually diminished the Z-DO brand business during the year, Z-DO brand posted a material year-on-year decrease in revenue, resulting in an overall decline in revenue from other brands.

Percentage of revenue of LI-NING brand by sales channel

	Year ended 31 December		
	2011	2010	
	% of revenue of LI-NING brand	% of revenue of LI-NING brand	**Change**
LI-NING brand			
PRC market			
Sales to franchised distributors	**79.0**	83.8	**(4.8)**
Sales by directly-operated retail stores	**19.1**	14.8	**4.3**
International markets	**1.9**	1.4	**0.5**
Total	**100.0**	100.0	

During the year, with the decrease in revenue generated from sales to franchised distributors and increase in revenue generated from directly-operated retail stores, revenue generated from sales to franchised distributors of LI-NING brand as a percentage to total revenue dropped.

Revenue breakdown of LI-NING brand by geographical location

		Year ended 31 December				
		2011		2010		
	Note	***RMB'000***	**% of revenue of LI-NING brand**	*RMB'000*	% of revenue of LI-NING brand	**Revenue change (%)**
LI-NING brand						
PRC market						
Eastern region	*1*	**2,991,207**	**36.6**	3,315,843	38.0	**(9.8)**
Northern region	*2*	**3,402,583**	**41.7**	3,691,274	42.2	**(7.8)**
Southern region	*3*	**1,615,589**	**19.8**	1,608,181	18.4	**0.5**
International Markets		**155,415**	**1.9**	118,996	1.4	**30.6**
Total		**8,164,794**	**100.0**	8,734,294	100.0	**(6.5)**

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, Hong Kong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

The Group is streamlining the regional distribution layout of its sales channels by conducting partial adjustment to the organisation structure and geographical delineation of its sales regions so as to enhance regional management, regional retail performance and customer management capability. The Group aims to increase efficiency in decision-making and operations through further integration of the sales regions, in a bid to facilitate the achievement of its goal of strategic reform.

During the year, despite the effects of the European debt crisis and volatile changes in exchange rates, the Group continued to explore new channels in international markets such as Southeast Asia, resulting in a noticeable year-on-year increase in revenue from LI-NING brand in the international markets.

Cost of Sales and Gross Profit

For the year ended 31 December 2011, overall cost of sales of the Group amounted to RMB4,814,013,000 (2010: RMB4,996,928,000), and overall gross profit margin was 46.1% (2010: 47.3%). The decrease in overall gross profit margin as compared to 2010 was mainly due to the higher overall discount rates offered to distributors and retail end and the increase in production costs.

Cost of sales of LI-NING brand amounted to RMB4,350,817,000 (2010: RMB4,539,574,000), and gross profit margin was 46.7% (2010: 48.0%). The decrease in gross profit margin of LI-NING brand for the year was attributable to the higher overall discount rates offered to distributors and retail end, the clearance of obsolete inventory of LI-NING brand as well as the increasing costs of raw materials and labour of upstream suppliers in the industry during the year.

Cost of sales of Double Happiness brand amounted to RMB289,253,000 (2010: RMB275,391,000), and gross profit margin was 40.4% (2010: 39.9%). The year-on-year increase in gross profit margin of the Double Happiness brand was attributable to the continued realignment and optimisation of product structure together with more reasonable pricing which effectively offset the adverse effects of rising labour and raw materials costs during the year.

Cost of sales of Lotto brand amounted to RMB82,208,000 (2010: RMB58,234,000), and the gross profit margin was 31.3% (2010: 35.6%). The decrease in gross profit margin was due to the clearance of stock by the Group as well as the increase in retail sales discounts to accelerate inventory turnover during the year.

Distribution Costs

For the year ended 31 December 2011, the Group's overall distribution costs amounted to RMB2,909,922,000 (2010: RMB2,511,175,000), accounting for 32.6% of the Group's total revenue (2010: 26.5%).

Distribution costs of LI-NING brand amounted to RMB2,625,539,000 (2010: RMB2,244,156,000), which accounted for 32.2% of the LI-NING brand's revenue (2010: 25.7%). The distribution costs as a percentage to revenue increased by 6.5 percentage points year-on-year, mainly due to the increased proportion of advertising and marketing expenses and rental expense. Despite the decrease in year-on-year sales revenue during the year, the Group continued to put efforts in brand promotion such that advertising and marketing expenses of LI-NING brand amounted to RMB1,431,742,000 (2010: RMB1,292,024,000), representing a year-on-year increase of 10.8%, and an increase of 2.7 percentage points in percentage to revenue of LI-NING brand compared with the corresponding period last year. During the year, in preparation for the London 2012 Olympic Games, the Group recorded higher advertising and sponsorship expenses. Meanwhile, the Group strived for enhancing its capabilities for retail sales and streamlining its business through market integration. The rise in the number of directly-operated stores and the unit rental cost resulted in the increase in the percentage of retail and rental costs, salaries and benefits of sales staff to revenue of LI-NING brand. Depreciation and amortisation charges, sundry expenses etc. remained stable. As a result of the factors listed above, the percentage of overall distribution costs of LI-NING brand to revenue of LI-NING brand increased as compared to 2010.

Distribution costs of Double Happiness brand amounted to RMB55,539,000 (2010: RMB58,153,000), which accounted for 11.5% of Double Happiness brand's revenue and was 1.2 percentage points below the 12.7% recorded in 2010.

Distribution costs of Lotto brand amounted to RMB149,059,000 (2010: RMB139,312,000), which included the amortisation fee of licence rights of RMB19,690,000 (2010: RMB19,690,000) for the year in relation to the 20-year licence for Lotto trademarks (the "Lotto Licence").

According to International Accounting Standards, the Lotto Licence with a present value of RMB393,798,000 has been recognised as "Intangible assets – licence rights" and amortised in each relevant year using straight-line method and included in the distribution costs since 2009. As of 31 December 2011, the amortised balance of Lotto Licence was RMB334,728,000. In addition, the amortisable finance costs of RMB555,102,000 were recognised and amortised in each relevant year using the effective interest rate method and included in the finance costs. During the year, the amortisation of licence fees amounted to RMB19,690,000 and the amortisation of finance costs was RMB34,126,000. The combined effect of these two costs led to a reduction of RMB53,816,000 on profit before tax for 2011.

Administrative Expenses

For the year ended 31 December 2011, the Group's overall administrative expenses amounted to RMB717,068,000 (2010: RMB618,280,000), which accounted for 8.0% of the Group's total revenue (2010: 6.5%).

Administrative expenses of LI-NING brand amounted to RMB597,468,000 (2010: RMB540,209,000), accounting for 7.3% of LI-NING brand's revenue, which was 1.1 percentage points above the 6.2% recorded in 2010. Such expenses mainly comprised staff costs, management consulting expenses, office rental, depreciation and amortisation charges, taxes, provision for impairment of assets and other sundry expenses. Given the decline in LI-NING brand's revenue, the

Group has exercised effective control on sundry expenses and labour costs. However, due to the buy-back of a portion of inventories from distributors during the year, the increase in inventory balance as a result of flat growth in orders, together with the higher balance of long ageing trade receivables, the provision for impairment of assets increased accordingly, resulting in an increase in administrative expenses as a percentage to the revenue of LI-NING brand.

