



LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)



2014
Annual Report

About Li Ning Group

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

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

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> MISSION

Through sports, we inspire people the desire and power to make breakthroughs

> VISION

A world's leading brand in the sports goods industry

> CORE VALUES

Live for Dream, Integrity and Commitment, We Culture, Achieving Excellence, Consumer Oriented, Breakthrough

> Highlights of the Year 2014

FEB 2014

“Lucky 99” powered Peng Shuai to top the world ranking

According to the latest WTA ranking, Peng Shuai has topped the world ranking in women’s doubles, the best world tennis ranking for China in history. Li Ning’s top performance tennis shoes for women, “Clover”, time and again powered Peng Shuai to her successes. The shoes are covered with gradient camouflage and clover, symbolising good luck, in a heart shape pattern, a pattern that she loves the most. As a personal symbolic pattern, the heart shape pattern represents the steadfastness, perseverance, and tireless efforts of Peng. The two sides of the shoes have her motto “Never ever give up” printed on them, demonstrating the unremitting staunchness of Peng Shuai.



MAR 2014

Li Ning’s eco-friendly shoes claimed the “Oscars of Designs” prize

The eco-friendly shoes Green in Black made from recycled waste tires have won Li Ning Company a Germany iF Design Award, an honour well-received as the “Oscars of Designs”. The Green in Black has also been shortlisted as a finalist by Industrial Design Excellence Awards in the US.

Teenage dreams-instant games presented by Li Ning in prestigious cities

Through a series of activities with the excitement of competition blended with the fun of sports games which attracted young basketball players to have an “Instant game” held in nine stops, including Changsha, Zibo, Kunming, Taiyuan, Shenyang, Xuzhou and Beijing, from the kick-off of the CBA All-Star Games in January 2014 until June, LI-NING brand products with more professional basketball attributes were introduced into campuses using resources deployed by Li Ning for campus basketball leagues.

2014 LI-NING China 10K Road Racing League

In the half-year period between March and September, contestants “run” through ten cities where the running league was held: Shenzhen, Chongqing, Xi’an, Changsha, Wuhan, Shanghai, Qingdao, Shenyang, Dalian and Beijing. The contests held in the previous three years have exemplified the emphasis that Li Ning has placed on the development of running both as a sport and as a culture in China, as well as its focus on the needs of mass runners in society.



APR 2014

The first Runner’s World Awards Ceremony 2013-2014, with Li Ning running shoes claiming two best awards

Highlights of the attention-getting first Runner’s World Awards Ceremony 2013-2014 were published in the Chinese version of Runner’s World, the world’s leading runners’ magazine. Among all the awards, the “2013 Best Running Tournament Award” was presented to LI-NING China 10K Road Racing League. For prizes in the running equipment category, Li Ning’s Super Light 11 running shoes claimed the “Best Upgrade Award” in the running shoes category for 2014 spring.



2014 Li Ning-Li Yongbo Cup 3V3 National Badminton Championship

Apart from continuing with the innovative 3V3 and time trial forms in the fifth 3V3 contest of Li Yongbo Cup, Li Ning Company provided badminton fans with professional equipment used in top international contests.

MAY 2014

2014 Li Ning Cup, Thomas & Uber Cup India

Title and equipment sponsorship of the tournament and performance of endorsed players in the tournament enabled the brand to have exposure both on the spot and through television broadcasting.

JUL 2014

“Shine with Jessica” Series (型自西卡·即刻閃耀) – Together with Jessica of the Girls’ Generation, LI-NING Brand launched “LI-NING X Jessica”, a crossover product

Following the launch of the “Designed by Seoul Studio” Series (型自首爾(首爾工作室)系列), the sporty fashion which brought a great sense of novelty to the public, Li Ning grandly kicked off the crossover product of “LI-NING X Jessica” on 4 July. Jessica joined Li Ning as a new spokesperson for Li Ning’s sports life products on the same day.



AUG 2014

2014 Li Ning Cup Denmark World Tournament

Title and equipment sponsorship of the tournament and performance of endorsed players in the tournament enabled the brand to have exposure both on the spot and through television broadcasting.

SEP 2014

Court Racer Pro created a legend, Čilić newly crowned

Marin Čilić has long been known as the Little Croatian Giant. His tournament shoes adopted “The lighter, the faster!” as the core design concept. This model of men’s professional tennis tournament shoes, Court Racer Pro, has become another model of professional tennis shoes after Pro Competition.

NOV 2014

CBA League unveiled by Beijing and Guangdong, with the duo staging the match in replicas sportswear

To celebrate the 20th anniversary of the CBA League, Li Ning Company Limited especially made replicas of the most representative classic sportswear in the history of seven veteran teams to highlighting their glorious moments.

Mr. Li Ning invited as Tencent Sports guest

The day before the unveil of the new session of the CBA League, Mr. Li Ning was invited as guest to Talk About, a Tencent Sports programme, during which he talked about the new session of the CBA League with Tencent netizens. In the interview, he encouraged players born in the 1990s to “Play free”, and expected that basketball will become more popular in China in the next 2 decades.



OCT 2014

New Session for 17th CUBA League

The 17th CUBA League was unveiled at Shanghai Jiaotong University, the slogan of the new season being “Play free” to encourage students to display their talent and release their passion in the stadium so as to enjoy the genuine fun of basketball. Covering a direct mass of over 2 million, the CUBA League for this season attracted more than 24,000 players from 1,200 teams in 800 tertiary institutions from 33 zones in China.

LI-NING Super Light 11 running shoes won the gold award in the 2014 ROI Festival

LI-NING Super Light 11 running shoes won the gold award in the sports apparel product design division in the 2014 ROI Festival.

DEC 2014

LI-NING showcased in the 2014 apparel fabrics fair-autumn edition, setting the trend for sustainable development

The China International Trade Fair for Apparel Fabrics and Accessories – Autumn Edition was held in Shanghai (Intertextile Shanghai Apparel Fabrics). As the only domestic sporting goods brand invited to the fair, LI-NING showcased its coffee carbon series and fluorine-free waterproof series sportswear in the environmentally-friendly boutique clothing exhibition area, reflecting the achievements in its environmental protection philosophy and environmentally-friendly and sustainable development. Riding on the development and use of new environmentally-friendly materials, LI-NING brand has set the trend for sustainable design development in the industry through practical environmental protection concepts, making life greener with technology.

The LI NING rhythm, self-releasing run at the Shenzhen International Marathon

As the 2014 Shenzhen International Marathon started, more than 15,000 domestic and foreign runners released themselves and run, competing against one another in the city of Shenzhen. Mr. Li Ning, founder of LI-NING brand, and Mr. Li Tie, assistant coach of China’s national football team, both appeared on the routing of the Shenzhen International Marathon.



> Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Mr. Jin-Goon KIM (*Executive Vice Chairman*)

Non-executive Director

Mr. CHEN Yue, Scott

Independent non-executive Directors

Mr. KOO Fook Sun, Louis

Ms. WANG Ya Fei

Dr. CHAN Chung Bun, Bunny

Mr. SU Jing Shyh, Samuel

EXECUTIVE COMMITTEE

Mr. LI Ning (*Committee Chairman*)

Mr. Jin-Goon KIM

Mr. CHEN Yue, Scott

AUDIT COMMITTEE

Mr. KOO Fook Sun, Louis (*Committee Chairman*)

Ms. WANG Ya Fei

Dr. CHAN Chung Bun, Bunny

REMUNERATION COMMITTEE

Ms. WANG Ya Fei (*Committee Chairperson*)

Mr. CHEN Yue, Scott

Dr. CHAN Chung Bun, Bunny

NOMINATION COMMITTEE

Mr. SU Jing Shyh, Samuel (*Committee Chairman*)

Mr. LI Ning

Mr. Jin-Goon KIM

Dr. CHAN Chung Bun, Bunny

AUTHORISED REPRESENTATIVES

Mr. LI Ning

Mr. CHEN Yue, Scott

COMPANY SECRETARY

Ms. TAI Kar Lei

REGISTERED OFFICE

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

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Zhongguancun Science & Technology Area
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Telephone: +8610 8080 0808
Fax: +8610 8080 0000

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law
Troutman Sanders

PRC law
All Bright Law Offices

PRINCIPAL BANKERS

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

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

> Five-Year Financial Highlights

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> Five-Year Financial Highlights

Unit: RMB'000

	2014	2013	2012	2011	2010
Operation results:					
Turnover	6,727,601	5,824,110	6,676,441	8,887,453	9,455,364
Operating (loss)/profit	(528,873)	(169,417)	(1,598,934)	627,826	1,546,957
(Loss)/profit before taxation	(664,627)	(317,172)	(1,805,919)	548,753	1,509,515
(Loss)/profit attributable to equity holders	(781,481)	(391,540)	(1,979,114)	385,813	1,108,487
Earnings before interest, tax, depreciation and amortisation (EBITDA)	(323,061)	26,020	(1,377,598)	893,041	1,759,285
Assets and liabilities:					
Total non-current assets	2,077,087	2,055,201	2,114,048	2,549,598	2,365,166
Total current assets	3,962,719	3,961,650	3,905,524	4,769,138	4,193,325
Total current liabilities	2,679,141	2,017,723	3,264,127	3,052,985	2,368,341
Net current assets	1,283,578	1,943,927	641,397	1,716,153	1,824,984
Total assets	6,039,806	6,016,851	6,019,572	7,318,736	6,558,491
Total assets less current liabilities	3,360,665	3,999,128	2,755,445	4,265,751	4,190,150
Capital and reserves attributable to equity holders	1,951,858	2,684,230	1,613,597	3,471,843	3,369,302
Key financial indicators:					
Gross profit margin	44.6%	44.5%	37.7%	46.0%	46.8%
Margin of (loss)/profit attributable to equity holders	(11.6%)	(6.7%)	(29.6%)	4.3%	11.7%
EBITDA ratio	(4.8%)	0.4%	(20.6%)	10.0%	18.6%
(Losses)/earnings per share					
– basic (RMB cents)	(49.97)	(26.91)	(153.14)	29.90	86.14
– diluted (RMB cents)	(49.97)	(26.91)	(153.14)	29.80	85.18
Dividend per share (RMB cents)	–	–	–	11.07	42.23
Return on equity attributable to equity holders	(33.7%)	(18.2%)	(77.8%)	11.3%	36.7%
Net tangible assets per share (RMB cents)	94.24	157.86	97.40	241.46	225.25
Debt-to-Equity ratio	198.3%	116.4%	260.7%	105.2%	89.0%

SPORTSMANSHIP









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> Chairman's Statement

DEAR SHAREHOLDERS,

FOREWORD

During the past year, Chinese government introduced supportive policies on the domestic sports industry, with an aim at a positive and healthy public sports culture and harmonious community. The deepening urbanisation in China, along with unabated public enthusiasm and increasing participation on sports, are to usher in new opportunities for the domestic sportswear industry in the long run. Domestic consumer demand is characterised by more preference to special sports functionality in the professional sports segment, as well as rapid changes in the mass market sports life segment to pursue fashion. In the context of an increasingly competitive domestic sportswear industry, an industry forerunner can only sustain its credentials, as we believe, by effectively integrating professional sports functionality with mass market consumption trends to accurately ride on market opportunities.

CHINA MARKET AND FIVE CORE SPORTS CATEGORIES AS THE KEY STRATEGIES

Year 2014 witnessed further improvements of our business fundamental on the basis of previous investments. During the year, we continued to devote efforts in the five core sports categories, namely basketball, running, badminton, training and sports life. We established sales channels and marketing tactics in line with product positioning to consolidate brand value and enhance the consumer cohesiveness, which laid a solid foundation for future development:

- A number of distributors and sub-distributors began to gradually restore profitability; the revenue growth of direct retail stores got strengthened. The Company's full year revenue increased by 16% year-on-year and as accelerated to up 23% for the second half.
- The inventory mix reached a healthier level as a result of continuous channel optimisation; the confidence of distributors gradually recovered. Trade fair orders (excluding subsidiaries), in terms of tag price, registered year-on-year growth for five consecutive quarters up to the 2015Q3 season.

- E-commerce business has seen significant growth in 2014. We placed emphasis on improving discount management, disciplined distributor management, and in-season products assortment. Our flagship stores on major e-commerce platforms have more than doubled in size, with extensive and improved coverage of products categories. On 11 November 2014, we recorded sales of RMB77 million, sold more than twice as compared to other local competitors;
- New products developed to cater for the needs of professionals and mass market sports enthusiasts have demonstrated their unique competitiveness. The innovation-led brand image was uplifted as new basketball, badminton and running products gained continued recognition from consumers;
- Overall retail capability across self-operated, distributor and sub-distributor channels was improved, allowing us to keep informed of consumer preferences, market trends and sales front more accurately.

The general sales channel network of the Company gradually stabilized. However, with the optimization of the channels, the market shrinking brought by store closures has caused the Company loss of certain original worthy markets. We just began to develop the ability of products planning to cash recovery among the retail capability, and it will need to be further strengthened in the future. While actively driving sales, we continued to focus on control of operating cost and expenses as well as working capital management. In 2014, the previous expenditures on platforms continued to weigh on our profit for the period. The full year results recorded a loss, which however began to narrow in the second half of the year.

LEVERAGING ON MARKETING STRATEGIES TO ADD VALUE TO LI-NING BRAND

In 2014, experience creation is our key marketing strategy, which is to interactively enhance sports events experience, product experience and retail capability. Based on the characteristics of each category and the differences between consumer groups while relying on sports events and players, we pooled and brought out the value of sports resources, integrated sports experience with retail experience, and promoted online and offline interactions with consumers, so as to achieve the ultimate goals of creating and boosting consumers' recognition of the brand and consolidating brand value through product experience.



> **Mr. LI Ning**

*Executive Chairman and
Interim Chief Executive Officer*

On the front of basketball events, we precisely positioned ourselves according to the needs of consumers, and launched a full range of high-end products, core products and basic products to build up a complete "Pyramid" system, which included the "Way of Wade" series on the top, the series for the CBA League Tournaments in the middle, and the series for the Chinese University Basketball Association (CUBA) tournaments, the Chinese University Basketball Super League (CUBS) tournaments, and the four-level campus league matches for middle and high schools on the base of the "Pyramid". The above initiatives, coupled with corresponding retail experience in physical stores, enhanced our retail capability. For cities with a strong interest in basketball and CBA clubs, specific corners for CBA league matches were added in shops and stadium corridors to serve as a bridge for communication and interaction among club members, players and local fans. Through "CBA All-Star Weekends" and "Play Now" fans carnivals, consumers experienced rich basketball culture in addition to watching basketball games.

We are committed to providing consumers with professional running solutions with an integrated products, services and events experience. Last year, we launched Super Light and Li Ning Arc running products, and over four million consumers had the light, comfortable and smooth experience brought about by the running shoes of Super Light series. Meanwhile, we established our own running event systems, set up running training camps, held the Li-Ning National 10-km Road Race and sponsored the Shenzhen International Marathon. The online and offline interactions presented consumers with a more diverse running experience.

The sports resources of China National Badminton Team were still the core of the LI-NING brand. Meanwhile, based on the basic needs of the vast badminton groups, we adopted a penetration and expansion strategy aiming at top sports and events resources with the aid of channel platforms and grassroots resources. In addition, we strengthened the application of materials developed from scientific research and innovative development designs for badminton rackets. Our self-developed world-class badminton rackets are highly praised by professional badminton players. We established partnerships with top international and domestic events and held grassroots 3V3 tournament to enhance the influence of brand badminton products and expand our market shares.

RE-ENTERING A NEW STAGE OF GROWTH

Year 2015 will mark the beginning of a new development stage of our company, and breakthrough growth is expected in the next three years. The Board has appointed me as the Interim Chief Executive Officer, I will exert all efforts in strategic development and daily operations of the Company; In the mean time, the Company will continuously search for the appropriate candidate for the permanent CEO position. Looking ahead for the next three years, we will focus on the collaborative development of product, channel and retail capability to drive the business back to growth.

On production development, we have formulated two product positioning strategies for the five core sports categories, namely

the strategy of professional functionality products aimed at professional sports enthusiasts, and strategy of fashionable sports life products aimed at mass market consumers, to sharpen the products competitiveness in a more down-to-earth manner, and regain the sports life mass market.

On channel development, we will continue to strengthen cooperation with channel partners to expand market niche, and strategically re-enter the low-penetration promising markets, especially the south part of China. We will also establish a channel strategy with more detailed product classification and clearer functional positioning according to differentiated consumer needs and market segments.

On retail capability, we will have more accurate control over the wholesale processes of products. Through the "Closed Loop" effect (chart 1) including processes from products development to cash recovery, we promote the positive circulation within the loop, improving the overall operating efficiency, in order to lower the operation costs.

Furthermore, the rising of Internet has brought changes to the consumption manners of mass public. In order to catch the new opportunities brought by this, we decided to connect our products R&D and retail capability with the business environment driven by Internet. We will make more cross sector collaborations with innovative technology companies, to actively create cross sector business opportunities, building LI-NING digitalized business (chart 2) and make it the driven force to lead the Company's new round of growth.

To implement these initiatives more efficiently and achieve the quick feedback and decision making driven by business and consumer demand, the Group has started organisational restructuring from the beginning of 2015. We expect to restructure our businesses into three vertically aligned segments, namely Basketball and Badminton, Sports Life and Training, and Running, with key business and financial indicators to fit their lifecycles from concept design to launch. A creative center was also established in early 2015, aiming to coordinate the development of the three business teams for efficient allocation of resources.

The proceeds raised by the equity financing in late 2014 were already in place. The Company will invest with clear objectives to further improve its capital structure and effectively support business growth.

As the founder and practitioner of LI-NING brand, I always highly regard the interests of investors, and cherish their care and unremitting supports to the Company. I also wish to express my heartfelt thanks to our dedicated and industrious employees throughout the years. The management and I will spare no efforts to steer the Company back into the profitability track, forging a LI-NING brand full of passion and vitality in a new era.