Administrative expenses of Double Happiness brand amounted to RMB63,080,000 (2010: RMB55,265,000), accounting for 13.0% of Double Happiness brand's revenue, which was 0.9 percentage point above the 12.1% recorded in 2010. Such expenses mainly comprised staff costs, depreciation and amortisation charges, provision for impairment of assets and other sundry expenses. While the sales revenue of Double Happiness products registered stable growth, the daily administrative expenses also remained steady. However, due to the replacement of obsolete inventory for table tennis products and the ageing of some raw materials, a higher provision for impairment of assets was made for the year under prudence consideration, which resulted in a year-on-year increase in administrative expenses.

Administrative expenses of Lotto brand amounted to RMB18,930,000 (2010: RMB4,824,000), which accounted for 15.8% of Lotto brand's revenue (2010: 5.3%). Such expenses mainly comprised staff costs, basic research and development costs, depreciation and amortisation charges, provision for impairment of assets and other sundry expenses. During the year, the Group's buy-back of a portion of inventories from distributors resulted in the increase in inventories and changes in the ageing structure of inventories. In the meantime, provision for impairment of assets for the year increased as a result of the higher balance of long ageing trade receivables. In addition, the sundry expenses and staff costs of Lotto brand increased due to the establishment of Lotto brand's directly-operated retail subsidiaries during the year. As a result of the above factors, the overall administrative expenses of Lotto brand increased as compared to 2010.

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

For the year ended 31 December 2011, the Group's EBITDA amounted to RMB890,732,000 (2010: RMB1,759,192,000), representing a year-on-year decrease of 49.4%. The decrease in EBITDA was mainly due to the decrease in sales revenue and gross profit while advertising and marketing campaigns remained intensive, and the rental costs and labour costs were either rising or remained stable during the year. In addition, the increase in the provision for impairment of assets as a result of the decline in turnover ratio also contributed to the decrease in EBITDA.

EBITDA of LI-NING brand amounted to RMB944,910,000 (2010: RMB1,767,187,000), representing a year-on-year decrease of 46.5%. This was mainly attributable to the decrease in gross profit and increase in expense ratio.

EBITDA of Double Happiness brand amounted to RMB97,955,000 (2010: RMB92,098,000), representing a year-on-year increase of 6.4%. This was mainly attributable to the increase in gross profit as a result of the adjustment to product structure and prices during the year, while expense ratio remained stable.

EBITDA of Lotto brand recorded a loss of RMB110,047,000 (2010: loss of RMB91,749,000), representing a year-on-year increase in loss of 19.9%. This was mainly attributable to the decrease in gross profit margin and increase in provision for impairment of assets during the year.

Finance Costs

For the year ended 31 December 2011, the Group's net finance costs amounted to RMB82,052,000 (2010: RMB37,261,000), representing 0.9% of the Group's total revenue (2010: 0.4%), amongst which the interest expense of the year for the discounted licence fee payable for the Lotto Licence using the effective interest rate method in accordance with International Accounting Standards was RMB34,126,000 (2010: RMB32,392,000). The increase in short-term borrowings and the rising interest rates during the year resulted in an increase in finance costs.

Income Tax Expenses

For the year ended 31 December 2011, income tax expenses of the Group amounted to RMB136,408,000 (2010: RMB377,378,000) and the effective tax rate was 24.9% (2010: 25.0%).

Overall Profitability Indicators

Due to the decrease in sales revenue and gross profit and the increase in expense ratio, the overall profitability indicators of the Group for the year ended 31 December 2011 declined. The Group's profit attributable to equity holders amounted to RMB385,813,000 (2010: RMB1,108,487,000), representing a year-on-year decrease of 65.2%. Margin of profit attributable to equity holders for the year was 4.3% (2010: 11.7%), representing a year-on-year decrease of 7.4 percentage points. Return on equity of the Group was 11.3% (2010: 36.7%), representing a year-on-year decrease of 25.4 percentage points.

Provision for Inventories

The Group's policy in respect of provision for inventories for 2011 was the same as that in 2010. 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 of the Group.

As at 31 December 2011, accumulated provision for inventories was RMB187,509,000 (31 December 2010: RMB115,082,000). The increased inventory balance for LI-NING brand at the end of the year resulted in the increase in the overall provision for inventories. In the meantime, given the replacement of obsolete inventory for certain products of Double Happiness brand and the business adjustment of Z-DO brand, the Group increased its special provision for the inventories of the two brands.

Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for 2011 was the same as that in 2010.

As at 31 December 2011, the accumulated provision for doubtful debts was RMB11,400,000 (31 December 2010: RMB1,382,000), amongst which the accumulated provision for doubtful debts of the Lotto brand was RMB6,943,000 (31 December 2010: nil). Due to the long ageing trade receivables, the balance of provision for doubtful debts for 2011 experienced relatively substantial increase.

Liquidity and Financial Resources

The Group's net cash inflow from operating activities for the year ended 31 December 2011 amounted to RMB15,570,000 (2010: RMB990,895,000). As at 31 December 2011, 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 RMB1,196,474,000, representing a net decrease of RMB273,961,000 as compared with the position as at 31 December 2010. The decrease was brought about by the following items:

Items	**Year ended 31 December 2011** *RMB'000*
Net cash inflow generated from operating activities	**15,570**
Investment in an associate	**(12,830)**
Prepayment for other investment	**(10,000)**
Net capital expenditure	**(385,714)**
Dividends paid to equity holders of the Company	**(325,605)**
Dividends paid to non-controlling interests of a subsidiary	**(22,420)**
Net proceeds from bank borrowings	**528,631**
Other net cash outflow	**(61,593)**
Net decrease in cash and cash equivalents	**(273,961)**

Given the facts that the cash turnover rate of distributors decreased as affected by the retail market and the government's tightened monetary policy, the Group decided to extend further support to its distributors, which led to the increase in accounts receivable turnover days and the overall cash turnover days for the year.

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 2011, the Group's available banking facilities amounted to RMB1,769,129,000, amongst which outstanding bank borrowings amounted to RMB838,059,000. The outstanding bank borrowings to equity holders' equity ratio (i.e. the gearing ratio) was 24.1% (31 December 2010: 9.3%).

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's subsidiaries in Singapore and the United States use Singapore Dollars and United States Dollars as their respective functional currencies. As the Group's international business develops, 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 licence 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 financial impacts on the Group.

Pledge of Assets

As at 31 December 2011, buildings with net book value of RMB20,190,000 (31 December 2010: RMB24,239,000) and land use rights with net book value of RMB14,934,000 (31 December 2010: RMB15,442,000) of the Group were pledged to secure certain bank borrowings of companies of the Group.

Contingent Liabilities

As at 31 December 2011, the Group had no significant contingent liabilities.

BUSINESS REVIEW

2011 marked a year when the Group focused on proactively driving reforms. During the year, the Group pressed ahead with important measures such as brand revitalisation and distribution channel enhancements for the LI-NING brand. Despite facing industry-wide pressures on business growth and an increasingly competitive environment, the Group continued to invest in brand building and enhance product innovation while adjusting its organisational structure to improve operational efficiency. The Group also carried out continual reviews and adjustments for its other brands' business to complement the Group's overall strategies. The business activities the Group conducted in support of the LI-NING brand and other brands during 2011 are outlined below.

LI-NING Brand

Brand Marketing and Promotion

Throughout 2011 the Group adhered to its core brand revitalisation strategy and stepped up the implementation of integrated marketing to constantly and consistently communicate with consumers on the brand positioning, and to strengthen the brand equity through the integration of key sports tournaments, functionality of new products and unique brand personality. The major brand marketing and promotion activities carried out by the Group during the year were as follows.

Preparing for London 2012 Olympic Games

One-year Countdown – On 26 July 2011, the International Olympic Committee ("IOC") president Mr. Jacques Rogge, the Group's Chairman Mr. Li Ning, as well as the Group's sponsored athletes, Asafa Powell, Yelena Isinbaeva and Zhang Yining (張怡寧) attended the brick unveiling ceremony of the IOC Olympic Museum held at Lausanne, Switzerland while the Group also activated its countdown timer for the London 2012 Olympic Games.

Top Domestic and International Sponsorship Resources – Since the 1992 Barcelona Olympics, the LI-NING brand has accompanied the China Olympic delegation from the beginnings to the numerous glorious moments. In 2008, the Group continuously supported the China's four gold medal teams, namely, Gymnastics, Diving, Shooting and Table Tennis Teams, to score remarkable results in the Beijing Olympics. In 2009 the Group added the Chinese National Badminton Team to its legacy of successful collaboration. For the upcoming London 2012 Olympic Games, the LI-NING brand will actively support China's five gold medal teams to continue to demonstrate the "Chinese Spirit, Championship Heritage" (中國精神，冠軍血統).

For the London 2012 Olympic Games, the Group's international sponsorship resources include Swedish Olympic Delegation, the Spanish National Basketball Team and the Argentina National Basketball Team, as well as the recently-signed Eritrea Track & Field National Team, which is renowned for distance running. All these teams will be equipped with LI-NING gear throughout the London Olympics inside and outside of the stadium, giving the LI-NING brand and products maximum exposure.

The Group will seize the opportunity presented by the London 2012 Olympic Games, through the high profile appearance of its domestic and international sports sponsorship resources, to demonstrate the professionalism and uniqueness which the LI-NING brand embodies. We look forward to achieving greater glories hand in hand with the world's top athletes and sports teams at the London 2012 Olympic Games!

Badminton

Badminton is the Group's key sport category. During the year, through integrated marketing activities combining tournaments, products and retail sales, coupled with TV broadcast events at home and abroad, the Group effectively enhanced consumer recognition and increased market share of the LI-NING brand's badminton products as well as the association of the LI-NING brand with badminton.

Sudirman Cup – Hosted in May in Qingdao China, the 2011 Sudirman Cup was one of the major tournaments in the badminton category, and the LI-NING brand seized this opportunity to make an all-out push in promoting its badminton products. The theme of the campaign, "Speed Makes Champion and Legend" (勝戰在握 速造傳奇) epitomised the LI-NING brand's determination to help the Chinese National Badminton Team win the championship for the eighth time. During the tournament, a series of brand activities involving the Chinese National Badminton Team and a rich and wide variety of events promoting badminton culture, captured the media's attention and drove coverage of our brand while enabling participants to enjoy a memorable brand and product experience.

Singapore Open – The LI-NING brand was the title sponsor for the Singapore Open in June 2011 which allowed the Group to leverage the tournament's publicity and promotional opportunities. The tournament was broadcast in 14 countries and the LI-NING brand's involvement helped further increase the influence of the tournament. The successive years of impressive organisational efforts of the Singapore Open has helped expand the influence of LI-NING brand badminton products in Southeast Asia, bolster brand awareness and affinity among consumers and strengthen confidence among distributors in the region for LI-NING brand products.

2011 BWF World Superseries Finals held in Liuzhou – The tournament was one of the top five international badminton competitions held in China during 2011. The LI-NING brand rolled out a comprehensive integrated marketing campaign with the theme of "There are no competitors you cannot defeat, only you yourself cannot be surpassed" (沒有贏不了的對手，只有超越不了的自己) around the tournament with advertisement placements meticulously timed to coordinate with the tournament broadcast schedule. In addition, the Group also organised a series of interactive activities with China's biggest online badminton community *badmintoncn.com* and other social media platforms which drew an enthusiastic response from badminton fans.

"LI-NING Supreme 5 Mixed Doubles Badminton Cup" (五羽輪比) – The "LI-NING Supreme 5 Mixed Doubles Badminton Cup" is a whole new amateur badminton competition introduced by the LI-NING brand. The competition aims to demonstrate and promote the spirit and culture of badminton and is recognised by the Badminton World Federation ("BWF"). Since its inception in late 2010, the competition has been held in 24 cities in China and attracted the endorsements and recommendations from badminton enthusiasts, consumers, badminton stadiums and clubs and the media. The competition has also served as a successful warm-up for different professional tournaments such as Badminton Asia Championships, Sudirman Cup, Badminton China Open and BWF series, making the badminton culture more popular while actively promoting the brand and product experience.

International Sponsorship Resources in the Badminton Category – In addition to the eye-catching Chinese National Badminton Team, the LI-NING brand has a strong cast of international sponsorship resources, including Thailand's No. 1 men's singles player, Boonsak Ponsana, Denmark's men's single rising star, Jan Ø. Jørgensen, the Singapore National Badminton Team and the Australia National Badminton Team. Their spectacular performances in tournaments helped increase the LI-NING brand's exposure. During 2011 Shanghai Open, the Group conducted a series of media outreach activities for its sponsored international badminton players which helped enhance the LI-NING brand's standing in the international market.

Running

A series of public relations activities for the Group's running products, combining athletes' stories and tournaments, helped increase consumers' affinity to the LI-NING brand's running products while enhancing the brand's professional image.

"Light Breath, Listen to Your Run" (輕呼吸 聽見跑) – In the second quarter of 2011, the Group launched the LI-NING 8th Generation ultralight running shoes, based on its long established "Lightweight" brand asset platform. Themed "The secret of the 100m sprinter – LI-NING Ultralight Running Shoes", a series of marketing activities was conducted in concert with the launch of the products. Featuring 100m sprinter Asafa Powell as the spokesperson, the brand marketing campaign combined athletes' stories with in-depth communication of the product's technology and features as well as consumers' product experiences. Working in parallel with the online interactive activities under the seasonal theme "Light Breath, Listen to Your Run", the affinity of the brand among consumers and the professional image of LI-NING brand running products were enhanced, and sales performance was encouraging.

Beijing International Running Festival – The LI-NING brand organised a running shoes experience activity during the 10km marathon hosted in Beijing in April 2011. The Group invited over 20 famous PRC media outlets, including Xinhua, BTV, HiSports and TiTan Sports, to experience the LI-NING ultralight running shoes onsite which greatly enhanced the media's understanding of the products.

"No Shock, No Interference" (跑無震 心無憂) – Expanding on the "Lightweight" concept promoted in the second quarter, the Group rolled out another hero product – the new generation of LI-NING Bow cushioning running shoes in the third quarter. Using Andreas Thorkildsen, the world-dominant male javelin champion as its face, the campaign introduced the seasonal theme "No Shock, No Interference".