Li Ning

Executive Chairman and Interim Chief Executive Officer

Hong Kong, 18 March 2015

Chart 1: "Closed Loop" Retail Operation

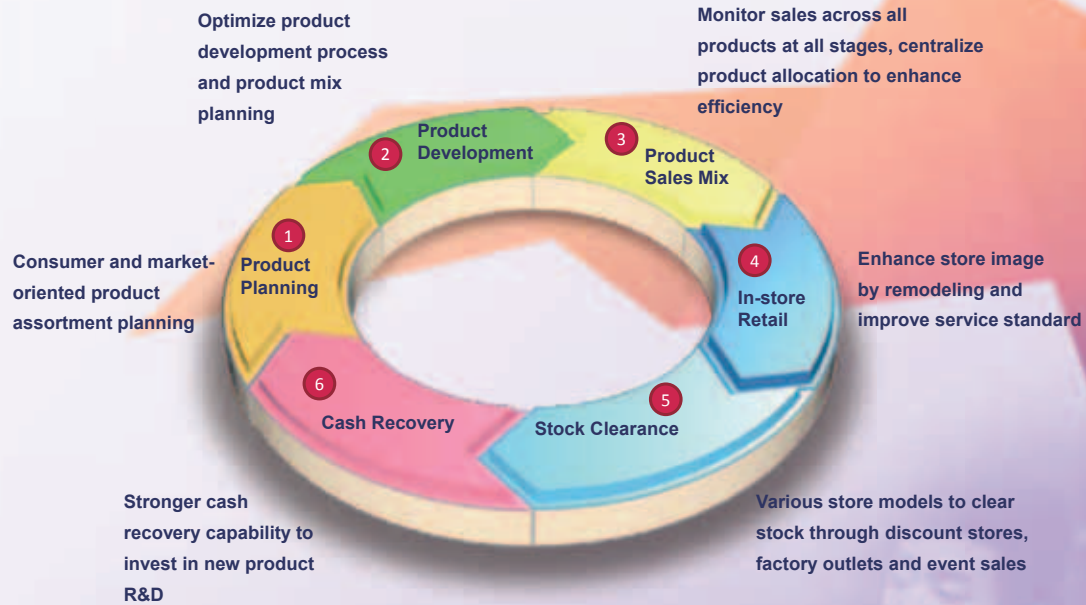


Chart 2: Building LI-NING Digitalized Sports Business

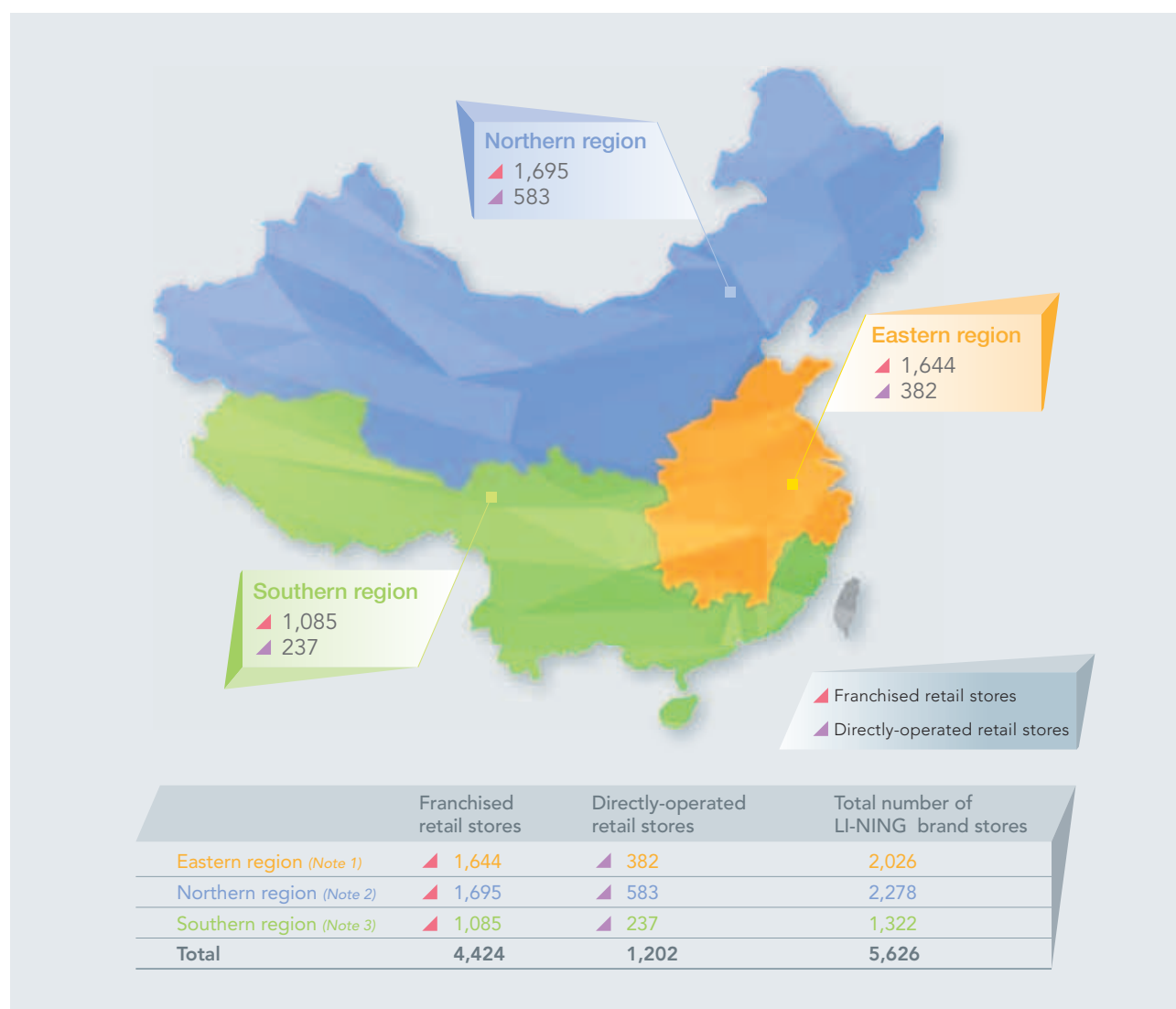


*李寧微店長

> Management Discussion and Analysis

NATIONWIDE DISTRIBUTION AND RETAIL NETWORK

(As at 31 December 2014)



Notes:

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

FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the year ended 31 December 2014 are set out below:

	Year ended 31 December		Change (%)
	2014	2013	
Income statement items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue (Note 1)	6,727,601	5,824,110	15.5
Gross profit	3,003,509	2,593,976	15.8
Operating loss	(528,873)	(169,417)	212.2
Earnings before interests, tax, depreciation and amortisation (EBITDA) (Note 2)	(323,061)	26,020	(1,341.6)
Loss attributable to equity holders (Note 3)	(781,481)	(391,540)	99.6
Basic losses per share (RMB cents) (Note 4)	(49.97)	(26.91)	85.7
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	44.6	44.5	
Operating loss margin (%)	(7.9)	(2.9)	
Effective tax rate (%)	(11.9)	(13.3)	
Margin of loss attributable to equity holders (%)	(11.6)	(6.7)	
Return on equity attributable to equity holders (%)	(33.7)	(18.2)	
Expenses to revenue ratios			
Staff costs (%)	12.2	11.5	
Advertising and marketing expenses (%)	19.3	24.2	
Research and product development expenses (%)	2.6	3.0	

	31 December	31 December
	2014	2013
Balance sheet items		
<i>(All amounts in RMB thousands unless otherwise stated)</i>		
Total assets (Note 5)	6,039,806	6,016,851
Capital and reserves attributable to equity holders (Note 6)	1,951,858	2,684,230
Key financial ratios		
Asset efficiency		
Average inventory turnover (days) (Note 7)	109	104
Average trade receivables turnover (days) (Note 8)	71	89
Average trade payables turnover (days) (Note 9)	84	104
Asset ratios		
Debt-to-equity ratio (%) (Note 10)	198.3	116.4
Interest-bearing debt-to-equity ratio (%) (Note 11)	86.4	39.4
Net asset value per share (RMB cents)	151.34	211.40

> Management Discussion and Analysis

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Notes:

- Including revenue for the period from 1 January to 30 September 2014: RMB4,867,320,000.
 - The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of loss for the year, income tax expense, finance expenses – net, depreciation on property, plant and equipment, and amortisation of land use rights and intangible assets.
 - Including loss attributable to equity holders for the period from 1 January to 30 September 2014: RMB706,716,000.
 - The calculation of basic losses per share is based on the loss attributable to equity holders of the Company for the year, divided by the weighted average number of ordinary shares in issue less ordinary shares held for Restricted Share Award Scheme.
 - Including total assets at 30 September 2014: RMB6,176,443,000.
 - Including capital and reserves attributable to equity holders at 30 September 2014: RMB2,023,384,000.
 - The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year, divided by cost of sales and multiplied by 365 days.
 - The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, divided by revenue and multiplied by 365 days.
 - The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, divided by total purchases and multiplied by 365 days.
 - The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.
 - The calculation of interest-bearing debt-to-equity ratio is based on total interest-bearing borrowings and convertible bonds divided by capital and reserves attributable to equity holders of the Company at the end of the year.
- * The aforesaid indicators provided by the Group may not necessarily be the same in terms of calculation methods as those provided by other issuers.

Revenue

The Group's revenue for the year ended 31 December 2014 amounted to RMB6,727,601,000, representing an increase of 15.5% as compared to that of 2013.

Revenue breakdown by brand and product category

	Year ended 31 December				Revenue change (%)
	2014	% of total revenue	2013	% of total revenue	
	RMB'000		RMB'000		
LI-NING brand					
Footwear	2,739,808	40.7	2,448,712	42.0	11.9
Apparel	2,811,388	41.8	2,268,584	39.0	23.9
Equipment/accessories	380,894	5.7	365,490	6.3	4.2
Total	5,932,090	88.2	5,082,786	87.3	16.7
Double Happiness brand					
Total	681,708	10.1	612,409	10.5	11.3
Other brands*					
Total	113,803	1.7	128,915	2.2	(11.7)
Total	6,727,601	100.0	5,824,110	100.0	15.5

* Including Lotto, Kason, Aigle and Z-DO.

The Group's core brand, LI-NING brand, recorded revenue of RMB5,932,090,000, which accounted for 88.2% of the Group's total revenue, representing a year-on-year increase of 16.7%. The Group has entered a new phase of development since the second half of 2014: (a) Trade fair orders (excluding subsidiaries), in terms of tag price, registered year-on-year growth for five consecutive quarters up to the 2015Q3 season, latest season registered "high-teens" growth year-on-year; and (b) Quarterly same-store-sales growth turned positive during the second half of 2014, recorded mid-single-digit growth for 2014Q4 year-on-year. These contributed to the higher growth in revenue of the Group, particularly in the second half of the year.

The revenue of Double Happiness brand achieved a steady growth rate of 11.3%.

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

	Year ended 31 December		Change (%)
	2014	2013	
	% of revenue of LI-NING brand	% of revenue of LI-NING brand	
LI-NING brand			
PRC market			
Sales to franchised distributors	61.2	64.7	(3.5)
Sales from direct operation	35.8	32.6	3.2
International markets	3.0	2.7	0.3
Total	100.0	100.0	

During the year, the Management focused more on enhancement of retail capability. As a result of the initiative been taken, the percentage of revenue contributed by sales from direct operation recorded a slight increase.

Revenue breakdown of LI-NING brand by geographical location

	Note	Year ended 31 December		Revenue change (%)		
		2014	2013			
		RMB'000	% of revenue of LI-NING brand	RMB'000	% of revenue of LI-NING brand	
LI-NING brand						
PRC market						
Eastern region	1	1,892,194	31.9	1,578,225	31.1	19.9
Northern region	2	2,737,330	46.1	2,282,717	44.9	19.9
Southern region	3	1,126,452	19.0	1,084,367	21.3	3.9
International markets		176,114	3.0	137,477	2.7	28.1
Total		5,932,090	100.0	5,082,786	100.0	16.7

Notes:

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



Geographically, given the fierce competition in the southern market, it had a slower year-on-year revenue growth as compared to that in the eastern and northern markets, where both recorded a recovery and achieved a more significant growth.

Cost of Sales and Gross Profit

For the year ended 31 December 2014, overall cost of sales of the Group amounted to RMB3,724,092,000 (2013: RMB3,230,134,000), and overall gross profit margin was 44.6% (2013: 44.5%). Gross profit margin basically remained stable during the year.

Cost of sales of LI-NING brand amounted to RMB3,262,312,000 (2013: RMB2,782,429,000), and gross profit margin was 45.0% (2013: 45.3%), representing a slight year-on-year decrease. During the year, the recovery in sales of new products was strong, significantly increasing its share in total sales and resulting in an increase in gross profit margin. However, factors such as increase in procurement cost and clearance of obsolete inventory at a concessionary price at the same time resulted in a decrease in gross profit margin to some extent, hence offsetting the benefits from the increase in gross profit margin of new products. The Group will strive harder in cost control to ensure a steady gross profit margin.

Cost of sales of Double Happiness brand amounted to RMB393,682,000 (2013: RMB371,735,000), and gross profit margin was 42.3% (2013: 39.3%), representing a year-on-year increase as compared to that of last year, which was mainly attributable to the decrease in the cost of major raw materials.

Distribution Expenses

For the year ended 31 December 2014, the Group's overall distribution expenses amounted to RMB2,863,516,000 (2013: RMB2,674,235,000), accounting for 42.6% (2013: 45.9%) of the Group's total revenue.

Distribution expenses of LI-NING brand amounted to RMB2,758,231,000 (2013: RMB2,572,596,000), accounting for 46.5% (2013: 50.6%) of LI-NING brand's revenue. The overall increase in distribution expenses was mainly due to the increase in operating costs of stores, such as costs of store leasing and staff, as a result of the significant increase in the number of direct-retail stores to expand the direct-retail network. The Group also focused on the promotion of its five core sports categories in the year, reduced investments in non-core sports categories, resulting in a decrease in advertising and marketing expenses.

Distribution expenses of Double Happiness brand amounted to RMB98,860,000 (2013: RMB72,739,000), accounting for 14.5% of Double Happiness brand's revenue. This was 2.6 percentage points higher than the 11.9% recorded in 2013. The significant increase in distribution expenses of Double Happiness brand during the year was mainly attributable to the sponsorship for the International Table Tennis Federation (ITTF) and other events as well as promotion expenses for the image of Double Happiness brand.

Administrative Expenses

For the year ended 31 December 2014, the Group's overall administrative expenses amounted to RMB703,145,000 (2013: RMB235,860,000), accounting for 10.5% (2013: 4.0%) of the Group's total revenue.

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Administrative expenses of LI-NING brand amounted to RMB622,859,000 (2013: RMB148,277,000), accounting for 10.5% of LI-NING brand's revenue. This was 7.6 percentage points higher year-on-year than the 2.9% recorded in 2013. Administrative expenses of LI-NING brand mainly comprised staff costs, management consulting expenses, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses. The notable increase in administrative expenses during the year was mainly attributable to the provision for impairment of trade receivables and staff costs. As certain distributors showed improvements in their financial position in 2013, the ageing structure of trade receivables was optimised and provision for impairment of trade receivables was reversed accordingly. During the year, a majority of distributors were on the trend of steady growth, and provision for impairment of trade receivables basically remained stable. Meanwhile, the increase in staff costs was attributable to the recruitment of more experienced management executives since the second half of 2013 to accomplish the Company's reform and transformation, coupled with options granted to senior executives according to the status of implementation of the plan. Besides, the administrative expenses of LI-NING brand for the year included certain expenses arising from investments and closure of flagship stores as well as other one-off expense items, which further increased the administrative expenses.

Administrative expenses of Double Happiness brand amounted to RMB75,201,000 (2013: RMB68,735,000), accounting for 11.0% of Double Happiness brand's revenue. This was 0.2 percentage point lower year-on-year than the 11.2% recorded in 2013. These expenses mainly comprised staff costs, depreciation and amortisation charges and other miscellaneous expenses.

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

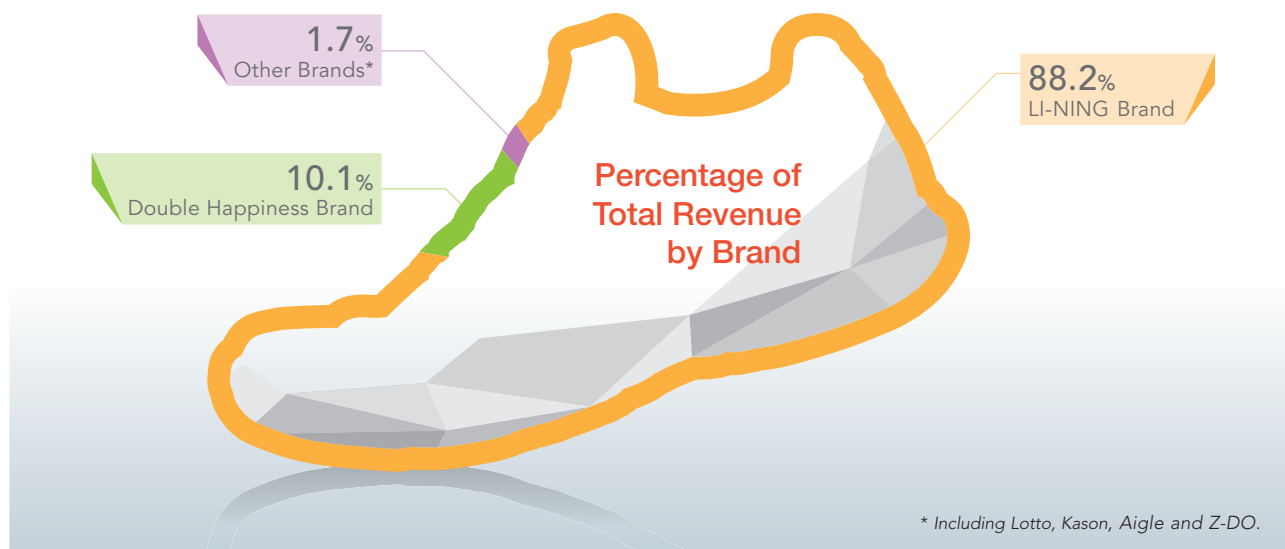
For the year ended 31 December 2014, the Group's EBITDA recorded a loss of RMB323,061,000 (2013: profit of RMB26,020,000), representing a year-on-year decrease of 1,341.6%, which was mainly attributable to the earnings before interest and tax of LI-NING brand.

EBITDA of LI-NING brand recorded a loss of RMB502,556,000 (2013: loss of RMB114,090,000), which was mainly attributable to the increase in expenses on staff cost, store leasing cost and one-off expense items and the decrease in other income.

EBITDA of Double Happiness brand amounted to RMB135,436,000 (2013: RMB122,274,000), representing a year-on-year increase of 10.8%. The increase in EBITDA was due to the increase in sales revenue and gross profit margin partially offset by the increase in expense ratio.

Finance Expenses

For the year ended 31 December 2014, the Group's net finance expenses amounted to RMB143,106,000 (2013: RMB149,997,000), representing 2.1% of the Group's total revenue (2013: 2.6%). The interest expense of convertible bonds amounted to RMB60,694,000 (2013: RMB57,724,000).



Income Tax Expense

For the year ended 31 December 2014, the income tax expense of the Group amounted to RMB78,877,000 (2013: RMB42,219,000) and the effective tax rate was -11.9% (2013: -13.3%).

Overall Profitability Indicators

Despite the sharp uptick in sales revenue and the basically stable gross profit margin, the overall profitability indicators of the Group decreased for the year ended 31 December 2014 due to the significant increase in the overall expense ratio. The Group's loss attributable to equity holders amounted to RMB781,481,000 (2013: RMB391,540,000), representing a year-on-year decrease of 99.6%; margin of loss attributable to equity holders was -11.6% (2013: -6.7%), representing a year-on-year decrease of 4.9 percentage points; return on equity attributable to equity holders for the year was -33.7% (2013: -18.2%), representing a year-on-year decrease of 15.5 percentage points.

Provision for Inventories

The Group's policy in respect of provision for inventories for 2014 was the same as that in 2013. Inventories are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy to be sufficient in ensuring appropriate provision for inventories made by the Group.

As at 31 December 2014, accumulated provision for inventories was RMB264,233,000 (31 December 2013: RMB382,066,000). With the further clearance of the aged inventories during the year, the structure of the age of inventories was optimised. Thus, the overall balance of the provision for inventories decreased despite an increase in inventory at cost at the end of the year when compared with that of last year.

Provision for Doubtful Debts

The Group's accounting policy in respect of provision for doubtful debts for 2014 was the same as that in 2013.

As at 31 December 2014, the accumulated provision for doubtful debts was RMB596,766,000 (31 December 2013: RMB590,928,000). When making the bad debt provision, the Group had already considered lowering the residual risks from the bad debts of the weakest channel partners known to date.

Liquidity and Financial Resource

As at 31 December 2012, the Group had cash and equivalents of RMB1,241,304,000. In April 2013, the Group raised proceeds of RMB1,441,484,000 through the open offer of convertible securities. In 2013, the net cash outflow from operating and investment activities of the Group amounted to RMB232,506,000, including investments for the Transformation Plan of RMB637,000,000 as well as the net cash outflow from financing activities in 2013 (excluding proceeds from the open offer) of RMB1,169,598,000, of which RMB1,045,238,000 was used for the repayment of bank loans to de-risk the balance sheet given the tightening credit environment in China. Thus, most of the proceeds from the open offer were used to repay the Group's bank loans, with the remainder, approximately 50% used for channel expansion and enhancing retail operating capability, approximately 25% used for brand marketing and approximately 25% used for other general purposes. As at 31 December 2013, the Group had cash and cash equivalents of RMB1,280,684,000.

The Group's net cash outflow from operating activities for the year ended 31 December 2014 amounted to RMB394,355,000 (2013: net outflow of RMB13,531,000). As at 31 December 2014, cash and cash equivalents (including cash at bank and in hand, and fixed deposits with original maturity of no more than three months) amounted to RMB1,031,386,000. This represented a net decrease of RMB249,298,000 as compared with the Group's position as at 31 December 2013. The decrease was due to the following items:

Item	Year ended 31 December 2014 RMB'000
Net cash used in operating activities	(394,355)
Net capital expenditure	(339,746)
Net proceeds from borrowings	601,512
Other net cash outflow	(116,709)
Net decrease in cash and cash equivalents	(249,298)

With the Group's greater focus on enhancing retail operating capability, the Group's operational cash flow was affected significantly due to the deployment of more resources to the direct-retail store network and the five core brands.

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As stated in the announcement dated 16 December 2014, the Company has executed the Equity Fund Raising Plan. The fund raising was completed on 30 January 2015. The net proceeds from the Open Offer amounted to HK\$1,515.03 million which were equivalent to the net price of HK\$2.54 per Offer Security. The Company intends to apply such net proceeds as to (i) approximately 40% for paying down the Group's debt; (ii) approximately 25% for investing in store network expansion and retail capabilities optimization; and (iii) the remaining balance for general working capital.

As at 31 December 2014, the Group's available facilities amounted to RMB1,196,942,000, of which outstanding borrowings amounted to RMB996,942,000. As at the end of the year, including the borrowing from related party of RMB147,919,000, the ratio of outstanding borrowings and convertible bonds to equity attributable to equity holders (i.e. the gearing ratio) was 86.4% (31 December 2013: 39.4%).

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

Foreign Exchange Risk

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

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

Pledge of Assets

As at 31 December 2014, buildings and land use rights with net book values of RMB403,819,000 and RMB81,518,000 respectively were secured for acquiring the Group's borrowings. As at 31 December 2013, no buildings or land use rights of the Group were secured for acquiring the Group's borrowings.

Contingent Liabilities

As at 31 December 2014, the Group had no significant contingent liabilities.