"Anti Shock + Flexibility = New LI-NING ARC Technology" – This new model of hero running shoes was launched in the fourth quarter of 2011. In addition to inheriting the perfect anti-shock technology of the LI-NING running shoes family, the shoe incorporates modern fashion elements, leading the Fall/Winter sports fashion trends with professional functions, vivid colours and a sharp design. A coordinated TV advertising campaign, coupled with athletes' demonstrations of the anti-shock innovation, achieved satisfactory promotion results and the new line of running shoes has received encouraging market response and consumer recognition since its launch in September 2011.

Basketball

"The Stronger You Are, The Stronger I Become" (以強礪強) – The Group rolled out "The Stronger You Are, The Stronger I Become" as the long-term platform for its basketball products in the first quarter of 2011, featuring NBA top draft pick Evan Turner as the core of the integrated marketing strategy. With Evan Turner and long-time NBA star Baron Davis as spokespersons for the campaign, the Group unveiled "Playmaker" (逸) and "Shotcalla" (狂) product concepts in the fourth quarter of 2011 to encourage consumers to choose products based on their individual playing styles.

"A Legend – The Stronger You Are, The Stronger I Become" (以強礪強之傳奇) – The advertising series, "A Legend – The Stronger You Are, The Stronger I Become" consists of five episodes running from the fourth quarter in 2011 to the first quarter in 2012. Featuring NBA players Evan Turner and Baron Davis as well as CBA players Zhang Bo (張博) and He Tianju (賀天舉), the campaign tells a story on how these four players, under the leadership of a basketball wiseman, grow stronger and improve together, which leads them to defeat an evil power. Breaking from traditional TV as the key media channel, the strategy shifted the advertising focus to online placements in an effort to reach the key younger basketball audience and attract a high level of attention and hot discussion.

National Basketball League ("NBL") – During the year, the LI-NING brand further deepened its strategic partnership with NBL, in which teams from 17 cities across China participated. Satellite TV broadcast of games was first introduced in 2011 which significantly broadened the influence and reach of NBL in China as well as increased the exposure of the LI-NING brand.

Shanghai Sharks Basketball Club – The Group invited 43 PRC media to participate in a kick-off ceremony for its strategic partnership with the Shanghai Sharks Basketball Club. By using interactive tactics, including players' story-telling, the event promoted LI-NING basketball's "The Stronger You Are, The Stronger I Become" concept as well as LI-NING's commitment to the long-term development of basketball.

Evan Turner China Tour – One of the NBA's hottest young talents sponsored by the LI-NING brand, Evan Turner, held his tour in Beijing, Suzhou, Hangzhou and Guangzhou in August 2011. In unveiling a logo specifically designed for Evan Turner as well as integrating LI-NING brand's other basketball resources, the tour promoted the development of basketball and further established the professional image of LI-NING's basketball products.

Tennis

Peng Shuai (彭帥), Marin Cilic, Ivan Ljubicic, Yang Tsung-Hua (楊宗樺), Zheng Saisai (鄭賽賽), together with ten other Association of Tennis Professionals ("ATP") top 150 players, formed the core strength of LI-NING tennis. The primary spokesperson, Peng Shuai, made an impressive performance in 2011, with her Women's Tennis Association ("WTA") singles ranking leaping from number 72 to number 17 by the end of the year. In addition, she and her partner won the doubles final at WTA (tier 2). On the male tennis front, Marin Cilic maintained his top form and was crowned champion for the sixth time in his career, with his ATP ranking at the world's top 20.

With an increasingly impressive cast of international icons in its tennis lineup, LI-NING's tennis endorsements have become one of the Group's core sports marketing resources and are instrumental in enhancing LI-NING's brand image and the research and development of tennis products.

Women's Fitness

"Inner Shine" Promotion Platform – Utilising "Beauty Inside Out" (美麗由內及外) as the theme for the marketing communication campaign of LI-NING women's fitness products resonates with the graceful and subtle values of oriental women and advocates women's every day efforts to demonstrate their individuality so as to let their "Inner Shine" show through.

"Give It All Out Fitness Training Programme" (全麗以赴30天) – The Group rolled out the "Give It All Out Fitness Training Programme" in collaboration with three fitness clubs, Beijing Nirvana Yoga, CSI Bally and Physical Club of Shenzhen. The programme invited well-known fitness trainers to offer dedicated training to participants as well as advise them on healthy diet tips and make-up techniques. The event earned good reviews from participants as well as the participating clubs, while positive online and word-of-mouth reviews effectively raised LI-NING's standing in the women's fitness category.

LI-NING x Vivienne Tam "Fashion Yoga" Collection – Through a partnership with international renowned designer, Vivienne Tam, the Group launched a collection of women's fitness products with a stylish yoga theme. The collection was rolled out during the New York Fashion Week at the Lincoln Center's outdoor square, which included a leading yoga trainer as guest instructor and attracted wide spread coverage from local and international lifestyle media.

LI-NING's women fitness series has been well-received by the industry and consumers since its launch in 2009. In December 2011, LI-NING's women fitness series was honoured with the 2011 "Healthiest Product Award", presented by *Trends Health Magazine* from the PRC. The poll is aimed at promoting trendy healthy philosophies and lifestyle. The award-winning women fitness series not only accentuates the perfect harmony between the LI-NING brand and aesthetics of eastern athletics, but also advocates LI-NING's health philosophy that sports can change lives while incorporating elements of fashion. This award is affirmation and recognition of LI-NING brand's ability to consistently and relentlessly provide consumers with quality sporting goods.

Community Marketing Events

LI-NING iRUN Club – The Group's interactive running platform in China aims to organise various running activities and encourage its members to participate in a range of competitions. At present, the "iRUN" Club (*www.irun.cn*) has over 200,000 registered members. During 2011, the "iRUN the World" (iRUN跑天下) campaign organised mainly 6km relay events to promote the LI-NING brand messages as well as related technology of key running products to over 10,000 running devotees in ten China cities.

LI-NING 3+1 Basketball Game – The Group hosted the "2011 LI-NING 3+1 Basketball Game" on a nationwide basis attracting the participation of over 1,000 teams and more than 5,000 players. The competition invited CBA players, Han Shuo (韓碩) and Xu Zhonghao (許鍾豪) to interact with players at the National Final event. NBA star Evan Turner graced the opening ceremony of the Beijing area finals while another NBA icon, Shaquille O'Neal, handed the invitation to the United States to 3+1 players. The winning team will visit the United States to receive further instruction from the Group's sponsored NBA stars.

LI-NING Hero Vans (李寧大篷車) – To encourage sports enthusiasts to participate more in sports activities and enjoy the pleasure of sports, the Group's meticulously planned "LI-NING Hero Vans" programme entered into its fourth consecutive year. In 2011, "LI-NING Hero Vans" attracted over 300,000 participants and helped raise the LI-NING brand's influence in second- and third-tier cities.

LI-NING Sports Park – Now enjoying its fourth consecutive year of successful operation, the "LI-NING Sports Theme Park in Beijing Chaoyang Park" (北京朝陽公園李寧體育園) used the multi-purpose urban sports stadium to interact directly with sports lovers through advertising, mini matches and brand stores, making it an increasingly popular sports park in Beijing.

Newly Signed International Track and Field Sponsorship Resources

Christian Taylor – 2011 marked a great leap forward for American track and field athlete, Christian Taylor, the young, up-and-coming triple jump star. At the track and field World Championships held in Daegu, South Korea, Christian Taylor prevailed against top triple jump athletes from around the world with a distance of 17.96 metres. This record is a rare achievement in the recent history of world's men's triple jump competitions, encroaching upon the longstanding world record. Looking towards 2012, Christian Taylor will have his sights firmly set on the gold medal at the London 2012 Olympic Games.