BUSINESS REVIEW

In 2014, the government introduced new policies to encourage the public to actively participate in sports, which, coupled with the general trend of continued urbanisation in China, presented the domestic sports apparel industry with new opportunities for development. During the year, the new products developed by the Company to cater for the needs of professionals and sports enthusiasts have created their unique competitiveness. The profitability of our sales channels was gradually restored; and improvement in our retail capability and overall efficiency was achieved with the successful establishment of a retail operations platform.

On the products front, the Company stepped up investment in the research and development of the fashionable and functionality of five core categories based on an in-depth understanding of the preferences and demands of consumers, and the new products gained popularity among consumers. Sales channels were stable, with retail capability of all channels showing certain improvements. A number of distributors and sub-distributors began to gradually restore profitability as a result of channel optimization.

LI-NING BRAND

Brand Vision

Rooted in the blood of LI-NING brand is its unchanged mission: "Through sports, we inspire people the desire and power to make breakthroughs, realise dreams and create every possibility".

In 2014, we continued to tap on the demand from athletes, enthusiasts and mass consumers, combining effectively top events, sports resources and digital precision marketing to offer high cost-performance, fashionable and professional products to a wider range of consumers. Keeping "Sport for all" and multifaceted leisure life in our mind, we are committed to building LI-NING brand, a carrier of sportsmanship, originality and dreams, into a great pride of China.

Building brand loyalty and boosting favour and referrals among young consumers

Promoting precise digital marketing and enhancing the digital self-media strategy

Social media innovation: "Super Light 11 #Lightness knows no bound"

- Embedded with the concept of #Lightness knows no bound#, LI-NING Super Light 11 running shoes benefited from interactive online marketing through @LI-NING Running and @LI-NING accounts at Weibo. In terms of sports elements, key opinion leaders were invited to facilitate online communication, including product reviews posted on Renren.com, runner forums and LI-NING interactive community. In terms of fashion elements, "floating" creative visions were applied widely, joining the efforts of fashion and sports celebrities in online communication. Meanwhile, the interaction of "Superlight 11 lightness campaign" received positive response with nearly 150,000 posts of high-quality user generated content. During the promotion period, the topic #Lightness knows no bound# ranked first for 13 times in the sports headlines category.

Super Light 11 Running shoes



Innovative mobile game at WeChat: "LI-NING Arc – Social Run is Fun"

- Catering to socializing, participating and sharing appeals of young users, the innovative campaign "FunRun" with LI-NING Arc IV on WeChat is a perfect combination of running and socializing to maximise the coverage of our FunRun concept. The Cool & Fun running experience from interactive games underscored the importance of running shoes to support product promotion. The campaign recorded 226,122 independent participants, 1,695,915 participations and 261,614 times of sharing in total.

Basketball customised online marketing

- CBA apparel ID customisation
- CBA 20th anniversary LI-NING retro gift box ID customisation
- CBA 20th anniversary LI-NING retro gift box apparel ID customisation

Fans marketing: Crossover partnership with Jessica Jung

- In-depth communication with fans was achieved through star demonstration, exhaustive digging up of product story and fan meeting to tap into young consumers' needs and communication pattern and allow our brand and products to become common symbols among fans.

Bringing our brand closer to the youth through the campus platform

"Your turn to shine"

- The campus experience campaign themed "Your turn to shine" was rolled out in 4 colleges respectively in Beijing, Hangzhou, Wuhan and Xi'an in the second quarter of 2014. Favourite music and hip-hop dance competition in campus life were featured to highlight product display and experience of our basketball and sports life series. Instant access to online malls and a connection between CBA and campus leagues were established, and star players were invited for onsite interaction. The 4 colleges' events across China recorded a total of 22,103 participants, with more than 5,000 participants per event.

Invest marketing resources in sponsoring national teams to strength the brand's image of professional functionality

China National Table Tennis Team

- Weibo-based digital marketing and public relation campaigns effectively integrated topics on the World Table Tennis Championships (Tokyo) which enhanced brand awareness and product exposure.
- In 2014, China National Table Tennis Team participated in 102 events worldwide.

China National Shooting Team

- In the first half of 2014, China National Shooting Team participated in 5 international events, winning 22 gold medals and 61 medals in total.
- The team made a dazzling performance in the Asian Games in the second half of 2014, scooping 26 gold medals and 47 medals.
- The Beijing event of ISSF Shooting World Cup recorded 18,823 Weibo views.

China National Diving Team

- The "Dream Team" of China took 106 gold, 57 silver and 7 bronze medals, a stunning performance in 2014.
- The sponsorship of the Diving World Cup (Shanghai) further strengthened our brand exposure in world-class events.

Five Core Sports Categories

Basketball

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

Chinese Basketball Association League (CBA)

- We effectively publicised the professional functions of our products and increased brand exposure through product sponsorship. The 2013-2014 CBA games broadcasted by CCTV-5 recorded audiences of 510 million in China, contributing 540 million audiences in aggregate. The CBA official video-on-demand pages hosted on Sohu.com captured an average of 1.09 million clicks per day, up by 36% over the previous season. The CBA official videos shared through PPTV.com captured 720 million clicks and accumulated 310 million independent visitors, up by 329% over the previous season. Nearly 65% of the respondents perceived that the partnership with CBA boosted LI-NING brand's professional image, and more than half of the consumers were satisfied with the brand's appeal to young consumers and showed their significantly higher purchase willingness.

Sponsorship of four levels of domestic basketball student leagues: China Junior & High School Basketball Leagues, Chinese University Basketball Association League (CUBA) and Chinese University Basketball Super League (CUBS)

- In 2014, the China Junior & High School Basketball Leagues attracted more than 4,970 players from 355 teams in 19 zones. A total of 1,037 games were played and 50,000 onsite views were recorded. CUBA attracted more than 20,000 players and coaches from over 1,000 universities and colleges in 33 zones, covering over 20 million students. CUBS attracted more than 600 players from 36 teams in 18 zones, covering over 800,000 students. According to a survey, more than 80% of the student respondents showed significantly higher preference for LI-NING brand's professional functionality and appeal to young consumers.

Footwear

Professional Basketball Footwear

- LI-NING Cloud I, launched in 2014Q1 represents the debut of our new cushioning material technology. With good cushioning and elastic material and a brand new outsole design, coupled with the application of innovative technology on upper material, the product gained recognition from both CBA players and consumers.
- BBlite 2, launched in 2014Q2, is the second generation of the successful BBlite collection. Midsoles for high-end products were introduced to shoes priced under RMB500 in the industry for the first time which significantly upgrade professional performance, breaking through the price barrier claimed by competitive products, and received great feedbacks from consumers via Weibo.
- In 2014Q4, we launched CBA professional Basketball shoes, "Speed and Power", which marked a new level of our product innovation and performance. "Speed" has adopted a brand new upper structure and technology, and its flexibility and light-weight make it the best choice for speed players. "Power" is more focused on protection and cushioning. This series boosted new product exposure on domestic players and were well received by foreign players.
- Based on our insight into the domestic basketball market and target consumers' preference, we rolled out two models featuring distinctive Chinese elements, namely, "WOW2 Commemorative Edition 2014" and "WOW2 Screws Limited Edition". The new models were received with positive feedbacks on the Internet, and were sold out on the first day of launch. WOW 3 upgraded midsoles and reduced shoe weight without compromising the premium quality of the series, to provide better wearing experience to lighter-weighted Chinese consumers. The simultaneous rollout for the first time in China and the United States created cross-border consumer interaction on social platforms.

Combat Basketball Footwear

- "Rebirth" basketball shoes, which were launched in 2014Q2, brought new concept to the Combat series. The inspiration comes from LI-NING classic Olympic Games medal receiving Butterfly shoes. Richer in colors and strong story-telling upper with cushioning mid-sole and durable rubber Tuff RB, "Rebirth" represents the quick rise of combat basketball shoes in 2014. As a cost-performance option for students and off-campus games, the model debuting in late May attracted numerous eyeballs. In the first World Middle School 3-on-3 Basketball Championship, the Chinese players wearing this product won the laurel.

Apparel

2014Q2 Youth Pack

- The core inspiration comes from basketball cartoon characters, with bright summer colors and designs preferred by young consumers. An optimal interactive shopping experience was achieved through online and offline marketing events for CUBA with competitive pricing.

159 Game Jersey

- Its target consumer is clear – the consumer group from small or medium sized companies who prefers group-buying. Despite the fierce competition among local brands at this price level, we still delivered an outstanding result in 2014, especially in the basketball season of 2014Q2.

Running

Held the first domestic road racing competition in the form of a league

- The first domestic road racing competition in the form of a league was named the “2013 Best Running Tournament Award” by Runner’s World, where runners were offered dedicated running testing services, product experience and professional guide.
- A series of customised running events were staged in tune with the rising running trend in China. The experience platform targeting running enthusiasts, ranging from training camps and “Let’s Run” activities to title sponsoring of LI-NING China 10K Road Racing League and sponsoring of Shenzhen Marathon, helped to resonate with runner’s experience in LI-NING brand.
- LI-NING China 10K Road Racing League comprised 10 events which were successfully completed in Shenzhen, Chongqing, Xi’an, Changsha, Wuhan, Shanghai, Qingdao,

Shenyang, Dalian and Beijing respectively throughout 2014. Among the total of 46,340 participants, 76% were aged 18 to 45. During the year, 9,700 runners took part in the virtual league on the running app-based digital platform.

Footwear

- A matrix of general and professional products was established in 2014, comprising the well-received classic series such as Bow, Arc and Super Light as well as three models targeting professional runners, namely Strike Transition (雙渡), Furious Rider (烈駿) and Cloud Racer (雲馬).
- In April 2014, LI-NING Super Light 11 was launched. The Super Light 11 running shoes were named the 2014 Spring Best Update Award by the professional magazine Runner’s World, and were granted the Gold Award of 2014 ROI Festival in Product Design category.
- In July 2014, LI-NING Arc IV was rolled out to cater for the popular trend of night running. The model introduced reflective materials in soles and uppers, a cool and fashionable design while ensuring safety of night running. The product was named the 2014 Autumn World Best Update Award by Runner’s World.
- LI-NING Cloud was launched in late 2014. The model has caught up with or surpassed its international counterparts in terms of cushioning and rebounding performance. Fabrics specific to spring and winter are adopted to cater to running needs in different climatic zones.
- With unique appearance design and new material, we have created a group of strong running footwear products at entry level to drive business.

Apparel

- Apparel has launched corresponding star-technology products such as LI-NING Cloud sets, Superlight sets and water/wind-proof sets, which recorded better sales performance than overall average apparel products.
- LI-NING running professional story-pack encompassing apparel and footwear was created and launched in 2014. With a better focus on different consumer segments, we offered products with strong performance in both technologies and functionalities to meet the needs of professional runners.



- For entry level apparel products, we launched functional Tee with the feel of cotton and light-weight stretchable running pants and took them as new opportunities for business growth.

Badminton

Focus on event marketing to promote professional functionality and brand loyalty

- In addition to our long-established partner Chinese National Badminton Team, we further endorsed national badminton teams of Australia, Indonesia and Singapore as well as Sindhu, Srikanth and other Indian players in 2014.
- As a title and equipment sponsor of the Thomas-Uber Cup and the BWF World Championships in 2014, LI-NING brand turned the events into carnivals for badminton fans to stimulate product experience and sales.
- On the domestic market, we sponsored BWF Super Series China Open, BWF Super Series China Masters, China Badminton Super League and China National Badminton Game, and endorsed Chinese Youth Badminton Team and 12 provincial teams. The tiered partnership with sports and event resources bolstered our product professionalism and marketing opportunities.
- Li Ning – Li Yongbo Cup 3V3 National Badminton Championship, comprising 8 events in 2014, recorded more than 4,000 participants. The events were featured by 132 media operators, covering 12 players from the national badminton team and opinion leaders to arrive at direct and effective interaction with badminton enthusiasts.

Adhering to R&D and innovations to enhance the professionalism

- Developed 45 racket models, including 23 exclusive models in the industry. Obtained 44 patents in rackets, 9 national utility model patents in badminton shoes, and 1 design patent.
- Committed to product innovations and R&D, we have established a platform combining 3D break-free, air stream system and turbo charging racket technologies. A range of sponsored models have been offered to the national badminton team and endorsed international players.

Footwear

Premium price level products (RMB800+, focusing on stars and brand story)

Optimize product line

- We divided footwear products into 3 product lines, namely stability, balance, and flexibility. Each product line has its own positioning and utilizes different technologies and appearances to present its characteristics, as well as 1 or 2 star players to represent the products of each product line.
- The optimized product lines not only make our product merchandising and designing more effective but also give prominence to the selling points of each product line, bringing a distinct brand image to consumers.

Apply new technologies while keeping the classic models

- In 2014, we added “multi-dimensional acceleration” technology to our premium products, which won a good reputation after launch and boosted sales volume of the whole premium product line.
- To raise the brand’s specialization and to advance the brand’s classic reputation, we renewed the appearance of our classic badminton footwear products which performed well in previous years with new colours and materials. “Flying shoe” and “HERO” products were re-launched with new appearance and they received impressive market feedbacks.

Medium price level products (RMB450 to 800, focusing on functional experience)

- Based on consumers’ demand for functionality, the product strategy for 2014 is “Experience of reputable functional technologies + Original fashionable appearance”.
- We added “multi-dimensional acceleration” and “Cloud” technologies that have been verified by the end user market with good reputation to the medium price level, and combined the appearance of premium product to satisfy the consumers who have high expectation for functional experiences.
- The star products in 2014 include “Flying shoe-TD” and “HERO2-TD”.

Apparel

Seamless sleeves

- Taking full consideration of the nature of badminton, it was our first attempt to apply one piece knitting to sleeves according to shoulders shape to create full room for swinging and to avoid unnecessary rubbing. This design supported Chinese National Badminton Team to win the 410th gold medal at BWF Super Series China Open in 2014 since the partnership with our brand.

Towel Pocket

- It was our first attempt to apply towel fabric to the pockets of competition shorts. That allows players to dry their hands sweat during competition, enhancing the consumer experience.

Innovative appearance

- We applied classic striped pattern to professional competition suits, which brought fashion elements to badminton competition suits. This type of innovation will continue to be used in designs for further seasons.

Premium Products TD

- Since 2014Q3, in order to maximize the effectiveness of sponsorship resources, we launched more commercialized lower-priced products under RMB200 based on premium sponsorship products for National team. This initiative helps satisfy the needs of consumers of different spending levels.

Training

Launching products in lockstep with market trends for sports enthusiasts

- A variety of innovative functional fabric technologies were introduced to highlight professional product attributes while bringing consumers the comfortable experience and protection in sports. The functionality-based integrated promotional and communication campaigns, focusing on the core appeal of "At your best" in consumer communication, leveraged upon elite athletes, top events and visual display at stores for continuous exposure of featured products.

Footwear

- Light-weight and simple outsoles with concise upper was the design. We will increase our investment in entry level training footwear with more concise and light-weight design in 2015.
- High-priced products at RMB439 recorded significant growth year-on-year. This collection utilizes LI-NING Arc as its key technology platform and became our promotion focus, which created significant effects to the sales of related products.

Apparel: Male

Water-repellency

- We launched a water-repellent collection in 2014Q4 with waterproof zippers and 3D fit to enhance the look and feel, targeting people who do training under all-weather conditions.
- Water-repellent technology is also included in LI-NING AT technology platform, which enriches the variety of our technology platform.

Training Essential VICTOR 001 Set

- This collection has very concise design, 3D fit and fine details for both sports and leisure wearing, and provides a special zipper pocket to put iPhones and other valuable items.
- In the future, we will keep on developing related models as well as upgrading fabric, technology and design, in order to promote this collection to become the ever-green model which could continuously generate high sell-out results.

AT Dry Freeze

- The target consumers of this collection are general basic sports enthusiasts. With high value proposition, this top could provide comfortable wearing experience in hot summer weather. The orders of RMB99 entry level products performed well, and the market share in 3rd and 4th tier cities was further enlarged.

Apparel: Female

Bottom Bar

- We have enriched different fits of women pants in 2014 to meet the needs of more consumers, including cuffed, regular, and straight and legging. The products have been merchandised under different launch dates, product levels and functionalities. An excellent sales result was achieved in 2014Q4.

Suit

- To meet the needs of the market and our consumers, we have targeted sweat set as the key product of 2014. We have provided various fits, colours and prices to meet the needs of consumers of different ages and used suitable fabrics to match the demands of different occasions and weather conditions.



LI-NING Brand Sponsorship Resources

	BASKETBALL	TRACK & FIELD/RUNNING	BADMINTON	TENNIS	OLYMPIC CHAMPION TEAMS	GYMNASTICS	TABLE TENNIS	SHOOTING
TOP-NOTCH ATHLETES/ SPORTS TEAMS/ SPORTS CLUBS	Dwyane Wade	Christian Taylor	China National Badminton Team	Peng Shuai	China National Table Tennis Team	Chen Yibing	Ma Long	Tsinghua University Shooting Team
	Evan Turner	Andreas Thorkildsen	Chen Long	Marin Cilic	China National Diving Team		Li Xiaoxia	
	Guo Ailun	Ngoni Makusha	Cai Yun	Tianjin Tennis Team	China National Shooting Team		Wang Liqin	
	Xiraijan Muhtan	China National Junior T&F Team	Wang Yihan	The delegation of Shanghai for the National Game			Ding Ning	
	Han Shuo		Li Xuerui					
	He Tianju		Xu Chen					
	Zhou Qi		Zhang Nan					
	China National Junior Team		Fu Haifeng					
	Zhao Jiwei		Zhao Yunlei					
	Zhao Tailong							
Zeng Lingxu								
Zhejiang Guangsha Basketball Club								
Sichuan Jinjiang Basketball Club								
TOURNAMENTS	China Basketball Association	Li-Ning China 10K Running League	2013-2016 'MAJOR EVENTS' Partner of BWF					
	China Junior & High School Basketball League	China National High Attitude Endurance Challenge	2014 BWF Thomas & Uber Cup finals (Title & Equipment sponsor)					
	Chinese University Basketball Association	DaLi 100 Ultra Endurance Race	2014 BWF World Championships (Title & Equipment sponsor)					
	Chinese University Basketball Super	2014 Shenzhen International Marathon	BWF Super Series China Open (Equipment sponsor)					
	National Basketball League		BWF Super Series China Masters (Equipment sponsor)					
	CBA Junior League		BWF Super Series Singapore Open (Title & Equipment sponsor)					
	AAU Cap City Classic		Indonesia International Series BWF EVENT (Title & Equipment sponsor)					
			China national Tournaments (Title & Equipment sponsor)					
			China International Challenge 2014 (Equipment sponsor)					
			2013-2014 China Badminton League (Partner)					
		2013-2014 China's Badminton Serie (Partner)						
		2014 youth Olympic Games (Badminton equipment sponsor)						
OTHER IMPORTANT SPONSORSHIP RESOURCES	Udonis Haslem	Provincial Athletics Team (Guangdong/ Yunnan/Bay)	Chinese Youth Badminton Team	Zheng Saisai				
	Dorell Wright		Singapore National Badminton Team	Karorina Pliskova/Kristyna Pliskova				
	Cleanthony Early		Australia National Badminton Team	Lining International Junior Tennis Championships				
	Glenn Robinson III		Indonesian National Badminton Team					
	Pooh Jeter		Provincial Team: Beijing/Shanghai / Liaoning/Sichuan/Zhejiang/Tianjin/Hunan Club/Bay/Guangdong/Qingdao/Xia Men					
	Quincy Douby		Srikanth K. (India), Pornpip (Thailand), P V Sindhu (India)					
	Jonathan Gibson							
	Zhu Yanxi							
	Tian Yuxiang							
	Chen Linjian							
	Heng Yifeng							
	Luo Kaiwen							
	Xu Zhonghao							
	Zhang Zuming							
	Fan Bin							
	A Dijiang							
	Wu Qinglong							
	Qu Shaobin							
	Yang Maogong							
	Dr. Chen Fangcan							
Zhao Yanhao								
Wang Zirui								
Yi Li								

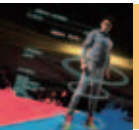














Sports Life

Connecting youth consumers through fashionable, crossover and vigorous marketing to broaden brand recognition

More than 80% of the consumers had positive feedback on the “Designed by Seoul Studio” (型自首爾) Series, which artfully integrate brand sports culture with fashion elements to enhance the appeal to the youth, especially the shopping desire of young white collars and female consumers

- The signature series partnering with Jessica Jung, a versatile popular star, became an attraction to new young consumers and significantly stimulated sales of female apparel for sports life.
- The innovative fan meeting marketing model contributed greatly to traffic and deals at online malls, and led to 20,000 newly registered users. The Sina Weibo topic #Shine with Jessica# recorded nearly 100 million views. In the 6-month promotion period, LI-NING Sports Life at Weibo recorded more than 200,000 additional followers.
- In promoting the classic leisure series, we continued to enhance comfortableness in order to meet daily needs for multi-site versatility from a greater diversity of consumers. Moreover, by partnering with the potential star Zheng Kai, our product placement efforts in “Running Man (奔跑吧·兄弟)”, a hot TV entertainment programme in 2014, effectively facilitated content-based digital marketing and recorded numerous second spreads and positive comments.
- With visual focus revamped for the sports life category, the “Designed by Seoul Studio” Series as well as LNC stores debuting in the second half of 2014 were designed to upgrade shopping experience with a boutique conception. Comfortable, convenient, trendy and stylish shopping experience was offered through clear and thoughtful zoning, with simplistic visual display helping customers to create their exclusive selections.

Performance of Five Core Categories

Categories	Business Performance*	Market Positioning	Best Sellers
Basketball	 <ul style="list-style-type: none"> •Retail Sell-through Growth: 22% •New Product Retail Sell-through Growth: 58% 	<ul style="list-style-type: none"> •Products with professional functionality •Design: To satisfy functional demand •Target Consumers: Sports Enthusiasts Mass Market Consumers 	 CBA drifting sand Low off-court shoes RMB379  Basketball Sweat pants RMB229
Running	 <ul style="list-style-type: none"> •Retail Sell-through Growth: -16%^ •New Product Retail Sell-through Growth: -4%^ 	<ul style="list-style-type: none"> •Products with professional functionality •Design: To satisfy functional demand •Target Consumers: Sports Enthusiasts Mass Market Consumers 	 Cloud GII cushion running shoes RMB469  Running windbreaker RMB379
Training	 <ul style="list-style-type: none"> •Retail Sell-through Growth: 71% •New Product Retail Sell-through Growth: 63% 	<ul style="list-style-type: none"> •Products with professional functionality •Design: To satisfy functional demand •Target Consumers: Sports Enthusiasts 	 Basic multi-functional training shoes RMB269  Training Sweat pants RMB299
Sports Life	 <ul style="list-style-type: none"> •Retail Sell-through Growth: 11% •New Product Retail Sell-through Growth: 38% 	<ul style="list-style-type: none"> •Emphasize on Sports Life •Design: To satisfy the demand of life, sports and casual fashion by urbanites •Target Consumers: Mass Market Consumers 	 Superwave M Heritage shoes RMB299  Sports Life Sweat top RMB379
Badminton	 <ul style="list-style-type: none"> •Sell-in Growth through Professional Channels: 18% 	<ul style="list-style-type: none"> •Products with professional functionality •Design: To satisfy functional demand •Target Consumers: Sports Enthusiasts 	 Hybridminton Badminton training shoes RMB399  Badminton Sweat pants RMB269

*New Product : Current and Last Season Products

^ Decline partially due to reclassification of Jogging into Sports Life in 2014

Footwear

Glory

- A new model launched in 2014 with 90s retro running shoe design, using complex lines and high-quality materials.

Honour

- A new model launched in 2014 with 80s retro running shoe design.

Medalist

- The creative workmanship of heather knitted upper has been commercialized in quick strike product to stay close to market trend.

3KM

- Introduced 3KM II products into the market. We keep strengthening and upgrading 3KM product line and make a more reasonable annual planning of 3KM family.

- Use different materials to meet the needs of consumers from different regions.

Apparel

Use new product stories to make the product structure clearer

- The 4 stories in 2013, X-Game/LNSU/Fresh, Basic/Graphic were replaced by Soft Tech/Heritage/Core/Graphic to make the whole product structure clearer. In particular, we launched a new concept of “fashion + function” for 2014Q1 Soft Tech collection to meet the needs of young consumers.

Introduce sports elements with LI-NING characteristics to enhance our brand value

- In the 30th anniversary of the 84 Los Angeles Olympic Games, We launched the first “8 in 1” product in 2014Q1 and obtained the patent, and also released “LN stripe” as classic sports element for LI-NING brand.

Sales Channel Expansion and Management

As at 31 December 2014, the number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to a total of 5,626, representing a net decrease of 289 stores as compared to 31 December 2013. The number of distributors decreased to 51, down by 4 from 31 December 2013. Store breakdown as at 31 December 2014 is as follows:

Number of franchised and directly-operated retail stores

LI-NING brand stores	31 December 2014	31 December 2013	Change
Franchised retail stores	4,424	4,989	(11.3%)
Directly-operated retail stores	1,202	926	29.8%
Total	5,626	5,915	(4.9%)

Number of retail stores by geographical location

LI-NING brand stores	31 December 2014	31 December 2013	Change
Eastern Region (Note 1)	2,026	2,197	(7.8%)
Northern Region (Note 2)	2,278	2,324	(2.0%)
Southern Region (Note 3)	1,322	1,394	(5.2%)
Total	5,626	5,915	(4.9%)

> Management Discussion and Analysis

Li Ning Company Limited • Annual Report 2014

Notes:

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



In 2014, we devoted our efforts in improving retail capability among all channels. We focused on strengthening management on merchandising, retail execution, channel expansion and innovations. The higher overall efficiency as well as fast response to market and consumer appeals laid a solid ground for better retail results.

At merchandising level, to drive order quality and fast response to market and consumer demands and trend, we continued to carry out Trade Fair Orders/Quick Replenishment (QR)/Quick Strike (QS) model in our "Go To Market" process. The traditional trade fair orders also made a progress, as witnessed by the continuously increased take-in of our prescriptive A+ products. Since the introduction of our A+ product portfolio from the 2nd quarter (Q2) of 2013, A+ orders have gradually taken up over 50% of the future orders. Meanwhile, our sales department worked closely with our product category department and distributors to classify our stores by attributes of consumer needs, in order to drive better store assortment planning. The differentiated

product assortment planning specific to store group has greatly improved order accuracy and effectiveness. We also started our efforts in making further segmentation and differentiation of commercial districts to align store assortment planning with product categories. Stores were grouped for management by city tier, commercial zone, consumer segments, sports/sports life relativity, etc. based on our product category strategy.

Our "Resources Management Platform" in place to monitor and optimise inventory resources helped us to predict forward order matching and timely identify our warehouses, distributors and subsidiaries which have inventory excess/shortfall, enabling our decisions on order rebalancing, merchandise allocation, sales promotion and clearance. We have been able to catch the opportunity to replenish the best sellers since 2014Q2 to



distributors and sub-distributors with out-of-stock situation. Throughout the year, we also intentionally offloaded the seasonal slow-moving products to discount stores, to clear up the space in regular stores for the best sellers.

On sales promotion strategy, the group-wide centralised price guidelines brought our actual retail prices more in line with the market needs, while the retail end with adequate authorisation at regional level could respond more flexibly to external competitions. As regards sports resources, we focused on CBA events to strengthen interaction between offline and online in the second half of the year, launching series of promotional activities including "Let Go" with desirable results in the "11th November" event.

We also drew upon the communication platform with consumers, retail end, sales managers, distributors and our regional sales offices using advanced technology. Our customer loyalty program "NingJu" card has seen growth in membership to over 500,000 since its launch in earlier 2013, covering all of our self-owned stores and integrated with our "e-Commerce" program. We built websites for store managers and a few "WeChat" platforms connecting them to communicate and share business initiatives, retail knowledge and trends, etc., giving store managers a platform to report directly on operation of the stores, issues and product demands as well as photo uploading to keep track of the store visual display.

These reforms on retail operation resulted in strong growth of more than 18% in our current season product sales in regular stores in 2014, with over 80% of our sales driven by our current and prior season products. Retail discount was improved across the stores, which helped increase gross margin of stores and profitability of distributors. Driven by the improving retail efficiency, our same store growth turned positive in the second half of the year and recorded a high single-digit growth in the fourth quarter.

As regards channel expansion, we added over 800 new stores during the year, and established a team to standardise store opening and operations to ensure that they can become profitable within 6 to 9 months. In 2015, we will continue to review some of the markets we lost while seeking opportunities to open new stores. One of the challenges we are still facing today is that many of our sub-distributors are single-store operators with low productivity and poor retail operations. Many of them have an outdated inventory mix which makes the store look stale and affects its revenue-generating capability, resulting in the threat of operating loss and store closure. In 2014, we identified multiple approaches to address sub-distributor revival, which have made some preliminary positive results.

We also captured opportunities to build the channel of LNC (Li-Ning Collection) stores which focuses on premium products in sports life category in order to expand the middle and premium consumer market. A rich mixture of cross-category products originated by Korean designers, with the endorsement of Jessica (a former member of the Korean pop group Girls' Generation), helped attract fashion-minded consumers. More than 10 LNC stores have been opened which contributed sound results in the fashion mall channel, and more new stores are scheduled in 2015.

On retail and visual display, we continued to upgrade store image and worked with ESPEC, a Korean VMD company, to revamp our store look by a new design – the 7th generation which highlights sports attributes and introduces more fashion elements. Currently, we have four stores of the 7th generation in operation. We believe that fuelled by the new store image, our retail results will be positioned for effective improvement and enhancement.

In 2015, the Company will adopt the strategy of integrating channel and product assortment and fine-tune our channel planning based mainly on product categories, nature of shopping districts, types of channels and consumers' purchasing power. On the basis of the original concept of standard stores, we will add points of sales and plan for multiple store types to get closer to the fast-changing market trend, and will improve the quality and expand the scale of our channel planning.

E-Commerce

The Company's e-commerce business has seen tremendous growth in 2014, with total revenue up by 48% and direct-retail stores' revenue up by 85%. Our flagship stores on major e-commerce platforms such as Tmall and JD have more than doubled in size, with wider and better assortment and excellent operations. On 11 November 2014, we recorded sales of RMB77 million, ranked No. 2 in sports/outdoor category which overtook Nike and Adidas and sold more than twice as compared to other local competitors. In 2014, our profitability also improved by 5 percentage points with better discount management, more disciplined distributor management, and more in-season assortment. Moving forward, business model innovations will be the focus of 2015. The Company will further enhance its presence in mobile channel, strengthen its digital innovations, build up "O2O" eco-system and customer relationship management platform and provide a world-class Omni-channel shopping experience for customers of LI-NING brand.

Supply Chain Management

Retail Business Model

Li-Ning has been seeking an overall improvement of its retail operation capacities for all channels, with a view to enhancing its channel efficiency and operation effectiveness so as to expand its market share and elevate the profitability of the Company and its business partners.

Significant achievements have been made to strengthen our capabilities in providing the right product to the right place at the right time with the right quantity to the right customers in the second half of 2014.

- One common IT integrated comprehensive retail platform has been rolled out to all self-operated stores and selected distributor stores; this stable platform achieved continuous enhancement of store operation and optimization of channel inventory level.
- Standardized and automated E2E process (including demand forecasting, merchandising, assortment planning, supply chain collaboration and retail operation) has been applied and optimized for the Company.
- We are now capable of weekly decision making for sales operation based on real time POS data collection, daily sales trend analysis and weekly demand/supply review & rebalancing.

Supply Chain

Li-Ning continued to strengthen its capabilities in establishing a demand-driven and market-responsive supply chain to improve its retail capability and business growth:

- One common planning tool was used by Li-Ning and all 1st/2nd tier suppliers to ensure quick response to demand changes. Management efficiency has been significantly improved as a result.
- The implementation of batch production/delivery effectively reduced inventory risks and allowed quick response to real time sales demand.
- Lean production lines were adopted to cater for retail needs for small order/high frequency/short cycle time products, with a “green lane” for quick strike products and quick replenishment orders.
- Centralized warehouses were located in the proximity of factories to reduce lead-time. Shipments were sent to regional distribution centers which are located closely to POS to ensure fast replenishment (based on data analysis and demand forecasting). Standard IT system is about to be established in all distribution centers across China.
- We optimized our supply base through measures including investing in key suppliers, going Mid-West of China and sourcing from Southeast Asia. Such measures helped relieve the issue of labour shortage, achieve cost savings and supplement our production capacity.
- We cooperated with both domestic and overseas ODM suppliers to improve efficiency in product R&D and production.

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. The brand principally engages in manufacture, research and

development, marketing and sale 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. It 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), with newly endorsed Fan Zhendong (樊振東), Yan An (閔安), Zhu Yuling (朱雨玲) and Chen Meng (陳夢) as spokespersons for its table tennis equipment.

In 2014, Double Happiness actively sponsored local and overseas professional competitions and obtained the sponsorship for the table tennis competitions and the lifting competitions of the 2nd Youth Olympics, and provided professional equipment for the World Team Table Tennis Championships in Tokyo. The brand also continued to provide professional equipment for events such as the Table Tennis World Cup, the ITTF Professional Tour, China Table Tennis Super League and China Table Tennis Championships.

Double Happiness signed the 2017-2020 cooperation agreement with the International Table Tennis Federation (ITTF) in 2014, under which the brand has been granted the role of table tennis equipment sponsor for the 2020 Olympic Games, the World Table Tennis Championships, the Table Tennis World Cup and the ITTF Professional Tour for a term of 4 years.

Double Happiness covering and Double Happiness blades were among the most popular choices of China National Table Tennis team members, according to the latest statistics in 2014. Besides equipment for professional players, Double Happiness introduced and successfully launched over one hundred new products in 2014, including specific products for e-commerce and supermarkets, professional blades, professional coverings, new concept badminton racket, sports shoes, sportswear and mini fitness equipment. These new products expanded the product line of the Double Happiness brand, demonstrating the strong product R&D and design capabilities of Double Happiness.

Double Happiness launched seamed table tennis balls made with a new material in May 2014 to gradually phase out celluloid material which has been used for 123 years. Table tennis balls made with this new material under the Double Happiness Brand will be used in major top events from 2014 to 2016, including the 2016 Rio de Janeiro Olympic Games and the World Table Tennis Championships in Kuala Lumpur. New models of blade and

covering which fit the new table tennis balls were also rolled out, which received recognition from the professional athletes of the China National Team, as well as recommendations from users.

Double Happiness and the Chinese Table Tennis Association launched the dual-colour table tennis ball in the final of the China Table Tennis Super League in August 2014 to make television broadcasting of table tennis events even more enjoyable. This creativeness demonstrated the research and development ability and innovation of Double Happiness, and contributed to the promotion and development of table tennis events.

Double Happiness products are mainly distributed via wholesale and integrated sporting goods stores. The brand has adopted a wholesale model for its domestic business, with a relatively stable clientele across nearly 30 provinces and municipalities in China. Double Happiness continued to refine and regulate the management of customer behaviours and sales policies in 2014 by implementing a specific policy of providing “supply specially catered for supermarkets”, under which access was made to dozens of domestic supermarket systems through specific product and sales policies that suit the supermarket channels. Double Happiness continued to support and controls its e-commerce channels, and implemented strict authorization and management over such channels. Double Happiness topped the sales charts of sports products on major e-commerce platforms by developing unique products for e-commerce channels, implementing specific policies for e-commerce development and supporting e-commerce promotions.

OTHER BRANDS

Kason Brand

Kason, a well-known badminton equipment brand with over 20 years of history, is an important and integral part of the Group's badminton business.

During the reporting period, Kason continued to strengthen its “classic” brand positioning perceived by consumers through optimization of product mix, production costs and value proposition of products by producing retro version of classic racket models, so that the classic products of Kason brand remained popular. The newly developed apparel and footwear segments maintained market competitiveness in terms of product design and pricing.

Through differentiated brand positioning between LI-NING brand and Kason brand, the Group will continue to enhance product competitiveness and ensure reasonable utilization of the brands' superior marketing resources in sports to increase market share in the badminton category.

Lotto Brand

Direct retail was the focus for Lotto in 2014. Meanwhile, we optimized assortment to prioritize key categories for largest growth in running shoes, lifestyle footwear, T-shirts and pants. We have also started in-season replenishment in selected key categories and will expand in 2015. Our focus for 2015 is to continuously improve competitiveness of key categories, optimize inventory and improve sell-through ratio.

AIGLE Brand

In 2014, under the impacts of a general slowdown in China's economy and the difficult environment faced by the retail sector, most shopping arcades and similar outdoor leisure brands encountered enormous challenges. However, AIGLE brand maintained close to double-digit same-store sales growth through implementing the following strategies to ensure efficient synergies of different operation links.

During the year, AIGLE brand continued to focus on 1) improving its own product design; 2) identifying and upgrading the image of its major retail shops; 3) strengthening its retail sales management and developing its management on the basis of its existing foundations; 4) elevating its VIP services and realizing its operating depth.

Looking ahead, AIGLE brand will continue to implement the above long-term development strategies, while bringing into full play the following major operation strategies, with an aim to boost recognition and loyalty of its consumers and to promote stable growth of its operating results. In addition, the brand will strive to strengthen its market competitiveness and brand values in the long run.

Future business strategies of the brand will cover the following key aspects: 1) planning the layout and expansion of new shops in a rational manner based on its existing foundations in shop development; 2) bringing out the full potentials of existing shops by improving performance of shops and realizing stable growth of profits; and 3) further promoting the brand by emphasizing its market positioning. With the emergence of e-commerce channels, the brand will explore more market opportunities and space through collaboration with such channels.

HUMAN RESOURCES

The transformation of the Group's business continued in 2014. A "win" culture was created within the organisation by supporting business needs while controlling labour costs, collaboration between business departments to push forward organisational development as well as enhancing standardisation, efficiency and quality of services. This culture mirrors our vision of striving to become a valuable business partner and the most admired employer brand in the PRC.

Adhering to the principle of matching job responsibilities and individual performance and capabilities with corresponding compensation packages, the Group enhanced the linkage between remuneration and performance by optimising its compensation structure to promote a performance-driven culture. To facilitate the effective matching of an employee's position with his/her capability, the Organisational and Talent Review ("OTR") policy was implemented across the Group. Key positions and capabilities of talents were evaluated for subsequent renewal of appointment. While attaching importance to nurturing talents within the organization, we effectively introduced new blood from external sources to replenish the talent pool required for our business growth.

In 2014, the Group enhanced communication with employees through communication session with all employees, voting on star products, core team lunch and other means, aiming to keep our employees aligned with our strategic objectives and enhance a sense of belonging within the organisation. During the year, the Group also actively discharged its corporate social responsibility. A range of public events including visits to Hope Primary Schools, "Postal Parcel for Mothers" and "For a Warm Winter" helped establish our sound image as a responsible corporate citizen.

As regards employer brand-building, an official LI-NING recruitment WeChat account was set up as a window to vividly

showcase the Company's activities and achievements in this area. Design contests were organised successfully to attract designers of high caliber while publicising our employer brand. The retail management trainee programme ensured the nurturing and supply of frontline retail talent, strongly fuelling the Group's retail-oriented strategy.

Looking ahead, we will make every effort to deploy our human resources for the core business units of LI-NING brand and to adjust and optimize our organisational restructuring business growth. The objective is to enhance our business execution capability and performance assessment system with a view to raising our operational efficiency, while effectively reducing our labour costs. Full support will be given to product innovation, channel innovation and expansion, and improvement in merchandising and retail capabilities.

As at 31 December 2014, the Group had 3,735 employees in total (3,592 employees as at 31 December 2013), including 2,158 employees at the Group's headquarters and retail subsidiaries (1,991 employees as at 31 December 2013), and 1,577 employees at the Group's other subsidiaries (1,601 employees as at 31 December 2013).

OUTLOOK AND CORRESPONDING STRATEGIES

Moving to the next development stage

The Company has strong convictions of its current development strategy and direction, as well as the vision of building a leading sports retail LI-NING brand in China. The Company also attaches great importance to investors' continuous support to the business development of the Group.

In view of the current achievements in various aspects, the Company has a clear roadmap for the next phase of growth. The year 2015 will mark the beginning of a new development stage of Li Ning Company Limited, and breakthrough is expected in the next three years.

Key Initiatives for future development

As the key profit centers that generate the major Profit and Loss implication, the development of the five core sports categories will be the major business drivers for the Company. The Company will centralize its key sports marketing resources to invest in these key business units for future development.

The enhancement among product, channel and retail capability will continue to work as the three pillars to support the operation of the Company. These pillars will establish a solid platform to fully support the development of the five core sports categories in general. To achieve the balanced development of these three pillars, the following initiatives will be taken by the Company in the future:

Innovate in Product R&D

- Focus on two platforms, namely sports functionality and sports life, based on brand positioning, and adopt product strategies focusing on professional functionality and mass market respectively for the two platforms
- For products innovation, follow two roadmaps of professional functionality and mass market according to different products combinations

Optimize Channel Structure

- Adopt the strategy of integrating channel and product assortment
- Strengthen collaboration with channel partners, and re-enter markets with low-penetration and growth potential

- Implement the inventory optimization strategy
- Launch the Omni Channel strategy to enhance interaction with consumers via online and offline channels to build LI-NING digitalized sports business

Enhance Retail Capability

- Implement corresponding initiatives at different stages of “Closed Loop” retail operation (including stages from product planning to cash recovery) with disciplined execution
- Improve the overall retail capability among all channels, including self-owned retail, distributors, sub-distributors and E-commerce
- The objective is to enhance consumers’ shopping experience

“Three Pillars” Strategy to Support Five Core Categories



> Corporate Governance Report

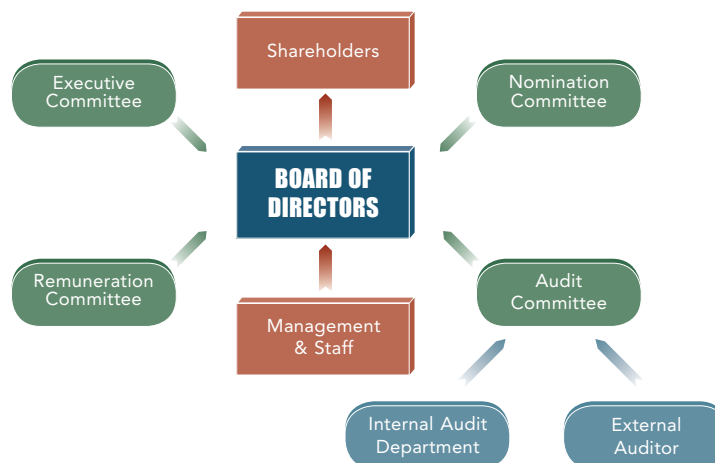
Adapting and adhering to recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in an effective and efficient manner. The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

on internal control, fair disclosure and accountability to all Shareholders.