Ngonidzashe Makusha – Holding the records of 9.89 seconds in 100m sprint and 8.40 metres in long jump, Ngonidzashe Makusha became the third collegiate student to become a dual-event titlist in both 100m sprint and long jump. A world-class athlete who is simultaneously at the pinnacle of both 100m sprint and long jump has finally emerged in the international track and field realm. Ngonidzashe Makusha's incredible explosive power, speed, technique and flexibility fill his fans with hope for this sports prodigy's 2012 endeavours.

Sales Channel Expansion and Management

Retail Stores

During 2011, the Group proactively regulated the pace of store expansion in order to concentrate its efforts on distribution channel reforms and management. As at 31 December 2011, the total number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to 8,255, representing a net increase of 340 stores over the course of the year. There were 57 distributors, eight fewer than at 30 June 2011. This was mainly due to the integration of certain small-scale distributors into some large-scale distributors or the Group's subsidiaries during the year in order to improve management efficiency of distribution channels. Store breakdown as at 31 December 2011 was as follows:

Number of franchised and directly-operated retail stores

LI-NING brand stores	**31 December 2011**	31 December 2010	**Change (%)**
Franchised retail stores	**7,495**	7,333	**2.2**
Directly-operated retail stores	**760**	582	**30.6**
Total	**8,255**	7,915	**4.3**

Number of retail stores by geographical location

LI-NING brand stores	**31 December 2011**	31 December 2010	**Change (%)**
Eastern region *(Note 1)*	**3,271**	3,288	**(0.5)**
Northern region *(Note 2)*	**3,037**	2,820	**7.7**
Southern region *(Note 3)*	**1,947**	1,807	**7.7**
Total	**8,255**	7,915	**4.3**

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, Hong Kong, Guangxi, Fujian, Hainan, Sichuan, Chongqing, Guizhou, Yunnan and Tibet.

To further advance reforms and improve the structure of the distribution channel of the LI-NING brand, the Group implemented the following measures regarding its distribution expansion and management with satisfactory results in 2011:

- Clearance channels are being established at a practical speed in order to achieve a rational and effective store structure: As at 31 December 2011, there were 269 LI-NING brand factory outlets and 358 LI-NING brand discount stores (31 December 2010: 133 factory outlets; 180 discount stores). The Group has reached its target proportion of retail revenue accounted by clearance channels for the year. The Group will continue to develop clearance channels and expects to basically achieve the ultimate target proportion of stores and retail revenue accounted by clearance channels by end of 2012, ensuring a reasonable and healthy store network structure.

- Construction of sixth-generation stores: The store-front image and retail experience created at sixth-generation stores embody the LI-NING brand personality and values. As at 31 December 2011, there were 219 sixth-generation stores (31 December 2010: 58 stores). The Group will carry out full-scale promotion of sixth-generation stores in 2012 to improve efficiency of retail store sales.

- Construction of brand image stores and benchmarking stores: Through optimisation of store locations and configuration, the Group established its brand image stores and benchmarking stores at the provincial and prefecture levels to help elevate its regional brand position and increase market share.

- Shopping mall channels development and management: As shopping districts of the first-tier cities gradually extend into the suburbs and urbanisation in central western regions accelerates, development potential in second-tier cities and below has been advancing. Since October 2011, the Group has intensified its cooperation with nationwide shopping malls in order to augment its strength and market share in these channels.

- Integration and management of sub-distributors: As at 31 December 2011, the Group had completed the integration of 425 low-efficiency, single store sub-distributors, achieving its target for the year. The Group also focused on strengthening the performance management of sub-distributors to increase the level of control over distributors. In 2012, the Group will continue to infuse its channel policies and resources into sub-distributors to bolster channel expansion, retail operating capabilities and business scale of sub-distributors.

E-Commerce

With the surging number of internet users and growth of e-commerce in China, the Group actively expanded its online market channels through the establishment of a comprehensive e-commerce distribution system. The Group won several industry awards including "China's Most Investment Potential in E-commerce Gold Seed Award" (中國電子商務最具潛力投資價值金種子獎) organised by APEC E-Commerce Business Alliance, "The 2011 Eguan Best E-commerce Customer Value Management" (2011易觀傳統企業電子商務客戶價值管理最佳獎) awarded by Analysys International, and the "2011 Most Popular Brand" (2011年度網友最喜愛品牌) awarded by *360buy.com*, demonstrating strong recognition from the e-commerce industry.

During 2011, the Group's e-commerce business maintained a healthy and stable course of development. Currently, the Group has established an official online shop under the LI-NING brand (*www.e-lining.com*). Official online shops for the LI-NING brand have also 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, including *Amazon.cn*, *360buy.com* and *S.CN*, have also dedicated web pages for purchasing LI-NING brand products online. The Group also collaborated with various prominent mainland banks on bank-hosted virtual shopping malls. The Group is actively promoting its new business model of cross-channel, cross-sales terminals and cross-media, allowing consumers to purchase LI-NING brand products directly through computer terminals, TV terminals and mobile phones.

Product Design, Research and Development

As a professional sporting goods brand, the Group has continued to advance its product design and innovation capabilities. Through continuous enhancement in product functionality and quality as well as application of its technology platforms, the Group is committed to create product offerings which are able to meet the needs of both general consumers and professional athletes.

Research and Design Centres

The Group operates design, research and development centres in mainland China and Hong Kong, which are focused on continuously enhancing and developing higher levels of scientific research, technology and innovation for its products.

Li Ning Sports Science Research Centre, located at the Group's Beijing headquarters, is equipped with an array of advanced testing instruments and equipment. The centre consists of a Sports Biomechanics laboratory, Footwear Mechanical Testing laboratory, Foot Shape Shoe Last Research laboratory and Apparel Material laboratory. Closely monitoring global technological and sports science advances for footwear, the research centre is actively involved in collaboration with a number of domestic and foreign universities and professional bodies to conduct innovative research and development on badminton shoes, tennis shoes and jogging shoes, as well as basic research on sports performance and gait characteristics, force distribution, sole friction, internal shoe temperature and humidity, foot shape and shoe last. The Group also increased its research and development efforts in apparel products, by working with renowned domestic academic institutes and organisations, while also improving its own research and development facilities. The first phase of laboratory used earlier on for basic functionality testing of apparel materials has been completed and played an important role in the development of new materials.

Products for Professional Sponsorships

In addition to being a long-term sponsor of high-tech gear to the Chinese National Badminton Team, Chinese National Diving Team, Chinese National Shooting Team, Chinese National Table Tennis Team and Chinese National Gymnastics Team, the Group also endorses other top-notch domestic and international sports sponsorship resources with its advanced products to assist these athletes in achieving outstanding performances in the sports arena. This helps maintain LI-NING's position as a leading brand in terms of professionalism and participation in sports competition.