Throughout the year ended 31 December 2014, the Company has complied with the code provisions of the Corporate Governance Code ("Code Provisions") as set out in Appendix 14 to the Listing Rules, except for certain deviations specified with considered reason as explained below.

CORPORATE GOVERNANCE STRUCTURE

The corporate governance structure of the Company is as follows:



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

During the year of 2014, the Board has performed the following duties in respect of its corporate governance functions:

- reviewing the Company's policies and practices on corporate governance;
- reviewing and monitoring the training and continuous professional development of the Directors and the senior management of the Company (the "Senior Management");
- reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements;
- reviewing and monitoring the code of conduct applicable to employees; and
- reviewing the Company's compliance with the code of disclosure in the Corporate Governance Report.

THE BOARD OF DIRECTORS

Being accountable to the Shareholders, the Board has the responsibility for providing leadership and monitoring and controlling the Company and is collectively responsible for promoting the long-term sustainable and healthy development of the Group by directing and supervising the Company's affairs.

Composition of the Board

The Board currently comprises seven Directors, with a majority of whom being non-executive Directors (including independent non-executive Directors), of which two are executive Directors, one is a non-executive Director, and four are independent non-executive Directors. During the year of 2014 and up to the date of this report, the composition of the Board and its changes are as follows:

Name of Director

Executive Directors

Mr. Li Ning	<i>(Executive Chairman and Interim Chief Executive Officer) (appointment as Interim Chief Executive Officer on 18 March 2015)</i>
Mr. Jin-Goon Kim	<i>(Executive Vice Chairman) (as Interim Chief Executive Officer from 21 March 2014 to 14 November 2014)</i>

Non-executive Directors

Mr. Chen Yue, Scott	
Mr. Zhang Zhi Yong	<i>(re-designated as non-executive Director on 28 June 2014; resigned on 6 October 2014)</i>

Independent non-executive Directors

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

The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group. There are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

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

Board Diversity Policy

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

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

Chairman and Chief Executive Officer

According to paragraph A.2.1 of the Code Provisions, the role of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual.

During the year of 2014, the Company was in the process of identifying chief executive officer ("CEO") candidate and therefore the day-to-day responsibilities of the CEO had been assumed by Mr. Li Ning, the Executive Chairman, who managed the external affairs and relationships of the Group, and by Mr. Jin-Goon Kim, the Executive Vice Chairman (Mr. Kim acted as the Interim CEO from 21 March 2014 to 14 November 2014), who managed the internal affairs and the operations of the Group. Therefore, there was no separation of the roles of the chairman and the CEO as both roles were undertaken by the Executive Chairman and the Executive Vice Chairman of the Board. Notwithstanding the above, the Board is of the view that the current management structure is

effective for the Group's operations and sufficient checks and balances are in place. The operations and management of the Company is constantly subject to the scrutiny and valuable contributions of the independent non-executive Directors. The Board will continue to review the management structure regularly to ensure that it continues to meet these objectives and is in line with industry practices.

Since the stepping down of Mr. Jin-Goon Kim from the position of the Interim CEO with effect from 14 November 2014, the CEO's duties has been performed by Mr. Li Ning and supported by the incumbent Senior Management. As at the date of this report, Mr. Li Ning has been appointed as the Interim CEO of the Company with effect from 18 March 2015. The Board believes that the roles of Executive Chairman and Interim CEO performed by Mr. Li Ning provide the Group with strong and consistent leadership and are beneficial to the Group especially in planning and execution of business strategies. The Board also believes that the present arrangement is in the interest of the Company and its shareholders as a whole.

Principal Responsibilities of the Board

While delegating the authority and responsibility for implementing business strategies and managing the day-to-day operations of the Group's business to the management, the Board is collectively responsible for formulating the strategic business direction of the Group and setting objectives for the management, overseeing its performance and assessing the effectiveness of management strategies. The Board reviews the operating performance against agreed targets and budgets on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term objectives and strategies;
- approving strategic, operational and financial plans;

- monitoring and controlling the Group's operational and financial performance;
- approving financial statements and public announcements;
- setting the dividend policy;
- approving major acquisitions and disposals, formation of joint ventures and capital transactions; and
- developing and reviewing the Company's policies and practices on corporate governance, and performing other duties set out in paragraph D.3.1 of the Code Provisions.

Directors' Induction and Continuous Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives a comprehensive, formal and tailored induction to ensure that he has a proper understanding of the business and operations of the Group and that he is fully aware of his duties and responsibilities as a director under the applicable rules and requirements. Directors are updated on any developments or changes affecting their obligations from time to time. Professional training and update programmes are provided to the Directors on a regular basis in order to enhance the Board members' knowledge on the professional and regulatory perspectives. In May 2014, the Company, together with its legal adviser, organized a training session to provide the Directors with an update on "Inside Information Disclosure" under the Securities and Futures Ordinance.

According to the records maintained by the Company, the Directors received the following trainings and updates in 2014:

	Attending seminars and/or conferences and/or forums relating to rules and regulations or duties of the directors	Reading newspapers, journals and updates relating to the economy and business management and duties of directors
Executive Directors		
Mr. Li Ning (<i>Executive Chairman</i>)	✓	✓
Mr. Jin-Goon Kim (<i>Executive Vice Chairman</i>) (<i>as Interim CEO from 21 March 2014 to 14 November 2014</i>)	✓	✓
Non-executive Directors		
Mr. Chen Yue, Scott	✓	✓
Mr. Zhang Zhi Yong (<i>re-designated as non-executive Director on 28 June 2014; resigned on 6 October 2014</i>)	✓	✓
Independent non-executive Directors		
Mr. Koo Fook Sun, Louis	✓	✓
Ms. Wang Ya Fei	✓	✓
Dr. Chan Chung Bun, Bunny	✓	✓
Mr. Su Jing Shyh, Samuel	✓	✓

Non-executive Directors and Independent Non-executive Directors

Non-executive Directors and independent non-executive Directors play an important check-and-balance role to safeguard the interests of the Company and the Shareholders as a whole, and will take the lead when potential conflicts of interests arise. The incumbent non-executive and independent non-executive Directors have extensive professional experiences and have participated in the meetings of the Board in a conscientious and responsible manner. They serve actively on the Board and its committees to provide their independent and objective views, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control. They have been appointed for a specific term subject to re-election according to the applicable Listing Rules and the Articles of Association.

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

Directors' Appointment and Re-election

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service agreement with the Company for a term of three years. All Directors are subject to retirement by rotation at least once every three years and are eligible for re-election in accordance with the Articles of Association. A new Director appointed by the Board is subject to re-election by the Shareholders at the first general meeting after his or her appointment in accordance with the Articles of Association.

Directors' and Officers' Liability Insurance

The Company has arranged for appropriate insurance cover in respect of possible legal actions against its Directors and officers. The scope of coverage of the insurance is subject to review annually.

BOARD COMMITTEES

The Board is supported by a number of committees, including the executive committee (the "Executive Committee"), the Nomination Committee, the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. Each of the Board Committees have their own defined and written terms of reference as approved by the Board covering their duties, powers and functions, which are in compliance with the Listing Rules and have taken into account the specific business needs of the Company. The Board Committees are provided with sufficient internal and external resources to discharge their duties. Each Board Committee reports the outcome of the Committee's meetings to the Board, addressing major issues and findings, and making recommendations to assist the Board in its decision making. Meetings of the Board Committees are convened and conducted in accordance with the Articles of Association.

Executive Committee

The Board has established the Executive Committee to enhance management efficiency since December 2004. The Executive Committee currently comprises three members, namely:

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

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

- advising on matters relating to, and overseeing the implementation of the Company's strategic objectives, risk management policies and compliances;
- providing the Board with recommendations on policies and specific operational issues, helping to develop and endorse major recommendations made to the Board by management, and supervising the management to implement policies and decisions laid down by the Board in relation to the business and operations of the Group;
- overseeing and guiding the business and operations of all of the business units of the Group; and
- endorsing proposals to change the Company's capital structure, including any reduction of capital, share buy-back or issue of new securities.

The Board reviews the terms of reference of the Executive Committee regularly to ensure that proper and appropriate delegation of authority is achieved, and the delegation remains appropriate to the Company's needs.

Nomination Committee

The Nomination Committee has been established since June 2005. The primary role of the Nomination Committee is to formulate and execute nomination policies of the Board members and the Senior Management, to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession planning for the Directors, the Chairman, the CEO and the chief financial officer ("CFO") of the Company, to evaluate the structure and organisational strategy of the Group and to assess and identify the appropriate staffing for the Senior Management.

The Nomination Committee has adopted the terms of reference as outlined under the Code Provisions. The current terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee currently consists of the following four Directors:

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

According to paragraph A.5.1 of the Code Provisions, the chairman of the nomination committee must either be held by the chairman of the board, or an independent non-executive director, and the majority of its members must be independent non-executive directors. With the appointment of Mr. Su Jing Shyh, Samuel, an independent non-executive Director, as the chairman of the Nomination Committee on 21 March 2014, the Company is in compliance with the chairman requirement under paragraph A.5.1 of the Code Provisions. As regards the requirement that the majority of the members of the nomination committee must be independent non-executive directors, given that the Group was still in the process of reform and required continuing support from TPG as well as the greater involvement of Mr. Li Ning with the work of the Nomination Committee, Mr. Jin-Goon Kim, a TPG nominated Director and an executive Director, and Mr. Li Ning, the Executive Chairman and an executive Director, acted as members of the Nomination Committee during 2014.

The Nomination Committee normally engages professional recruitment consultants in discharge of its duties and functions. Candidates who satisfy the criteria are short-listed and met by the Nomination Committee before the final candidate is nominated to the Board for consideration. The process ensures that the Board and the Senior Management have sound knowledge, experience and/or expertise in the business operations and development of the Group.

The following is a summary of the major tasks carried out by the Nomination Committee in 2014:

- assessment of the independence of each of the independent non-executive Directors;
- identifying candidates for the position of CEO for the Group; and
- annual review of the structure, size and composition of the Board; the time involvement, work framework, and duties and responsibilities of the Directors; and keeping records on the information updated by each Director pursuant to Rule 13.51B of the Listing Rules.

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

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

Remuneration Committee

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

The Remuneration Committee has adopted the terms of reference as outlined under the Code Provisions. The current terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

The Remuneration Committee currently consists of the following three Directors:

Ms. Wang Ya Fei (<i>Chairperson of the Committee</i>)	Independent non-executive Director
Mr. Chen Yue, Scott	Non-executive Director
Dr. Chan Chung Bun, Bunny	Independent non-executive Director

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

No Directors participated in decision making for his or her own remuneration. The emoluments of each Director for the year ended 31 December 2014 are set out in note 27 to the consolidated financial statements.

The following is a summary of the major tasks carried out by the Remuneration Committee in 2014:

- recommendation to the Board on the remuneration packages of all the Directors and Senior Management for the year 2014;
- reviewing and approving the bonus plan for the year 2014;
- reviewing, monitoring and approving the implementation of ESOP (employee share option program) for 2014;
- reviewing and approving the recommendation of short-term incentive and long-term incentive for the year 2014;
- reviewing and approving the standardization of the Group's benefits and the flexible benefits scheme;
- approving the budget of human resources expenses for the year 2015; and
- approving the terms of executive Directors' service contracts.

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

Audit Committee

The Audit Committee was established since the Company was listed on the Stock Exchange in June 2004. The primary role of the Audit Committee is to assist the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, overseeing the Group's financial reporting systems, internal control procedures and the Company's relationship with the external auditor.

The Audit Committee has adopted the terms of reference, which follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are in compliance with the Code Provisions. The current terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

The Audit Committee currently consists of the following three Directors:

Mr. Koo Fook Sun, Louis (<i>Chairman of the Committee</i>)	Independent non-executive Director
Ms. Wang Ya Fei	Independent non-executive Director
Dr. Chan Chung Bun, Bunny	Independent non-executive Director

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

During the year of 2014, the Audit Committee held three meetings with the external auditor of the Company to discuss issues they considered necessary.

The following is a summary of the work performed by the Audit Committee in 2014:

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

- review of and recommendation for the Board's approval of the annual results announcement and annual financial statements for the year ended 31 December 2013 and the interim results announcement and interim financial statements for the six months ended 30 June 2014 with focus particularly on changes in accounting policies and practices, compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;
- discussion with the external auditor and the management on possible accounting risks and major findings in the course of audit/review;
- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor;
- approval of the audit fees and terms of engagement of the external auditor;
- review of internal audit findings in 2014 and recommendations and approval of 2015 internal audit plan; and
- review of the effectiveness of the Company's risk management functions and internal control system, including the financial reporting and compliance functions.

Whistleblowing Policy

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

Board and Committee Meetings

The Board holds at least four regular Board meetings each year at approximately quarterly intervals and additional Board meetings are held as and when necessary. Regular Board meetings are scheduled a year ahead to facilitate maximum attendance by the Directors. The meeting agenda is set after consulting with members of the Board so that all Directors have the opportunity to include matters in the agenda. The agenda and accompanying papers are sent to the Directors in a timely manner before the date of the meeting in compliance with the Code Provisions.

Directors can at any time access relevant information as requested. The management provides comprehensive reports on the Group's business progress, financial objectives, strategic and development plans to the Directors to enable them to make informed decisions on matters submitted for their approval at the Board meetings. The Board arranges, where appropriate, relevant members of the Senior Management to attend their meetings and report the latest situation about operations and respond to queries from the Directors. For the year ended 31 December 2014, the Executive Chairman of the Company had meetings with the non-executive Directors, including the independent non-executive Directors, without the presence of the Executive Directors.

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

> Corporate Governance Report

Li Ning Company Limited • Annual Report 2014

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

Name of Directors	Number of meetings attended/ number of meetings held during the respective tenure in the financial year ended 31 December 2014			
	Board	Nomination Committee	Remuneration Committee	Audit Committee
Executive Directors				
Mr. Li Ning (<i>Executive Chairman</i>)	5/5	1/1	N/A	N/A
Mr. Jin-Goon Kim (<i>Executive Vice Chairman</i>) (<i>as Interim CEO from 21 March 2014 to 14 November 2014</i>)	4/5	1/1	N/A	N/A
Non-executive Directors				
Mr. Chen Yue, Scott	5/5	N/A	3/3	N/A
Mr. Zhang Zhi Yong (<i>re-designated as Non-executive Director on 28 June 2014; resigned on 6 October 2014</i>)	4/4	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Koo Fook Sun, Louis	5/5	N/A	N/A	3/3
Ms. Wang Ya Fei	5/5	N/A	3/3	3/3
Dr. Chan Chung Bun, Bunny	5/5	1/1	3/3	3/3
Mr. Su Jing Shyh, Samuel	3/5	1/1	N/A	N/A

Note:

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

ACCOUNTABILITY AND AUDIT

Financial Reporting

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

Prior to commencement of the audit of the Company's accounts for year 2014, the Audit Committee had received a confirmation from the external auditor on their independence and objectivity. External audit partners are subject to periodic rotation.

The statement of the external auditor of the Company, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the section headed "Independent Auditor's Report" of this annual report.

During the year of 2014, the management had provided all members of the Board with monthly financial updates in order to give a balanced and reasonable assessment of the Company's performance, position and prospects.

Internal Control

The Board has the responsibility to review annually the effectiveness of the Group's internal control systems and ensure that the controls are sound and effective to safeguard the Shareholders' investments and the Group's assets. In 2014, the Board, with the support of the Audit Committee, had reviewed the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and the appropriateness of their training programmes and budgets.

External Auditor's Remuneration

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

For the year ended 31 December 2014, the fees for the audit services and non-audit services provided by the external auditor are as follows:

Type of Service	2014 (RMB)	2013 (RMB)
Audit fee for the Group (Note)	4,350,000	4,200,000
Tax compliance and other advisory services	1,350,000	2,030,000
Total	5,700,000	6,230,000

Note:

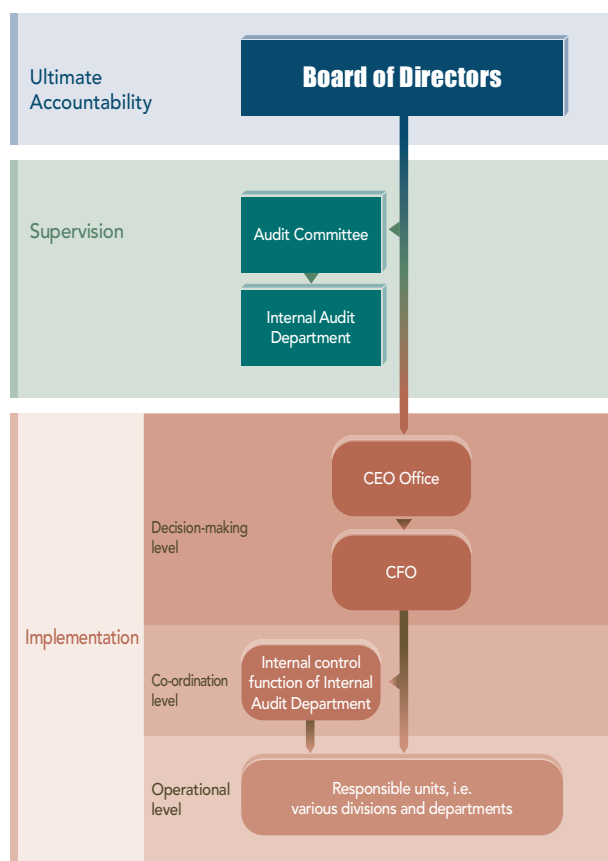
The audit fee for the year ended 31 December 2013 excludes professional fees of RMB3,000,000 incurred in relation to 2013 open offer transaction.

Internal Control System

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

the applicable laws and regulations. The system serves to provide reasonable, but not absolute, assurance against material misstatement, fraud or loss. During the year, the Group continued to improve its internal control system aiming at providing effective control and forceful support, reflected mainly in the following aspects:

- (1) The normal operation of the organizational structure of internal control set up on the basis of the COSO internal control framework is promoted continuously, and such framework is depicted as follows:



The Company has established a top-down organizational and management structure with clear-cut responsibilities and authorities for internal control purposes, embracing three levels which are responsible for ultimate accountability, supervision and implementation, respectively: (i) the Board bears the ultimate accountability and has the ultimate authority in internal control management. It is externally accountable to the Shareholders for corporate governance responsibility,

whereas internally it acts as the highest authority to foster internal control; (ii) the Audit Committee is responsible for supervising the establishment and operation of the internal control system by the management, monitoring the Group’s internal control procedures and advising the Board on the effectiveness thereof. Preliminary assessment on the effectiveness of internal control is conducted by the Internal Audit Department which reports directly to the Audit Committee; (iii) the

implementation level comprises a decision-making group, a coordination body (namely, the internal control function of Internal Audit Department, which is responsible for supporting the planning and establishment of the Group's internal control system, coordinating the promotion and implementation of the internal control structures in different systems, and organising examination on the effectiveness of the internal control and assessment of risks) and operational and functional divisions.

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

- (2) Possession of effective and forward-looking information on strategic management and operation management and financial and accounting management systems supports the supervision of implementation and performance of business strategies and plans. Timely and regular operational reports and monthly financial updates are submitted to and reviewed by the Senior Management, the Board or its designated Committees. This allows them to monitor and control situations against the established annual operating and financial targets and to consider necessary actions as well as to ensure such actions are being carried out promptly so as to remedy any significant failures or weaknesses.
- (3) The Internal Control Manual of Li Ning Company Limited (the "Internal Control Manual"), which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system, is implemented on an ongoing basis. The Internal Control Manual currently covers areas comprising the management procedures in respect of sales and trade receivables, procurement and trade payables, inventories, capital, financial reporting, taxation, management functions of the Group, administration and human resources, intellectual property rights, export and fixed assets. Systematic changes to the Internal Control Manual have to be carried out at least once a year, depending on the needs for business changes and procedural refinement, so as to further improve and

monitor the effectiveness of the internal control system on a continuing basis. With centralized arrangement and coordination of the internal control function of Internal Audit Department, key items of internal control and the specific control procedures set out in the Internal Control Manual were updated by the relevant departments during 2014. Such updated procedures have been implemented during the year.