- 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 for personal needs, these attributes fully meet the needs of, and are recognised and praised by, top world athletes sponsored by the Group, highlighting that LI-NING brand products have reached world-leading standards. The top end "Athletic Pro" series covers many sports categories including badminton, track and field, basketball, tennis, football, and others. The personalised products include:

  ➢ "HERO" (貼地飛行) and "Choice for Grand Slam – HERMAN" (全滿貫之選 – HERMAN) professional badminton shoes for the renowned men's badminton singles player, Lin Dan (林丹);

  ➢ Professional competition sports shoes and apparel for the world's No.1 pole vault athlete, Yelena Isinbaeva;

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

  ➢ Professional gear for Jamaican sprinter, Asafa Powell. At the Lausanne leg of the 2011 International Track and Field Diamond League, Asafa Powell, wearing the LI-NING ultralight spikes shoes, set a record for the men's 100m sprint this season, finishing at 9.78 seconds to win the competition for the third time in four years;

➢ Basketball shoes developed for NBA stars, such as "BD Defend" and "Conquer" for Baron Davis, "Big Sharmock" for Shaquille O'Neal, "YuShuai VI" (馭帥VI) for Jose Calderon and "Conquer" and "Brass Monkey" for Evan Turner; and

➢ Professional tennis gear for Chinese tennis stars Peng Shuai (彭帥) and Yan Zi (晏紫) and international tennis star Marin Cilic. Wearing the LI-NING professional gear, Peng Shuai ranked among the top 16 players at Wimbledon, the Australian Open and the U.S. Open in 2011; while also ranking within the top 32 players in the French Open, all of which took her to new heights in her career. Marin Cilic was runner-up at the 2011 China Open, and also won his sixth ATP Tour title during the year.

- The research and development team of footwear products for the Group's top professional sponsorships has made persistent breakthroughs and established a leading platform for professional product sponsorships. In particular, the footwear products for professional sponsorship in track and field cover 47 different events. The Group sponsors 12 of China's provincial teams, five international athletes and one overseas track and field team, making it the leader among domestic brands in this area, and greatly enhancing LI-NING brand's professionalism.

- Newly innovated three-dimensional moisture-wicking material is employed in the national badminton team's apparel. A yarn with special functions, combined with the uniquely designed and developed three-dimensional fabric, gives the material excellent moisture-wicking abilities, which prevents the apparel from sticking to the skin after being soaked by sweat. By reducing the tackiness effect, these apparels help keep the athletes dry and comfortable.

- The competition gear worn by the Chinese National Diving Team employs Xtra Life LYCRA™ super chlorine-resistant swimwear material and an advanced digital printing process. The Xtra Life LYCRA™ provides significantly more resistance to chlorine compared to regular swimwear and protects elasticity in the fabric from deterioration caused by long-term exposure to swimming pool chlorine. This technology helps to maintain the swimwear's pliability and durability, while the digital printing process makes the layering and stereoscopic effect more outstanding and the colours more vibrant, improving the wearer's overall performance. In July 2011, the Group's sponsored Chinese National Diving Team achieved a remarkable record in the 14th FINA World Championships held in Shanghai by sweeping ten gold medals and opening a new chapter in China's diving history.

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, and achieved satisfactory results. To continue evolving product innovation, the Group established a cross-departmental innovation committee at the end of 2011, which is aimed at continuously promoting and strengthening the Group's innovation competencies in 2012. Furthermore, the Group's research and development team continued to develop its core technology, the "LI-NING BOW" (李寧弓), and to conduct cross-sports category research, in order to gradually apply these technologies to different sports categories, including basketball, tennis and badminton, and to develop various footwear products targeted at consumers with different purchasing power and sporting habits. The Group is also dedicated to the ongoing development of the "LI-NING Last" (李寧楦) which better fits the foot shape of Chinese consumers. The technology is applied to a wide range of footwear products including running, basketball, women's fitness and badminton to improve the comfort and the overall experience for general sports enthusiasts.

During 2011, the following new footwear products were launched under the LI-NING brand:

- New generation LI-NING Bow cushioning running shoes: employed TPU and PU components to create visual structure of an X-Bow, which provides not only greater anti-shock protection, but also brings a stunning visual experience and comfort to wearers;

- LI-NING 8th Generation ultralight running shoes: the shoe body is constructed with MonoMesh and Sandwich Mesh, successfully achieving an ultralight and superb ventilation effect. The products provide a similar lightness and breathability as those of socks, allowing delight for wearers, even in the heat;

- LI-NING ARC (寧弧) running shoes: utilised a brand new shock absorption technology, via a unified sole with hollowed bow structure, and a full length flexible sole-structure with outstanding anti-shock capabilities and flexibility, giving wearers a greater feeling of comfort and helping them exercise more effectively;

- LI-NING "YuShuai VI" (馭帥VI) basketball shoes: with a design based on the Chinese splashing ink style, the shoe face is created by employing the most advanced 3D lightweight print technology using Injection Phylon (IP) midsole combined with Synchronisation Adjustment System (SAS). "BounSe" high energy return technology is incorporated in the heel, the shoe tongue is made with the special molding technology and the shoe comes with a tailor-made insole. With innovative material, combined with the high tech design elements of the shoe face and the overall artistic design, LI-NING "YuShuai VI" inherits the classic elements of the "YuShuai" series while exhibiting its own unique style;

- Brand new LI-NING "MIX" Urban-Sports shoes: incorporated China's special mortise and tenon structure into a modern design concept, combining basic functions of sports shoes with themes of fashion and environmental-friendliness to lead the "MIX" trend. These creative sports shoes were honoured with the German "iF Design Award 2011" and also the Gold Award from "China Red Star Award"; and

- "HERMAN" professional badminton shoes: the creativity behind the design is driven by "Understated luxury, All-round functionality". The design is avant-garde yet simple, and employs "TUFFTIP" technology inside the toe section, where shoes are easily weakened by friction, to extend the product's lifespan.

In March 2011, the Company received two awards, "2010 China 100 Most Valuable Footwear Brands" and "China Top 10 Sports Shoes Enterprises" in an event judged jointly by four authorities in the industry, the National Leather and Footwear Industry Productivity Centre, the National Footwear Industry Information Centre, the National Quality Supervision and Inspection Centre of Footwear and the National Product Quality Supervision and Inspection Centre of Leather. These awards are aimed at evaluating the value of footwear enterprises that have achieved success in China's leather footwear industry as well as establishing industry role models.

Apparel Products

During the year, the Group implemented the following initiatives in apparel research and development innovation:

- The apparel product science and technology research team, in collaboration with well-known Chinese and overseas universities and institutions, continuously conducted research on specific sports categories and applied the scientific data and analysis effectively to the design, garment block and fabric of sports apparel products. This has helped to create various innovative apparel products employing LI-NING brand intellectual property and bring more comfort and a better sports experience to consumers.

- The AT Technology Platform, which has been instrumental in enhancing the LI-NING brand value, continues to break new ground in the improvement of highly absorbent, permeable and anti-septic properties of fabric. The AT Technology Platform is used in all product lines to provide a continuously improving experience for consumers. The functional standards of the improved AT Technology Platform have been updated and upgraded continuously and have become a professional technological platform which offers comprehensive functionalities, advanced skills and evidence-based technology for sports products.

- To strengthen the connection between apparel product design and the brand's DNA, the Group is currently applying for an appearance patent from the State Intellectual Property Office for the second generation of "Lucky Line" design of the LI-NING brand. The Group has been granted various appearance patents from the State Intellectual Property Office and has established an apparel block system for different body types such as slim fit, regular fit and loose fit to help differentiate LI-NING brand's apparel products.

- The concept of green comfort was advanced by using Eco-circle, a recyclable green fabric, in the 2011 Winter Women's sports product line. The Yoga product line uses Eco Cut, an environmentally-conscious tailoring concept by increasing utilisation of fabric and reducing wastage through special product designs to advocate green apparel.

Badminton Rackets

As the Group's benchmark sports category, the LI-NING brand badminton racket was the first in the industry to launch a "technology platform" concept in 2011 that forms a technological barrier with unique selling points. This highlights the cutting-edge advantage the Group holds in research and manufacturing techniques, as well as craftsmanship and development techniques in the production of LI-NING brand badminton rackets.

The Group introduced seven new products which employ "3D Breaking-free Technology Platform" (立體風刃科技平台) and "Air Stream System Technology Platform" (風動導流科技平台) patented technology, which LI-NING brand has outright ownership of, covering the mid-to-high price range. The products marked a breakthrough in badminton racket innovation, accentuating perfect balance and a combination of performance, sports resources and design.

The LI-NING Racket Research and Development Manufacturing Centre is equipped with some of the finest up-to-date facilities in the industry and one of the largest number of qualified research staff. The Centre is the only one in the industry that operates state-of-the-art production lines for 100,000-level dust-free coating, solvent-free and hot-melt adhesive thread and automatic form molding, redefining the industry standard in craftsmanship. By achieving these high standards in racket manufacturing and using only top-quality materials, the Group has set an industry benchmark. The Group's leadership position was further consolidated by its earning recognition from top international sports resources including the Chinese National Badminton Team.

Supply Chain Management

The Group endeavours to establish a demand-driven, flexible and market-responsive supply chain system to cope with its business model and growth effectively. During 2011, the Group undertook the following measures in respect of enhancing LI-NING brand's supply chain management:

- Since 2009, the Group has responded to the rapid escalation in labour costs and the unstable supply of labour in the coastal areas in recent years by proactively initiating a shift in its supplier base towards Central China and establishing an all-in-one production and delivery base in Jingmen, Hubei Province to ensure stability in production supply and cost. In 2011, the base continued to scale upwards and has become a core component of the Group's supply chain by ensuring more stable supply of resources while also achieving a cost advantage.

- Continued to facilitate the production and supply of supporting materials for the Jingmen base with manufacturing facilities for sole, mould, mesh fabric sponge, knitting materials, woven tape, printing and embroidery, etc., to form a fully integrated production base for apparel and footwear.

- Complemented the Hubei-based facilities with the construction of "LI-NING Logistics Centre" in Jingmen which is planned to begin trial runs in the first half of 2012. The Logistics Centre is a modern, fully-automated warehouse comprising the latest logistics concepts and technologies to support the Group's diversified business model and to become an integrated logistics base. In 2012, the Group's logistics will start relying on the Jingmen logistics base to regulate the supply chain network in order to improve cost and efficiency. At the end of 2011, the Group also continued to improve the logistics operations of its subsidiaries to form a standardised management so as to provide logistics support for all-in-one inventory management throughout the country and strengthen retail logistics capabilities.

In 2011, the Group put great effort in educating its suppliers on fulfilling social responsibilities in the supply chain as well as management of chemicals in order to promote and encourage sustainable development in the supply chain and to build the green reputation for the brand:

- Five intensive training sessions were conducted during the year. Improvements in suppliers' process management and self-inspection became mandatory requirements of the Group. The Group also expanded the coverage of external professional institutions in assessing suppliers, which led to improvement of social responsibility in the supply chain and the control of chemicals.

- In chemical control in the supply chain, the Group together with other well-known international sports and fashion brands co-published "The Joint Roadmap towards Zero Discharge of Hazardous Chemicals by 2020" in November 2011. This will continue to be refined and accomplished as the Group gains more knowledge and insights through initial pilots and research, as well as collaborating with other brands and stakeholders.

- Devised "Restricted Substance List for Apparel, Footwear and Accessories Products" which was published on the Company's official website in early 2012. The list stipulates specific control requirements on the examination of chemical substances in our products.

The Group will continue to integrate and strengthen the management and control of its supply chain and advocate corporate social responsibilities to gain trust and respect from consumers.

Double Happiness Brand

Double Happiness brand is owned by Shanghai Double Happiness Co., Ltd. and its subsidiaries (collectively, "Double Happiness"), in which the Group holds 57.5% equity interest. It is principally engaged in the 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 2011, Double Happiness maintained its endorsement of outstanding table tennis players in China, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞), as spokespersons for its table tennis equipment. Double Happiness also actively sponsored various professional tournaments in China and around the world. In 2011, the Group sponsored and provided professional equipment for events including the International Table Tennis Federation ("ITTF") Pro Tour – 17 Stops, the 51st Rotterdam World Table Tennis Championship, Men's and Women's Table Tennis World Cups, Chinese Table Tennis Club Super League, China VS World Table Tennis Challenge and Youth World Weightlifting Championships. In the first half of 2011, as Double Happiness continued its 2009-2012 ITTF comprehensive cooperation programme, it signed the 2013-2016 cooperation agreement with ITTF, in which the Group was granted the official equipment supplier for the 2016 Olympic Games. This comprehensive cooperation plan also gives Double Happiness the role of official equipment supplier for the World Table Tennis Championships from 2014 to 2016, the World Cup from 2013 to 2016, and the ITTF Pro Tour from 2013 and 2016.

In 2011, over 80% of Chinese National Table Tennis Team members opted for the Double Happiness brand covering. The brand also successfully developed the "ARC" series covering with high-rebound sponge, which is used by top table tennis players on backhand. Besides equipment for professional players, Double Happiness successfully rolled out more than 200 new products in 2011. These include products exclusively available in supermarkets and badminton rackets with a patented handle. The new products complement Double Happiness brand's product line and showcase the brand's strong capabilities in product research and development and design. In 2011, Double Happiness completed its development of table tennis table and badminton referee equipment for use in the table tennis and badminton tournaments at the London 2012 Olympic Games.

Double Happiness 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 2011, Double Happiness further reinforced its customer management by executing meticulous management on customer behaviour and sales policies. The brand also launched the "professional product distributor system", which provided over 100 varieties of table tennis blade and covering to more than 30 regional distributors together with dedicated license agent polices and promotional support aimed at enhancing the penetration of Double Happiness brand's products in the distributors' regions. During the year, the brand also entered into dozens of supermarket distribution channels with its "supermarket exclusive" programme, which tailors products and sales strategies particularly for supermarkets. In 2012, Double Happiness brand will continue to implement the "professional product distributor system" and "supermarket exclusive" programmes.

Through synergies in brand marketing, promotion, sports tournament sponsorship and distribution channel expansion, LI-NING and Double Happiness brands together strengthen the Group's position in China's table tennis market.

Lotto Brand

Adhering to the brand's core values, Lotto brand designed and executed a number of differentiated, integrated marketing initiatives during 2011. Through collaboration programmes with movie and pop stars, it aims to create a "Lotto, Lot to Feel" (玩味 Lotto, Lot to Feel) product experience to raise awareness of the Lotto brand. On the product front, staying close to Lotto's unique product design style, the Group collaborated with pop rock star, Avril Lavigne, and launched the "Avril x Lotto" collection for its "Feel" series which further established product differentiation.