- (4) An effective annual self-assessment and evaluation mechanism under the internal control framework has been established, with satisfactory results and attained the following goals:
 - (i) fostering middle and senior management to review and comment whether control targets on corporate level can be achieved, and to identify inadequacy and make improvement in a timely manner;
 - (ii) prompting the persons in charge of business processes to actively conduct process review on procedural control, test the design and execution effectiveness, identify problems in a timely manner and formulate improvement measures; and
 - (iii) assisting the Audit Committee and the Board in assessing the effectiveness of the Company's internal control system as a whole.
- (5) Independent reviews of risks and internal control in relation to key operations and financial and compliance functions are performed by the Internal Audit Department. Significant issues, if any, together with recommendations for improvement, are reported to the Audit Committee or the Board.
- (6) In order to support the rapid and healthy development of business diversification of the Group, the Company conducts annual risk review at corporate level and assesses risks and risk management controls on the key business aspects based on the Risk Management Manual of Li Ning Company Limited.

ANNUAL REVIEW

The Board is fully aware of its accountability in respect of the Group's internal control system and its responsibility for reviewing the effectiveness of the system. The Group's internal control system is subject to continuous review and improvement to enable timely responses to any changing risks faced by the Group.

A comprehensive review on the effectiveness of the Group's internal control system is conducted by the Board annually, covering all material controls including financial, operational and compliance controls and risk management functions. The review is performed internally on a self-assessment approach (CSA) with a complete set of reporting forms. Colleagues-in-charge of each division and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In 2014, the Company continued to improve methods for self-assessment, which included extending the scope of the self-assessment. The procedural control of self-assessment covered various divisions or departments in light of the Company's organisational restructuring and business expansion. In addition, members of the Senior Management were required to assess the effectiveness of the corporate internal control system according to the outlines of the COSO internal control system, including control environment and risk assessment information and communication. The review process has enabled the colleagues-in-charge to verify whether the internal control system is operated as intended, to identify failures or weaknesses and to take relevant remedial actions. The Internal Audit Department also carried out independent examination and analysis on the reviewing process and the results, and submitted a declaration to the Audit Committee and the Board certifying the adequacy and effectiveness of the Group's internal control system.

The results of the review for the year ended 31 December 2014 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. The areas of the systems and procedures pending further improvement have been identified and remedial actions have either been taken or designated to be taken. No material weaknesses have been identified by the Group so far and there are no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board have also received the annual review results with regard to the adequacy of resources, qualifications and experience of the Group's accounting and financial reporting staff and the sufficiency

of their training programmes and budget. In accordance with such results, the Audit Committee and the Board are of the view that the Group has adequate workforce to fulfil accounting and financial reporting duties. These personnel possess necessary professional qualifications and practicing experience to effectively perform their respective functions, and there have been appropriate training programmes and related budget for the staff.

The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the Code Provisions of the Corporate Governance Code for the year ended 31 December 2014.

INTERNAL AUDIT

The Internal Audit Department was established soon after the Company's listing on the Stock Exchange in 2004. The main functions of the Internal Audit Department are reviewing the operational and financial conditions of the Group, so as to disclose potential risks, and following up with related remedial measures, with a view to continuously enhancing the operation effectiveness and efficiency of the Group. The Internal Audit Department plays an important role in the Group's internal control and risk management framework with an aim to providing the Audit Committee and the Board with objective assurance that the internal control system and risk management system are effectively maintained and operated and that the risks associated with the achievement of business objectives are being managed properly and circumvented. The Internal Audit Department reports directly to the CFO and refers matters to the Audit Committee directly if necessary. The head of the Internal Audit Department attended every meeting of the Audit Committee and maintained constructive dialogue with the Company's external auditor during 2014. The Internal Audit Department also collaborates with the external auditor where appropriate.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk assessment results, and engages in related tasks with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular audits and evaluation of the operational effectiveness and efficiency of various business and functional systems; and (ii) special audits in areas designated by the management and the Audit Committee based on the assessment of risks. In the year 2014, the Internal Audit Department conducted audits on the sales system, marketing system, retail subsidiaries, supply chain system and financial systems of LI-NING brand, as well as on new business areas, and submitted the relevant audit reports to the Audit Committee and the management.

For significant audit findings and risk factors, the Internal Audit Department will notify the Audit Committee and the management of such risks in a timely manner, and will regularly follow up with the improvement progress. As at 31 December 2014, various audit findings and risk factors had been properly handled by the management, and there were no material irreparable audit findings and risk factors. The Internal Audit Department planned to carry out audits focusing on sales and product in 2015.

The Internal Audit Department also plays an important role in internal control and risk management system and is responsible for reviewing and assessing the adequacy and compliance level of the Group's internal control system and risk management system and providing an independent and objective opinion on the effectiveness of the systems. In 2014, the Internal Audit Department participated in reviewing the implementation of the risk management system, internal control system, risk management of sales channels and branding, and the financial systems.

INSIDE INFORMATION

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

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

COMPLIANCE WITH THE MODEL CODE ON SHARE DEALINGS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules regarding securities transactions by the Directors. Directors are reminded regularly of their obligations under the Model Code. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2014.

Employees who are likely to be in possession of unpublished inside information of the Group are also subject to the compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in the year 2014.

COMPANY SECRETARY

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

SHAREHOLDERS' RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS

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

Procedures for Shareholders to Convene a General Meeting/Put Forward Proposals

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

Procedures for Proposing a Person for Election as a Director

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

Procedures for Shareholders to Send Enquiries to the Board

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

For the year 2014, there was no change in the Articles of Association.

SHAREHOLDERS' MEETINGS

Shareholders' meetings provide a principal channel of direct communication between the Company and the Shareholders. They provide an opportunity for Shareholders to better understand the Group's operation, financial performance, business strategies and outlook.

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

To encourage Shareholders to attend the meetings, more than 20 clear business days' notice and a circular containing necessary information are given to the Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered at the meetings.

Board members (including the chairmen of each of the Nomination Committee, the Remuneration Committee and the Audit Committee) and the Company's external auditor were present at the annual general meeting of Company held on 30 May 2014 (the "2014 AGM"). A question-and-answer session was held for the Shareholders to raise questions. The next annual general meeting of the Company will be held on 5 June 2015 (the "2015 AGM"). Details of the 2015 AGM and necessary information on issues to be considered are set out in the circular despatched to the Shareholders together with this annual report.

The attendance records of the Directors at the shareholders' meetings held in the year 2014 are set out below:

	2014 AGM
Executive Directors	
Mr. Li Ning (<i>Executive Chairman</i>)	✓
Mr. Jin-Goon Kim (<i>Executive Vice Chairman</i>) (<i>as Interim CEO from 21 March 2014 to 14 November 2014</i>)	✓
Non-executive Directors	
Mr. Chen Yue, Scott	✓
Mr. Zhang Zhi Yong (<i>re-designated as Non-executive Director on 28 June 2014 and resigned on 6 October 2014</i>)	–
Independent non-executive Directors	
Mr. Koo Fook Sun, Louis	✓
Ms. Wang Ya Fei	✓
Dr. Chan Chung Bun, Bunny	✓
Mr. Su Jing Shyh, Samuel	✓

WAY FORWARD

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

By order of the Board

Li Ning
Executive Chairman and Interim CEO

Hong Kong, 18 March 2015

> Directors and Senior Management

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

EXECUTIVE DIRECTORS



Mr. Li Ning, aged 52, is the founder of the LI-NING brand and the Group's Executive Chairman, interim chief executive officer and an executive Director. Mr. Li also serves as the Chairman of the Executive Committee and a member of the Nomination Committee of the Company. Since the stepping down of Mr. Jin-Goon Kim from the position of the interim chief executive officer with effect from 14 November 2014, the duties of Chief Executive Officer has been performed by Mr. Li and supported by the incumbent senior management of the Company. He is primarily responsible for formulating the Group's overall corporate strategies and planning. Mr. Li has been appointed as interim chief executive officer of the Company with effect from 18 March 2015.

Mr. Li is one of the most outstanding athletes in the 20th century. In the 6th World Cup Gymnastics Competition in 1982, Mr. Li unprecedentedly won six gold medals in men's artistic gymnastics events and was named the "Prince of Gymnastics" (體操王子) in the PRC. In the 23rd Los Angeles Olympic Games in 1984, Mr. Li won three gold, two silver and one bronze medals, making him the athlete winning the most medals of that Olympic Games. In 1987, Mr. Li became the Asian member of the Athlete's Commission of the International Olympic Committee. From 1993 to 2000, Mr. Li served as a member of the Men's Artistic Gymnastics Technical Committee of the Federation Internationale De Gymnastique. He is currently an honorary member of the Federation Internationale De Gymnastique. In 1999, Mr. Li was voted one of the "World's Most Excellent Athletes in the 20th Century" by the World Sports Correspondent Association.

After retiring from his athlete career in 1989, Mr. Li initiated the idea of LI-NING brand with the goal of creating the first national sports goods brand in the PRC. He has dedicated the past over 20 years to the development of the Group's business, making great contribution to the development of the sporting goods industry in China. Mr. Li also serves as chairman, chief executive officer and executive director of Viva China Holdings Limited. Mr. Li holds a bachelor's degree in law from School of Law of Peking University (北京大學), an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院), a technical honorary doctorate from Loughborough University in the United Kingdom and a degree of Doctor of Humanities honoris causa of The Hong Kong Polytechnic University. In June 2010, Mr. Li was also conferred honorary fellowship from The Hong Kong University of Science and Technology.

Mr. Li has also been actively involved in charities via his "Li Ning Foundation" (李寧基金) and his genuine support to the active and retired Chinese athletes and coaches in establishing "The Chinese Athletes Educational Foundation" (中國運動員教育基金), which aims at providing subsidies for further education and trainings for athletes and to support educational development in impoverished and remote areas in China. In October 2009, Mr. Li was appointed by The United Nations World Food Programme (WFP) as "WFP Goodwill Ambassador against Hunger".



Mr. Jin-Goon Kim, aged 47, is the Group's executive vice chairman and an executive Director. Mr. Kim provides guidance and support to the Group and also serves as a member of the executive committee and the nomination committee of the Company. Mr. Kim became a director of the Company in April 2012 and served as interim chief executive officer of the Company from March to November 2014. Mr. Kim is a partner of TPG and a member of TPG's Operations Group. TPG is a world's leading private equity investment firm. From December 2007 to January 2011, he was an executive director and interim chief executive officer of China Grand Automotive Service Co., Ltd. (廣匯汽車服務股份公司), and was appointed as vice-chairman of the board from April 2012 to September 2013 and built China's leading passenger car retail and service network. As a director of the board from July 2008 to January 2014, Mr. Kim led the turnaround of UniTrust Finance & Leasing Corporation (恆信金融租賃有限公司), a leading capital equipment leasing company in China. Mr. Kim is also a non-executive director of the board of Daphne International Holdings Limited ("Daphne") since April 2011, a leading ladies' shoe company in China and a company listed on the Main Board of the Stock Exchange, and has led TPG's operational initiatives to help transform Daphne's core operations and pioneer industry's first fast retail business model. Prior to joining TPG, Mr. Kim worked for Dell Inc. as the managing director of its Korea business from 2002 to 2006. Prior to that from 2000 to 2002, Mr. Kim was vice president of Internet Business Capital Corporation in Cambridge, Massachusetts, a privately funded early-stage venture capital firm and from 1996 to 2000, he was the engagement manager at McKinsey & Company, an international management consulting firm. Mr. Kim received his undergraduate degree in Arts majored in Government and East Asian Studies from Harvard University with High Honors, conducted post graduate research in Nanjing-Hopkins Center in China, and returned to Harvard University to pursue his Master of Public Policy.

NON-EXECUTIVE DIRECTOR



Mr. Chen Yue, Scott, aged 38, is a non-executive Director, a member of the executive committee and the remuneration committee of the Company. Mr. Chen joined the Group in April 2012. TPG, which has interests in the convertible bonds, the convertible securities and ordinary Shares of the Company, is an affiliate of TPG Group, a leading global investment firm. Mr. Chen is a partner and managing director of TPG. Mr. Chen is head of TPG's Beijing office and co-leads investment opportunities for TPG in Greater China. Mr. Chen's investment focus spans across all industries but specialize in the consumer and retail, healthcare as well as technology, media, and telecom industries. Since joining TPG in 2001, Mr. Chen has been based in TPG's Singapore, Hong Kong and Beijing offices and has evaluated and executed private equity transactions across multiple industries spanning across most Asia Pacific countries. He is serving and has served on the boards of companies including co-chairman of United Family Healthcare since 2014, UTAC Holdings Ltd. since 2007 and Taishin International Bank Co., Ltd. from 2008 to 2010. Prior to joining TPG, from 1999 to 2001, Mr. Chen worked as an analyst in the Technology Mergers & Acquisitions Group of Lehman Brothers Holdings Inc. in New York. Mr. Chen graduated from University of Colorado with a Bachelor Degree in Business Administration in 1999.

INDEPENDENT NON-EXECUTIVE DIRECTORS



Mr. Koo Fook Sun, Louis, aged 58, is an independent non-executive Director and chairman of the audit committee of the Company. Mr. Koo joined the Group in June 2004. Mr. Koo is the managing director of Hercules Capital Limited, a corporate finance advisory firm. Prior to the founding of Hercules Capital Limited, he was the managing director and the head of corporate finance department of a major international bank, and a director and chief executive officer of a company listed on the Main Board of the Stock Exchange. Mr. Koo also serves currently as an independent non-executive director of Midland Holdings Limited, Good Friend International Holdings Inc., Xingda International Holdings Limited and Richfield Group Holdings Limited, all of which are listed on the Main Board of the Stock Exchange. From October 2003 to June 2012, Mr. Koo served as an independent non-executive director of Weichai Power Co., Limited, a company listed on the Main Board of the Stock Exchange. Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley in the United States and is a certified public accountant.



Ms. Wang Ya Fei, aged 59, is an independent non-executive Director, chairperson of the remuneration committee and a member of the audit committee of the Company. Ms. Wang joined the Group in January 2003. Ms. Wang has over 20 years of experience in management and corporate finance matters. Ms. Wang has been appointed as chairman of Caelum Asset Management Company with effect from September 2011. She also serves as an independent director of Xueda Education Group, listed on the New York Stock Exchange. Ms. Wang was the director and deputy general manager of Beijing Investment Consultants Inc. from 1996 to September 2011, and an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) from 1995 to September 2011. Ms. Wang holds a bachelor's degree in international politics from Fudan University (復旦大學) in Shanghai and was an exchange scholar in Maryland University, College Park in the United States. Ms. Wang also holds a M.B.A. degree from University of Lancaster in the United Kingdom.



Dr. Chan Chung Bun, Bunny, aged 57, is an independent non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company. Dr. Chan joined the Group in June 2004. Dr. Chan has more than 30 years of experience in the garment industry and is currently the chairman of Prospective Holdings Ltd. Dr. Chan has also served as independent non-executive director respectively of Great Harvest Maeta Group Holdings Limited since September 2010 and of Speedy Global Holdings Limited since December 2012, both companies are listed on the Main Board of the Stock Exchange. Dr. Chan is active in community affairs in Hong Kong, he is currently the chairman of the Kwun Tong District Council of Hong Kong and has been appointed as the chairman of the Commission on Youth of Hong Kong from 1 April 2009. Dr. Chan was appointed as Justice of Peace in 2002 and was awarded the Bronze Bauhinia Star medal in 2004, Silver Bauhinia Star medal in 2009 and Gold Bauhinia Star medal in 2014 by the Hong Kong Government. In December 2013, Dr. Chan was conferred Doctor of Business Administration, honoris causa, by the Open University of Hong Kong.



Mr. Su Jing Shyh Samuel, aged 62, is an independent non-executive Director and chairman of the nomination committee of the Company. Mr. Su joined the Group in July 2012. Mr. Su is the chairman and chief executive officer of the China Division of Yum! Brands, Inc. ("Yum!"), a company listed on the New York Stock Exchange. He also serves as an executive director and the vice chairman on Yum!'s board of directors. Mr. Su earned his undergraduate degree at the National Taiwan University, a M.Sc. degree of Chemical Engineering at Pennsylvania State University and an MBA at the Wharton School. Before joining Yum!, Mr. Su worked with Procter & Gamble in Germany and Taiwan. Mr. Su started his career with Yum! in 1989 as KFC International's director of marketing for the North Pacific region. In 1993, he became vice president of North Asia for both KFC and Pizza Hut. Mr. Su was named president of Greater China for Tricon Global Restaurants International upon Pepsi's spin-off of the restaurant business in 1997. Yum!'s China Division today leads the development of the KFC, Pizza Hut Dine-in Restaurants, Pizza Hut Home Service, East Dawning and Little Sheep brands in mainland China. Mr. Su was a non-executive director of Little Sheep Group Limited from 2 June 2009 to 2 February 2012, which was delisted from the Main Board of the Stock Exchange in February 2012.

SENIOR MANAGEMENT



Mr. Tsang, Terence Wah-Fung, aged 53, chief financial officer of the Group, joined the Group in April 2013, and is responsible for finance, internal audit, company secretary and investor relationship. Mr. Tsang has over 24 years of experience in the apparel industry. His previous employment included that for Guess Inc, Ashworth Inc and Levi Strauss Company. Mr. Tsang had held various management roles including as chief financial officer, chief operation officer, Asia president and senior vice president for business unit throughout his career. He is a Certified Public Accountant. Mr. Tsang holds a Bachelor of Science in Accounting and a Master of Business Administration from State University of New York.

> Investor Relations Report

OVERVIEW

In 2014, under the premise of ensuring the effective implementation of investor relations scheme, the Company and the management further enhance the daily communication with the investment community showing continuous interest in the business development of the Company. During the year, the business operations of the Company improved, new products received continuous recognition from consumers, distribution channels were optimised, and the retail capability of the channels were also enhanced. All these attainments contributed to the growth in revenue. However, it takes time for recovery of business operations to be reflected in the financial performance. Under such circumstances, timely grasping the opportunity to communicate and interact with investors to enable them to have a better and more precise understanding of the development of the Company in the ever-changing market environment is pivotal. As such, the Company and the investor relations team strive to maintain smooth day-to-day communication channels, and listen to and attach importance to the questions and feedback from investors on the progress of business development, as a proactive measure to safeguard two-way communication.

ENHANCE INFORMATION TRANSPARENCY AND STABILISE MARKET CONFIDENCE

In 2014, new market opportunities arising in the domestic sportswear industry was accompanied by the intensifying cut-throat market competition among peers. Against such a backdrop, with various business measures implemented by the Company, the Investor Relations Department actively communicated with investors and opened up communication opportunities to let investors have a clearer understanding of the recovery trend and key progress of the Company.

During the year, the Company attached higher importance to interaction on the basis of maintaining the smooth operation of various investor relations activities. The frequency of regular meetings and conference calls between the Company's management or Investor Relations Department and investors increased significantly, and information was collated in a timely manner after the meetings to enhance the investor database. Concurrently, on top of regular communication the Company organised investor activities of a larger scale in line with the business development of the Company, and engaged in intensive communication with investors in a uniform way under a clear goal, including inviting them to participate in reverse roadshows at the headquarters of the Company in Beijing, offering opportunities for in-depth communication and dialogues with the senior management of the Company to gain a more direct and comprehensive understanding of the status of development of major business sectors; and convening conference calls for special incidents in a timely manner to respond to concerns of investors and provide explanation on relevant concepts and rationales. On the basis of strict compliance with the various information disclosure requirements of the Hong Kong Stock Exchange, the Company strives to expand the depth and breadth of information dissemination to enhance information transparency, and stabilising market confidence on the long-term development of the Company.

The details of all investor relations initiatives for the year are provisionally listed as follows:

Type of initiative	2014	2013	2012
Roadshows (including reverse roadshows)	3 times (37 meetings in total)	2 times (22 meetings in total)	7 times (81 meetings in total)
Investor forums	1 time	1 time	1 time
Regular one-on-one meetings	110 times	43 times	59 times
Investor conference calls	89 times	87 times	70 times
Investor store visits	18 times	17 times	23 times
Investor site visits	3 times	2 times	1 time
Investor perception audits	0 time	3 times	0 time
Stock commentator roundtables	2 times	1 time	0 time

OUTLOOK

The Company always values the continuous support from investors towards its development strategies and business model, recognises the paramount importance of maintaining a good shareholder base to garner essential support from investors, and firmly believes that efficient investor relations is part and parcel of the management philosophy of the Company. As the Company moves onto a new stage of development in 2015, its Investor Relations Department will continue to adhere to the principles of accessible, credible and timely (the "ACT") and help investors fully comprehend the development strategies and philosophies of the Company and uphold confidence of the market and investors on the long-term development of the Company through continuous communication.

INFORMATION FOR INVESTORS

Share Information

Listing: Main Board of the Hong Kong Stock Exchange
on 28 June 2004

Stock code: 2331

Board lot: 500 shares

No. of issued shares as at 31 December 2014: 1,433,951,048

Market capitalisation as at 31 December 2014:
approximately HK\$5,434,674,472

Dividend for 2014

Interim dividend: Nil

Final dividend: Nil

Financial Calendar

Announcement of annual results: 18 March 2015

Annual General Meeting: 5 June 2015

Corporate Websites

Li Ning Official Website – Chinese only:
<http://www.lining.com>

Li Ning IR Website: <http://ir.lining.com>

Contact for Investor Relations

Suites 1, 7-15, Level 45, Office Tower

Langham Place, 8 Argyle Street, Mongkok

Kowloon, Hong Kong

Investor Relations Department, Li Ning Company Limited

Telephone: +852 3541 6000

Fax: +852 3102 0927

Email: investor@li-ning.com.cn

> Environmental, Social and Governance Report



Visit Chumi Heping Primary School in Zunyi
Tongzi County of Guizhou Province

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

In 2014, Mr. Li Ning and Li Ning Company were bestowed with the “Chinese Women Charity Awards-Contribution Award” for individuals and enterprises respectively at the third awards ceremony of the “Chinese Women Charity Awards” organized by All - China Women’s Federation (ACWF). At the ceremony, Li Ning Company released to the public its detailed public charity initiatives in 2013-2014, including charity projects such as “Healthy Mother Express”, “Postal Parcel for Mothers”, “Water Cellar for Mothers” and “Childhood Guardian” in which the Company had active participation in 2013-2014, and the cumulative number of beneficiaries reached 27.34 million.

“Shouldering social responsibility” has become an important constituent of the corporate culture of Li Ning Company. Our staff participated in activities like “For a Warm Winter” and Ludian earthquake relief. “Giving warmth and promoting a positive attitude” have become beliefs pursued by every Li Ning employee.

Li Ning Company has consistently upheld the principle that “sports activities are not solely for competition or fitness, but also have charity and education functions”. We deliver our most sincere passions through quality products and encourage the community to participate in charity initiatives so as to gather strength and contribute to society.

CORE VALUES

The Group considers its employees the greatest asset. By not only maintaining a working environment that helps employees’ physical and psychological well-being, but providing them with skill training and creating career development opportunities, the Group can therefore enhance staff cohesion and create a greater sense of belonging while improving individual’s skills of employees. As a result, the staff grows as the Company grows.

In 2014, the Group continued to adhere to the core values that embrace achieving excellence and breakthrough, creating consumer-oriented work ethics with both integrity and commitment, as well as building the Li Ning Company culture and dream. Senior management and staff had many opportunities to communicate with each other through various internal platforms, including town hall meetings, management workshops, star products luncheon series, Group intranet and various training courses. Our staff was also greatly encouraged to project their positive energy and develop a sense of ownership of the Company, which helped them deliver excellent performance, inspire innovation and proactively take part in the corporate reform and transformation.

STAFF TRAINING

Adhering to the principle of being “people-oriented” and based on the well-established system that integrates the perspectives of trainees, lecturers and curriculum, the Group developed its training programs with the focus on fulfilling



Donation activity for “Postal Parcel for Mothers”

the mutual need for the development of both the corporation and the staff. In terms of enhancing leadership skills, the Group launched a tailor-made “performance-based leadership workshop” for the management to address the needs arising from corporate transformation. The workshop covered management techniques and tactics, and provided expert knowledge and practices to better equip the trainees with new skillsets tailored to the Group’s vision of building a new retail business model (RBM).

The Group also provided targeted training courses for staff of various positions across different business units, such as Basic Sales Knowledge, Contract Law Training, Planning and Execution as well as Communication and Basic Leadership Skills, with a view to supporting the team building and development of business units.

At the same time, the Group also continued to perfect its talent review and development system and took stock of staff performance and potential staff through “Roundtable on Organisation and Talent”, and provided corresponding training courses to facilitate the management in nurturing subordinates with potentials in a focused manner. The above measures not only facilitated staff development and enhance overall strength of the teams, but also served to form a sustainable internal talent pool displaying strong potential and competitiveness.

WORKING ENVIRONMENT AND CULTURE

As a company specialising in sports brand, the Group regards highly the physical and psychological well-being of its employees. Employees are encouraged to participate in various activities to promote sportsmanship, diligence and the spirit of striving for excellence as sporting activities provide valuable opportunities for team interaction and bonding and allow employees to become more knowledgeable about the corporate mission of Li Ning Group.

The Li-Ning Centre, situated at the Group’s headquarters in Beijing, offers a variety of facilities and venues for staff use, ranging from basketball courts, badminton courts, tennis courts, swimming pools and football fields to fitness centre. Professional coaches are also hired not only to teach the employees various sports but also to nurture positive attitude toward sports among them. The Group is also funding a number of sports clubs set up by staff on their own, where various internal and external competitions have already been held, including badminton/basketball/football contests, Beijing marathons, and basketball competitions for foreign-invested enterprises in Beijing. Taking part in these sporting activities provided the staff with the unique opportunity to continuously deepen their appreciation of corporate values. Our unique sporting culture has also become one of the important factors in attracting talents to the Group.

TAKING CARE OF STAFF AND THEIR FAMILIES

In addition to our unique sporting culture, the Group has also regularly organized various activities for our employees’



Donation activity for Ludian area in Zhaotong Municipal of Yunnan Province earthquake

families, including parent-child gatherings, annual meet-ups and health talks for staff and their families. These activities have helped enhance employees’ sense of belonging to the Group and demonstrated the Group’s care for its employees and their families.



Donation activity for “Give New Year Warmth”

EMPLOYEE BENEFITS AND WELFARE

The Group provides supplementary commercial medical insurance to all employees and their family members, and arranges free medical check-ups for its staff every year. Our offices are designed and furnished with various green plants and environment-friendly facilities to create an elegant and soothing working space as well as to ensure a healthy and comfortable working environment. At the same time, the Group has set up nursery rooms for female employees during their lactation period. In 2014, the Group streamlined the welfare system to transform our staff welfare system into a more personalised one. In addition, regular departmental meetings were also held to provide additional platforms for communications between the management and staff.

CONTRIBUTING TO SOCIETY

The Group has been actively fulfilling its social responsibility as a corporate citizen, and the founder of the Group, Mr. Li Ning, regards corporate social responsibility and charitable activities as highly important. In particular, the Group created the post of corporate social responsibility manager in 2014 to take charge of the social responsibility initiatives of the Group. Specifically, after the outbreak of the earthquake of magnitude 6.5 in Ludian region of Zhaotong City, the Group spared no effort in donating clothing worth RMB5 million to victims of the stricken areas through China Women's Development Foundation to resolve the urgent need of victims for clothing and support the local people to rebuild their homes. Meanwhile, the Group successively launched activities including Postal Parcel for Mothers and Warm Winter in 2014 to make donations to elderly mothers in the old revolutionary base of Tongzi County, Zunyi City, Guizhou Province. The Group attaches great importance to corporate responsibility, and will continue to encourage employees to participate in charitable activities in future.

CORPORATE RESPONSIBILITY AND SUSTAINABILITY MANAGEMENT

1. Li Ning's Supply Chain Social Responsibility and Sustainable Development

As a Chinese sports brand leader, the Group has attached great importance to the balance between the Company's growth and environmental protection, committed to exploring an efficient solution of chemical management and collaborated with industry organizations, suppliers, NGOs, external experts and other stakeholders as always. During the year, on the basis of the extensive management of its supply chain, Li Ning Company made a strong effort to carry out key projects of corporate social responsibility (CSR) and environmental management, and to encourage supplier to take corrective actions.

A. Occupational Health, Safety and Social Responsibility of Li Ning's Supply Chain

This year, the Group continued implementing "Li Ning Company Supplier Social Responsibility Code of Conduct" and strengthened the management of suppliers:

- The audit standards of new suppliers were modified to strengthen the new supplier approval requirements. In the year, audits were conducted on totally 14 potential suppliers among which 8 became our suppliers officially and 1 was approved conditionally while the introduction of other five were terminated. The total passing rate was about 57%;

- Li Ning's supplier quarterly reporting/assessment system was established and all the suppliers were evaluated on their CSR performance on a quarterly basis. The contents and requirements of regular reporting of suppliers were developed. The Company introduced a scoring mechanism to guide suppliers to strengthen self-management.
- Based on the combination of supplier self-management and supervision by Li Ning Company, the Group further improved its supplier audit assessment tool and commissioned a third party consulting organization to conduct CSR on-site audit on 15 representative suppliers during the year;
- Based on the combination of auditing and improvement, the Group further strengthened requirements on supplier implementing corrective actions compared with those of previous years. Around 60% of the finished product suppliers were selected this year for CSR follow-up audit, and the average rectification rate was nearly 70%, which was significantly improved comparing to the rate of 29% in last year;
- Based on the combination of daily management and emergency planning, the Group made risk assessment of suppliers' operation and prepared emergency response mechanism and procedures for major emergency incidents occurring in the supply chain.

B. Environmental Responsibility of Li Ning's Supply Chain:

Impact on the environment has always been a major focus of the Group. In order to become a more sustainable enterprise, the Group focuses on its own environmental responsibilities from the following two aspects: the business environment and the product environment. The Group continually increased all suppliers' environmental protection awareness and concepts and provided them with ways and means to improve their environmental performance by revising policy, specialized training, on-site audits, sampled testing, etc.

- The Group issued the "Li Ning Manufacturing Restricted Substances List (MRSL)" during the year, setting up requirements of controlling restricted substances used in the manufacturing process to protect the health and safety of employees and provide a reference for preventing environmental pollution;
- The Group offered training on "MRSL Management Capacity Building" to all the suppliers of products, materials, and technologies. The training was focused on the hazards of chemicals commonly used in the supply chain and precautionary measures. The model and requirements of our supply chain chemicals management were standardized, and suppliers were also guided to establish management mechanisms and organizational structure of chemicals during the training;

- The Group signed the “Li Ning Manufacturing Restricted Substances List (MRSL) Compliance Statement” with the suppliers, requiring that suppliers should not deliberately use toxic and hazardous substances, and should take control at source, prevent the toxic and harmful chemicals from affecting the environment, reduce the possible damage to the environment during the manufacturing process and protect the health of employees;
- The Group commissioned a third party consulting company to conduct environmental audit on key material suppliers by using the audit tool (TGI) to evaluate the suppliers’ environmental management performance in terms of legal compliance, water, energy, solid waste, chemicals, air emissions and noise, etc.;
- The Group selected some of the suppliers to focus on environmental management program. Environmental compliance audit and MRSL management capability improvement program were conducted to identify the risks that the suppliers may have in legal compliance, environmental facility maintenance, chemical management, system building, energy preservation, emission reduction, etc. The Group also encouraged the suppliers to make corrective action plan and improve their environmental management performance;
- The Group conducted risk assessment on the chemicals which are commonly used in the supply chain, and 90 chemicals were sampled and tested against compositions. In addition, the Group carried out research on chemicals used in the production process, such as cleaning agents and glue and substituted some toxic substances;
- The Group held a “Chemical and Environmental Management Seminar for Suppliers”. During the seminar, the findings of environmental audits were summarized, and guidance on environmental management improvement was provided. Through summarization, discussion and training, the Group together with the suppliers analyzed the common problems that were identified during the audits conducted in this year and the relevant measures for improvement, and provided an introduction to the environmental audits to be carried out next year. At the same time, awards were presented to the suppliers ranking top three in environmental audits;
- The Group signed a “Memorandum of Environmental Joint Action” with the core material suppliers, making commitments to jointly push forward the implementation and management of environmental protection projects;
- The Group conducted wastewater testing for the core material suppliers to help them investigate the 11 groups of harmful substances in wastewater before and after production as well as during the production process, and to collect data for achieving green supply chains.

C. Participation in Zero Discharge of Hazardous Substances (ZDHC) Program:

As one of the founding brands of ZDHC, Li Ning Group actively participated in ZDHC’s workstream meetings this year and collaborated with other ZDHC major brands to accomplish the following work on environmental protection in the textile industry:

- The Group participated in regular meetings of the ZDHC management board and took part in the discussion and decision of major issues concerning the ZDHC program;
- The Group participated in “Workstream 1 of ZDHC-Chemical Hazard Assessment-Prioritization and Action” to discuss the work of chemicals phase-out and harmful substances substitution and develop relevant methodologies. In addition, the Group also released the chemical guidance sheets of five substances, i.e. long-chain perfluoroalkyl acids (LCPFAAs), nonylphenol (NP), toluene, phthalates and nonylphenol ethoxylates (NPEOs), communicating the information to each supplier and providing guidance chemical control and safe alternatives;
- To achieve the visions of environment-friendly production and minimize the environmental impact brought about by the production process, Li Ning Group has been committed to exploring quality solutions of environmental protection and chemical management. Thus the Group continued participating in Workstream 4 of ZDHC-Assessments and Audits to develop the “Generic Audit Protocol” and assist the Administrative Committee of ZDHC to release version 2.0 of the generic protocol in the year, pushing further environmental audits;
- The Group participated in the “Workstream 6 of ZDHC-Stakeholder Partnering” to work with ZDHC Brands, making positive contributions to promoting environmental protection in China and Asia;
- During the year, ZDHC released a series of documents including the Manufacturing Restricted Substances List (MRSL), Research List, MRSL Q&A, and the implementation schedule. As the only Chinese brand in the ZDHC group, Li Ning Group was involved in the development of the MRSL list, continually making positive contributions to the goal of zero discharge of harmful chemicals;
- The Group actively participated in the benchmarking project on wastewater data research launched by ZDHC member brands. The data collected in this event is used to develop an action plan in order to achieve consistent chemical control and elimination, which is important in promoting environmental protection in the domestic textile industry.

2. Product Safety and Sustainability

The Group consistently provides consumers with quality safe products that meet international quality standards. This has been a key component of the Group's Corporate Social Responsibility.

During the year, the Group updated and published its own product safety standards QLN8001-2014 in line with the latest industry standards and market demands, and improved the requirements on restricted substances to be inspected and tested in products. In addition, the Group required its suppliers to sign a "Li Ning Company Declaration of Conformity on Restricted Substances List (RSL)". All of the Group's products sold on the market have passed inspections by independent third party testing institutions holding national credentials.

The Group has been committed to establishing the local brand's best practices in environmental protection and social responsibility. The Group invests large amount of money each year in the development and use of environment-friendly materials, such as coffee charcoal, organic cotton, ECO-CIRCLE and fluorine-free waterproof fabrics. These materials can minimize the burden generated by the production process on the environment, and save energy and resources.

3. Stakeholder Communication and Industry Cooperation

During the year, in striving for sustainable development in which business benefits, environmental performance and social interests are incorporated, the Group collaborated and participated in open dialogues with active social groups and civil organizations with the aim of establishing stable, long-term communication channels.

During the year, the Group established a mechanism to interact with licensed brands in terms of environmental protection and social responsibility, regularly communicating with each other on the Group's policies, standards, requirements, and promotion.

During the year, the Group also teamed up with ZDHC member brands to any out performance evaluation of environmental protection in relation to products and supply chains and the elimination of harmful chemicals, and to release to the public project progress on a quarterly and annual basis. Through these interactions and mutual learning, the Group excelled among domestic industries in respect of CSR practices and sustainable development philosophies.

During the year, the Group and other ZDHC member brands cooperated with China Textile Industry Association (CNTAC) to organize the "2nd Seminar on Hazardous Chemicals for Stakeholders in the Textile Industry". The seminar was designed to advance positive drivers in environmental protection and sustainable development,

and promote positive and long-term changes in the field of chemical management to fulfill the ultimate goal of "zero discharge".

During the year, the Group participated in the "2014 Global Textile and Apparel Supply Chain Conference", during which the Group put forward challenges and opportunities for the printing and dyeing industry and apparel brands, and expressed its view on collaborative solutions to energy saving, environmental protection, product innovation and improvements in market competitiveness.

During the year, the Group was invited by CNTAC to participate in the "2014 China International Textile and Accessories Fair", and displayed its own range of clothes made from coffee charcoal and fluorine-free waterproof technology in the "Sustainable Development" show room, demonstrating the Group's efforts on environmental protection and sustainable development.

During the year, the Group was invited to participate in the "Exchange Meeting between Chinese Dyes and Chemicals Companies and ZDHC", and had in-depth discussion on the objectives of how to achieve the ultimate goal of zero discharge in the textile industry supply chain with source suppliers of chemicals, dyes and additives, intermediary suppliers for dyeing, finishing and other processes, and various stakeholders, pushing forward the achievement of industry goals.

During the year, the Group was invited by the CNTAC to participate in the "2014 Annual CSR Conference of China Textile and Apparel Industry", and communicated with peers in the industry to learn about the current situation of CSR management.

During the year, the Group participated in the "2014 Global Compliance Summit" held in China, and interacted and communicated with other brands and organizations on how to better fulfill corporate environmental and social responsibility.

During the year, the Group searched all suppliers' environmental performance on the information platform of the Institute of Public & Environmental Affairs (IPE), and pushed the suppliers to rectify. In the Corporate Information Transparency Index (CITI) report which was jointly published by IPE and the Natural Resources Defense Council (NRDC), the Group ranked 26 in terms of green supply chain performance out of 147 domestic and foreign consumer brands. In the Phase IV Textile Industry Report, the Group ranked 15 among the supply chain environmental management performance of 52 domestic and foreign apparel brands and retailers. The Group's efforts on continually encouraging its suppliers to participate in the Green Choice Alliance (GCA) programme and urging them to rectify any deficiencies were recognized by the public.



2014 ROI Festival Gold Award

AWARDS RECEIVED BY LI NING IN 2014

Products

2014 ROI Festival Gold Award	Product Representative: LI-NING Super Light 11 running shoes
2014 8th Colour China Award of the Year	Product Representative: HOLIDAY shoes, LI-NING Rebirth basketball shoes
2014 Germany iF Design Award	Product Representative: GREEN IN BLACK eco-friendly shoes

BRAND

“Best Business Model Innovation Award in 21st Century China”

Reasons for receiving the award: Li Ning Company received the award for its continuous promotion and innovative exploration of “a business model steered by sports marketing, products and retail operations”.

CSR

Mr. Li Ning won the “Chinese Women Charity Awards-Contribution Award” for individuals under the third “Chinese Women Charity Awards”

Li Ning Company won the “Chinese Women Charity Awards-Contribution Award” for enterprises under the third “Chinese Women Charity Awards”

Reasons for receiving the awards: Li Ning was in full gear throughout the year, improving the livelihood of mothers and children in impoverished areas through initiatives such as “Parcel for Mothers”, “For a Warm Winter” and Ludian earthquake relief.

Welfare

Enterprise with the Best Working Environment in 2014

Reasons for receiving the award: comfortable office environment, good team spirit, sound performance evaluation and remuneration system, equal opportunities in career advancement.

Favourite Outdoor Sports Apparel Brand for University Students in 2014

Reasons for receiving the award: excellent tournament experience, retail experience and product experience made LI-NING the favourite brand for university students.

Runners World “Best Breakthrough Award for Fall 2014”

Reasons for receiving the award: LI-NING Arc IV won the award from Runner’s World magazine through professional review and consumer reputation.

Top Ten Apparel Brand in Beijing with the Best Cultural Creativity 2014

Reasons for receiving the award: dare to go against the tide; unfettered strive by playing free.





STANDING OUT

> Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

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

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

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and its investment in associates and a joint venture as at 31 December 2014 are set out in notes 10 and 11 respectively, to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated income statement on page 90 of this annual report.

During the year, the Company did not declare interim dividend for the six months ended 30 June 2014 (2013: Nil). In light of the current operating environment, the Board considers it appropriate to retain cash for the future development of the Group, therefore, it does not recommend the payment of a final dividend in respect of the year ended 31 December 2014 (2013: Nil).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2014 are set out in note 16 to the consolidated financial statements.

RESERVES

As at 31 December 2014, distributable reserves of the Company amounted to RMB2,027,743,000 (2013: RMB2,097,259,000). Details of movements in reserves of the Group during the year are set out in note 17 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Year ended 31 December	
	2014 % of total revenue	2013 % of total revenue
The largest customer	4.4	5.1
Five largest customers	16.2	16.4

	% of total	
	purchases	purchases
The largest supplier	9.1	11.2
Five largest suppliers	34.8	36.1

All of the above five largest customers and suppliers of the Group are independent third parties. To the best knowledge of the Directors, none of the Directors, their associates or any Shareholder holding more than 5% of the issued share capital of the Company, has any interest in any of the Group's five largest customers or suppliers as disclosed above.

BANK BORROWINGS

Bank borrowings of the Group as at 31 December 2014 amounted to RMB849,023,000 (2013: RMB400,000,000). Particulars of the borrowings are set out in note 21 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB3,202,357 (2013: RMB2,040,702).