The Group started its investment in Lotto brand in 2009. Despite growing revenue and brand recognition of the brand in recent years, the Lotto brand's overall business development has fallen short of the Group's expectation. The Group will seek adjustment of the business model of Lotto brand in 2012 to complement the Group's overall strategic direction.

AIGLE Brand

In 2011, AIGLE's products gained higher recognition among consumers, largely due to the brand's unique competitive edge. During the year, the business performance of existing and new stores fared well. Same-store sales exhibited significant growth while helping drive sales. AIGLE brand has become one of the leading outdoor and casual brands.

In 2011, with effective retail management and an optimal pace of new store openings, the AIGLE brand business broke even in both cost and revenue and is on a strong track of stable development. In future, the AIGLE brand will continue to implement the following major operational measures:

- AIGLE brand's unique brand positioning will be further strengthened by its casual style with a combination of functional fabric and French stylish design, while enhancing brand recognition among consumers;
- For marketing and promotion, the Group will continue to enhance the brand exposure and awareness through continuous placement of advertising in outdoor media and travel magazines as well as leveraging endorsements by celebrities;

- In addition to gradually establishing AIGLE brand image stores in first-tier cities and setting up points-of-sale in key shopping malls in major cities, the Group will increase coverage of retail stores in cities above the provincial level; and

- Continue to strengthen retail management and consumer relationship management to raise brand recognition among consumers, enhance single-store growth and productivity, and drive sales performance.

Kason Brand

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

During the year, the Group continued to comprehensively enhance Kason's brand positioning, product structure, research and development and sales channel. The Group brought together Kason's popularity in the market and LI-NING brand's leading manufacturing techniques and research and development capabilities in the badminton industry. Through differentiation of brand and product positioning, the Group fully capitalised on the two brands' advantages in sports marketing resources and increased the Group's market share in the badminton sector.

Z-DO Brand and Double Happiness Branded Footwear and Apparel

Due to a lackluster performance in brand positioning and product differentiation for the Z-DO brand, the Group further reduced the business of Z-DO brand and started clearing its inventory during the year.

The Group has decided to discontinue the business of Z-DO brand and its development plan for the Double Happiness branded footwear and apparel in order to better focus its efforts and resources on the core LI-NING brand business.

ORGANISATIONAL REFORM AND HUMAN RESOURCES

As at 31 December 2011, the Group had 4,180 employees (31 December 2010: 4,215), of whom, 2,176 (31 December 2010: 2,100) were from the Group's headquarters and retail subsidiaries, and 2,004 (31 December 2010: 2,115) 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 its core management and professional staff. To cope with its business development, the Group conducted systematic and effective human resources reviews and succession planning mechanisms, strengthened the internal talent pool and staff development efforts and continuously built its leadership and professional development systems. The Group believes in linking job positions, individual capabilities and performance with the employees' compensation packages. The Group also pays close attention to the competitiveness of rewards for key employees, while retaining and motivating them through customising motivation proposals and various incentives.

In 2011, the Group focused on the transformation and development of LI-NING Brand's core business by proactively seeking internal integration, enhancing efficiency and continuously conducting organisational adjustments and improvements to increase business execution and to better assess business performance. In February 2012, as part of the Group's business reform and business development plan for 2012, the Group undertook further adjustment of its organisational structure through streamlining the workforce, consolidation of resources and motivation of key performing employees with a view to sharpening its focus on the core business, optimising its organisational structure and enhancing its operational efficiency. For the Group's front-office business development departments such as Marketing, Sales and Product divisions, while the Group is committed to providing necessary resources, it will further improve control and management of costs. As for departments related to non-core businesses, such as the other brands division, the Group will further consolidate these operations in order to better focus the Group's resources on its core business. Regarding back-office departments, such as Human Resources, Information and Technology, and Strategic Development divisions, the Group will streamline the organisational structure of these departments to increase operational efficiency, lower human resources costs and channel resources to the Group's core business.

PROSPECT AND STRATEGIES

In 2012, we anticipate that the global economic recovery will still face many challenges. The industry in which the Group operates will benefit from the transformation of China's economy from being investment-driven to consumption-driven. At the same time, the overall annual growth rate of China's sporting goods industry is expected to maintain its steady growth as a result of stimulation from the London 2012 Olympic Games.

The Group believes that competition within China's sporting goods industry will remain intense, and the pressure of cost escalation will persist in the industry value chain. Looking at LI-NING brand trade fair results for the first, second and third quarters of 2012, the aggregate value of forward orders from the first half year grew at a low-single digit pace, while a mid-single digit percentage decrease was recorded for the third quarter. These results reflect that the market environment continues to be challenging in 2012. In view of the current challenges in the sporting goods industry in China, the Group will focus on improving its operating performance by continuing its proactive reforms in its brand, products and distribution channels in 2012. These initiatives will include:

- Focus on the core business of the LI-NING brand, enhance operational efficiency, carry out reforms in organisational structure and introduce across-the-board cuts in expenses (with the exception of expenses relating to brand marketing and promotion and product research and development), in particular by reducing day-to-day expenses and enhancing staff efficiency.

- Adjust product structure and control procurement costs in order to enhance product gross profit margins.

- Continue to strengthen product capability, improve product design and research and development, and propel product innovation; at the same time streamline product pricing strategies and enhance the price to value proposition.

- Press ahead with distribution channel reforms, enhance retail efficiency in the second– to fourth-tier markets, and escalate clearance of inventory at the retail level to accelerate cash conversion.

- Leverage the opportunities afforded by the London 2012 Olympic Games to enhance brand image. Further clarify branding strategies and improve its management; integrate brand positioning by effective use of resources in sports marketing, enhancing effectiveness of utilising brand marketing resources and strengthening the connection between brand, product and the consumer.

The Group remains cautious of the macro-economic environment in China in 2012 and the adjustments the sporting goods industry is undergoing. Nevertheless, the Board and the management of the Company believe that the Group's strategies, and their implementation measures, are both rational and on the correct course. In the coming year, the Group will be committed to improving its operational efficiency and focusing on the effective execution of its strategies in order to lay a solid foundation on which to achieve the Group's long-term vision and objectives.

ISSUE OF CONVERTIBLE BOND

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

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

The Company, TPG and GIC share the view that the Chinese sporting goods industry has huge potential in the long-term while TPG and GIC acknowledge that the Company is a domestic leading brand with high brand equity and possesses rich and professional experience in the industry. The Board is of the view that the new funding will not only bring the Company more flexibility in executing its development strategies, but will also enable the Group to benefit from TPG's and GIC's experience in branding, retailing and products, which is important for the Group to realise its full potential.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its shares during the year ended 31 December 2011. 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 honoured to be one of the awardees of the "Recognition Award Class of 2011 The Best of Asia" award again 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.

For the year 2011, 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 2011.

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 2011.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at 11:00 a.m. on Friday, 11 May 2012. In order to identify shareholders who will 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, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 8 May 2012. Shareholders whose names appear on the register of members of the Company on Tuesday, 8 May 2012 shall be entitled to attend and vote at the AGM.

A notice of the AGM will be dispatched to the shareholders together with the Company's annual report 2011, on or about 5 April 2012 and published on the Company's website at *www.lining.com* and the "HKExnews" website of The Stock Exchange of Hong Kong Limited at *www.hkexnews.hk*.

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

Hong Kong, 29 March 2012

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.