PROPERTY, PLANT AND EQUIPMENT

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

CONVERTIBLE BONDS

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

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

As a result of the Open Offer dated 16 December 2014 and pursuant to the terms and conditions of the Convertible Bonds, the conversion price of the Convertible Bonds was adjusted from HK\$4.50 per Share to HK\$4.092 per Share on 2 February 2015. Based on the outstanding Convertible Bonds in the aggregate principal amount of RMB750,000,000 on 2 February 2015, the conversion right attaching to the outstanding Convertible Bonds was adjusted from 205,000,000 Shares to 225,439,882 Shares. Please refer to the announcement of the Company dated 30 January 2015 for details.

Details of the Convertible Bonds are set out in note 22 to the consolidated financial statements.

CONVERTIBLE SECURITIES

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

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

During the year, the 2013 Convertible Securities in an aggregate principal amount of HK\$222,206,572 had been converted into 63,487,592 Shares. As at 31 December 2014, the outstanding 2013 Convertible Securities amounted to HK\$529,519,911 entitling a total of 151,291,403 Shares to be issued thereby.

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

> Report of the Directors

Li Ning Company Limited • Annual Report 2014

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

As a result of the Open Offer and pursuant to the terms and conditions of the 2013 Convertible Securities, the conversion price of the 2013 Convertible Securities was adjusted from HK\$3.50 per Share to HK\$3.183 per Share on 2 February 2015. Based on the outstanding 2013 Convertible Securities in the aggregate principal amount of approximately HK\$529.25 million on 2 February 2015, the conversion rights attaching to the outstanding 2013 Convertible Securities was adjusted from 151,214,775 Shares to 166,274,493 Shares. Please refer to the announcement of the Company dated 30 January 2015 for details.

FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 7 of this annual report.

PRE-EMPTIVE RIGHTS

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

DIRECTORS

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

Executive Directors

Mr. Li Ning	<i>(Executive Chairman and Interim CEO) (appointment as Interim CEO on 18 March 2015)</i>
Mr. Jin-Goon Kim	<i>(Executive Vice Chairman) (as Interim CEO from 21 March 2014 to 14 November 2014)</i>

Non-executive Directors

Mr. Chen Yue, Scott	<i>(re-elected on 30 May 2014)</i>
Mr. Zhang Zhi Yong	<i>(re-elected on 30 May 2014; re-designated as non-executive director on 28 June 2014; resigned on 6 October 2014)</i>

Independent non-executive Directors

Mr. Koo Fook Sun, Louis	
Ms. Wang Ya Fei	<i>(re-elected on 30 May 2014)</i>
Dr. Chan Chung Bun, Bunny	
Mr. Su Jing Shyh, Samuel	

In accordance with article 87 of the Company's Articles of Association and the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Listing Rules, Mr. Koo Fook Sun, Louis, Dr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the annual general meeting to be held on 5 June 2015 ("2015 AGM").

Each of Mr. Koo Fook Sun, Louis and Dr. Chan Chung Bun, Bunny has served on the Board for more than nine years. The Board considers Mr. Koo and Dr. Chan to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgment. The Board has assessed and reviewed the annual confirmation of independence based on the criteria set out in Rule 3.13 of the Listing Rules, and affirmed that Mr. Koo and Dr. Chan remain independent. The Board considers that in a long-term, complex and technologically advanced business environment, it is essential that independent non-executive Directors have the opportunity to acquire, over a number of years, the experience and knowledge of the business and the sectors within which the Company operates. Hence, the Board considers that the long service of Mr. Koo and Dr. Chan would not affect their exercise of independent judgment in their service with the Company, and recommends each of Mr. Koo and Dr. Chan to be re-elected as an independent non-executive Director at the 2015 AGM.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of the Directors and senior management of the Group are set out under “Directors and Senior Management” of this annual report.

DIRECTORS’ SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2015 AGM has an unexpired service contract which is not determinable by the Company or its subsidiaries within one year without payment of compensation (other than statutory compensation).

DIRECTORS’ INTEREST IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Company’s business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

PENSION SCHEMES

In the PRC, the Group contributes on a monthly basis to various defined contribution retirement benefit plans established and operated by relevant Chinese municipal and provincial governments (the “Pension Schemes”). The municipal and provincial governments have undertaken to assume the obligations to pay all the retirement benefits accrued to employees under the Pension Schemes upon their retirement. The Group has no further obligation for payment of post-retirement benefits to employees beyond the contributions made by the Group to the Pension Schemes.

The Group also participates in the provident fund plans mandated by the Hong Kong Government, South Korea Government and the US Government which are defined contribution retirement benefit plans.

None of the Pension Schemes or abovementioned provident fund plans has provision for the forfeiture of contributions made to the provident fund. Contributions to these plans are expensed as incurred. The Group’s contributions to retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2014 were RMB55,183,000 (2013: RMB46,678,000).

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

LONG-TERM INCENTIVE SCHEMES

Share Purchase Scheme

As part of the reorganisation of the Group prior to the listing of Shares on the Hong Kong Stock Exchange in June 2004, Mr. Li Ning, the Executive Chairman of the Company has, through Alpha Talent, established the share purchase scheme (“Share Purchase Scheme”). The Share Purchase Scheme was adopted by Alpha Talent on 5 June 2004 and had been valid and effective for a period of 10 years from that date. Under the Share Purchase Scheme, Mr. Li Ning transferred 35,250,000 Shares beneficially owned by him to Alpha Talent. The objective of the Share Purchase Scheme was to grant rights to purchase Shares beneficially owned by Mr. Li Ning through Alpha Talent to key individuals who have contributed to the economic achievement of the Group. A committee was established by the board of directors of Alpha Talent to determine, among other things, the directors and employees of the Group who shall be selected to receive the options, the exercise price, and the terms and conditions of the options.

The Share Purchase Scheme expired on 5 June 2014 upon the expiration of the 10-year scheme period. As at 4 June 2014 (last effective date of the Share Purchase Scheme) and 31 December 2014, there was no option outstanding under the Share Purchase Scheme.

Share Option Schemes

At the annual general meeting of the Company held on 30 May 2014, the Shareholders approved (i) the adoption of a new share option scheme ("2014 Share Option Scheme") and (ii) the termination of the share option scheme which was adopted by the Company on 5 June 2004 (as amended on 15 May 2009 and 11 October 2012) ("2004 Share Option Scheme"). The 2014 Share Option Scheme will be valid and effective for a period of 10 years commencing on 30 May 2014.

The purpose of the 2014 Share Option Scheme is to provide incentives to the new participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are employees, officers, agents, consultants or representatives of any member of the Group, including any executive and non-executive directors of any member of the Group who, as the Board may determine in its absolute discretion, has made valuable contribution to the business of the Group based on his/her performance and/or years of service, or is regarded as valuable human resources of the Group based on his/her work experience, knowledge in the industry and other relevant factors.

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

No share option has been granted under the 2014 Share Option Scheme since the date of its adoption and up to the date of this report.

The options granted under the 2004 Share Option Scheme and remained outstanding immediately prior to the termination of the 2004 Share Option Scheme shall continue to be valid and exercisable in accordance with their terms of grant and the 2004 Share Option Scheme. The outstanding options granted under the 2004 Share Option Scheme as at 31 December 2014 entitled the holders to subscribe for 55,333,585 Shares. Details of movements of the options granted under the 2004 Share Option Scheme for the year ended 31 December 2014 are set out below and in note 33 to the consolidated financial statements.

Grantees	Date of grant	Exercise price per Share HK\$	As at 01/01/2014	Granted during the year	Number of Shares			As at 31/12/2014	Vesting period	Exercise period
					Exercised during the year	Lapsed during the year	Cancelled During the year			
Executive Directors										
Li Ning	17/01/2014	7.00	-	1,370,073 (Note 1(a))	-	-	-	1,370,073	17/01/2014 – 31/12/2014	17/01/2014 – 31/12/2018
Jin-Goon Kim	20/12/2012	4.92 (Note 3)	312,906	-	-	-	-	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
	17/01/2014	7.00	-	6,850,369 (Note 1(a))	-	-	-	6,850,369	17/01/2014 – 31/12/2014	17/01/2014 – 31/12/2018
	17/01/2014	7.00	-	6,850,369 (Note 1(a))	-	-	-	6,850,369	(Note 1(c))	(Note 1(c))
Non-executive Directors										
Zhang Zhi Yong (resigned on 6 October 2014)	04/07/2008	15.82 (Note 3)	132,369	-	-	(132,369)	-	-	04/07/2009 – 04/07/2011	04/07/2009 – 31/12/2015
	19/01/2009	10.45 (Note 3)	4,919,629	-	-	-	-	4,919,629	19/01/2010 – 19/01/2014	19/01/2010 – 31/12/2015
	15/07/2011	9.09 (Note 3)	910,785	-	-	-	-	910,785	01/07/2012 – 04/07/2014	01/07/2012 – 31/12/2015
	04/07/2012	4.31 (Note 3)	726,058	-	-	-	-	726,058	04/07/2013 – 04/07/2015	04/07/2013 – 31/12/2015
Chen Yue, Scott	20/12/2012	4.92 (Note 3)	312,906	-	-	-	-	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Independent non-executive Directors										
Koo Fook Sun, Louis	04/07/2008	15.82 (Note 3)	55,952	-	-	(55,952)	-	-	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	10.45 (Note 3)	286,726	-	-	-	-	286,726	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.09 (Note 3)	227,705	-	-	-	-	227,705	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 (Note 3)	312,906	-	-	-	-	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Wang Ya Fei	04/07/2008	15.82 (Note 3)	55,952	-	-	(55,952)	-	-	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	10.45 (Note 3)	286,726	-	-	-	-	286,726	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.09 (Note 3)	227,705	-	-	-	-	227,705	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 (Note 3)	312,906	-	-	-	-	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chan Chung Bun, Bunny	04/07/2008	15.82 (Note 3)	55,952	-	-	(55,952)	-	-	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	10.45 (Note 3)	286,726	-	-	-	-	286,726	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.09 (Note 3)	227,705	-	-	-	-	227,705	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 (Note 3)	312,906	-	-	-	-	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Su Jing Shyh, Samuel	20/12/2012	4.92 (Note 3)	312,906	-	-	-	-	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018

> Report of the Directors

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Grantees	Date of grant	Exercise price per Share HK\$	As at 01/01/2014	Granted during the year	Number of Shares		Cancelled During the year	As at 31/12/2014	Vesting period	Exercise period
					Exercised during the year	Lapsed during the year				
Employees of the Group										
In aggregate	04/07/2008	15.82 (Note 3)	599,319	-	-	(599,319)	-	-	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
In aggregate	19/01/2009	10.45 (Note 3)	1,341,191	-	-	(172,427)	-	1,168,764	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
In aggregate	22/10/2009	20.09 (Note 3)	2,240,249	-	-	(419,241)	-	1,821,008	01/07/2010 – 01/07/2012	01/07/2010 – 22/10/2015
In aggregate	15/07/2011	9.09 (Note 3)	975,087	-	-	-	-	975,087	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
In aggregate	20/12/2012	4.92 (Note 3)	15,944,959	-	(792,154) (Note 2(a))	(1,895,038)	-	13,257,767	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
In aggregate	13/08/2013	5.07	6,203,960	-	(37,854) (Note 2(b))	(400,564)	-	5,765,542	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	18/12/2013	6.79	1,093,962	-	-	(110,270)	-	983,692	19/12/2014 – 19/12/2018	19/12/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	-	3,643,307 (Note 1(a))	-	(416,824)	-	3,226,483	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
In aggregate	04/04/2014	5.10	-	754,440 (Note 1(b))	-	(104,925)	-	649,515	05/04/2015 – 05/04/2019	05/04/2015 – 31/12/2020
Other participants										
In aggregate	04/07/2008	15.82 (Note 3)	401,170	-	-	(401,170)	-	-	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
In aggregate	19/01/2009	10.45 (Note 3)	344,071	-	-	(344,071)	-	-	19/01/2010 – 19/01/2014	19/01/2010 – 01/04/2014
In aggregate	01/04/2009	12.11 (Note 3)	449,683	-	-	(449,683)	-	-	01/04/2010 – 01/04/2012	01/04/2010 – 31/01/2014
In aggregate	22/10/2009	20.09 (Note 3)	326,567	-	-	-	-	326,567	01/07/2010 – 01/07/2012	01/07/2010 – 22/10/2015
In aggregate	15/07/2011	9.09 (Note 3)	363,662	-	-	(363,662)	-	-	01/07/2012 – 01/07/2014	01/07/2012 – 31/01/2014
In aggregate	20/12/2012	4.92 (Note 3)	94,814	-	-	(94,814)	-	-	15/01/2013 – 15/01/2014	15/01/2013 – 31/12/2014
In aggregate	13/08/2013	5.07	123,960	-	-	-	-	123,960	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	-	1,950,000 (Note 1(a))	-	-	-	1,950,000	17/01/2014 – 01/09/2016	17/01/2014 – 30/09/2019
In aggregate	17/01/2014	7.00	-	37,188 (Note 1(a))	-	-	-	37,188	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
			40,780,080	21,455,746	(830,008)	(6,072,233)	-	55,333,585		

Notes:

- The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 17 January 2014 is HK\$6.96 per Share.
 - The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 4 April 2014 is HK\$4.92 per Share.
 - The vesting of the 6,850,369 options is subject to certain conditions set out in the relevant grant letter instead of a vesting period. Upon vesting, this part of options are exercisable from vesting date to 31 December 2018.
- The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$6.25.
 - The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$5.97.
- As a result of the 2013 Open Offer, the exercise prices were adjusted in accordance with the 2004 Share Option Scheme on 22 April 2013. Please refer to the announcement of the Company dated on 25 April 2013 for details.

Details of valuation of the share options granted during the year ended 31 December 2014 under the 2004 Share Option Scheme is set out in note 33 to the consolidated financial statements. The fair values are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

As a result of the Open Offer, the exercise price and the number of the Shares to be allotted and issued upon full exercise of the outstanding share options granted under the 2004 Share Option Scheme were adjusted in accordance with the 2004 Share Option Scheme as from 2 February 2015. Please refer to the announcement of the Company dated 30 January 2015 for details.

Restricted Share Award Scheme

On 14 July 2006 (the "Adoption Date"), the Board adopted a restricted share award scheme (the "Restricted Share Award Scheme") in which any individual being a director, employee, officer, agent or consultant of the Company or any of its subsidiaries is entitled to participate. The purpose of the Restricted Share Award Scheme is to facilitate the Company's objectives of attracting new and motivating existing talents and retaining both in the Company. The Restricted Share Award Scheme shall be valid for a term of 10 years from the Adoption Date and is administered by the administrative committee and the trustee of the scheme.

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

from the expenses incurred by the trustee attributable or payable in connection with the vesting of the Restricted Shares which shall be borne by the selected participants, vested Shares shall be transferred at no cost to the selected participants.

The Restricted Share Award Scheme has been amended on 30 April 2009 pursuant to a Board resolution to allow the administration committee of the Restricted Share Award Scheme to determine in its absolute discretion such vesting criteria or periods for the Restricted Shares to be vested, including, without limitation, the satisfaction of specified performance criteria relating generally to the Company or particularly to a selected participant or such other restrictions or conditions as the administration committee may in its discretion determine to be appropriate. Any of the foregoing vesting criteria or restrictions shall be set out in the grant letter as referred to in the Restricted Share Award Scheme.

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

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

During the year ended 31 December 2014, 2,740,146 Restricted Shares were granted to a Director pursuant to the Restricted Share Award Scheme. During the year, 1,705,586 Restricted Shares were vested and 49,305 Restricted Shares lapsed. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2014 are as follows:

Date of grant	Fair value per Restricted Share (Note 1) HK\$	Number of Restricted Shares					as at 31/12/2014	Vesting period
		as at 01/01/2014	granted during the year	vested during the year	lapsed during the year	as at 31/12/2014		
03/09/2010	23.30	610,000	–	(170,000)	–	440,000	01/07/2011 – 01/07/2016	
30/12/2010	16.62	4,536	–	(4,536)	–	–	30/12/2011 – 28/02/2014	
15/07/2011	8.96	210,282	–	(160,977)	(49,305)	–	15/07/2012 – 15/07/2014	
17/01/2014	6.71	–	2,740,146	(1,370,073)	–	1,370,073	(Note 2)	
		824,818	2,740,146	(1,705,586)	(49,305)	1,810,073		

> Report of the Directors

Li Ning Company Limited • Annual Report 2014

Note:

1. The fair values of the Restricted Shares were based on the closing price per Share at the date of grant.
2. The vesting of the 1,370,073 Restricted Shares is subject to certain conditions set out in the relevant grant letter instead of a vesting period.

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

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

As at 31 December 2014, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 of the Listing Rules, are as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares	Total (Long Position)	Approximate % of total issued Shares*
Li Ning	Personal interest & Interests of controlled corporations	302,551,923 (Note 1)	425,754,928 (Note 1)	728,306,851	50.79%
Jin-Goon Kim	Personal interest	–	14,013,644 (Note 2)	14,013,644	0.98%
Chen Yue, Scott	Personal interest	–	312,906 (Note 2)	312,906	0.02%
Koo Fook Sun, Louis	Personal interest	345,450	827,337 (Note 2)	1,172,787	0.08%
Wang Ya Fei	Personal interest	347,044	827,337 (Note 2)	1,174,381	0.08%
Chan Chung Bun, Bunny	Personal interest	189,450	827,337 (Note 2)	1,016,787	0.07%
Su Jing Shyh, Samuel	Personal interest	–	312,906 (Note 2)	312,906	0.02%

* The percentage has been calculated based on 1,433,951,048 Shares in issue as at 31 December 2014.

Notes:

1. Mr. Li Ning ("Mr. Li") is interested in 302,551,923 Shares, among which 1,370,073 Shares are held as personal interest, and he is deemed to be interested in an aggregate of 301,181,850 Shares held by Viva China Holdings Ltd ("Viva China BVI") and Alpha Talent. Moreover, Mr. Li is deemed to be interested in 425,754,928 underlying Shares, among which (i) 1,370,073 Shares are share options granted by the Company, (ii) 1,370,073 Shares are unvested Restricted Shares granted by the Company, (iii) 113,758,944 Shares are Shares which may be issued upon the conversion of 2013 Convertible Securities in a total amount of HK\$398,156,304, and (iv) a total of 309,255,838 Offer Securities to be subscribed for under the irrevocable undertakings ("Irrevocable Undertaking") and underwriting agreement ("Underwriting Agreement") dated 16 December 2014 in relation to the Open Offer. Details are as follows:
 - (a) Viva China BVI which is wholly owned by Viva China Holdings Limited ("Viva China"), is interested in 299,374,000 Shares and 421,690,652 underlying Shares, which comprise (i) 113,758,944 Shares which may be issued upon the conversion of the outstanding 2013 Convertible Securities in an amount of HK\$398,156,304 and (ii) up to a total of 307,931,708 Offer Securities which Viva China BVI would subscribe for/underwrite under the Irrevocable Undertaking and the Underwriting Agreement. Viva China is owned as to approximately 15.06% by Victory Mind Assets Limited ("Victory Mind"), approximately 25.09% by Lead Ahead Limited ("Lead Ahead") and approximately 28.24% by Dragon City Management (PTC) Limited ("Dragon City"). Each of Lead Ahead and Dragon City in turn are respectively 60% and 60% owned by Mr. Li, and Victory Mind is in turn owned as to 57% by Ace Leader Holdings Limited (which is 100% owned by a discretionary trust of which Mr. Li is a settlor). As a result, Mr. Li is deemed to be interested in the Shares and underlying Shares held by Viva China. Mr. Li is the Chairman and chief executive officer of Viva China.
 - (b) Alpha Talent is interested in 1,807,850 Shares and 753,270 underlying Shares. Alpha Talent is wholly owned by Mr. Li. Pursuant to the Irrevocable Undertaking, Alpha Talent would subscribe for 753,270 Offer Securities. Mr. Li is therefore deemed to be interested in the Shares and the underlying Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.
 - (c) Pursuant to the Irrevocable Undertaking, Mr. Li would subscribe for 570,860 Offer Securities.
2. The underlying Shares are the share options granted by the Company to the respective Directors under the 2004 Share Option Scheme.

Save as disclosed above, so far as was known to any Director, as at 31 December 2014, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 31 December 2014, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, representing 5% or more of the Company's issued share capital:

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares	Approximate % of total issued Shares*	
				Total (Long Position)	
Li Ning	Personal interest & Interests of controlled corporations	302,551,923	425,754,928	728,306,851 (Note 1)	50.79%
Li Chun	Interest of controlled corporations	299,374,000	421,690,652	721,064,652 (Note 2)	50.29%
Viva China Holdings Limited	Interest of controlled corporation	299,374,000	421,690,652	721,064,652 (Note 1(a))	50.29%
David Bonderman	Interest of controlled corporations	53,000,000	307,967,476	360,967,476 (Note 3)	25.17%
James G. Coulter	Interest of controlled corporations	53,000,000	307,967,476	360,967,476 (Note 3)	25.17%
Genesis Asset Managers, LLP	Investment manager	152,097,292	–	152,097,292	10.61%
Minister for Finance	Interest of controlled corporations	74,579,126	76,133,125	150,712,251 (Note 4)	10.51%
Lou Yunli	Interest of controlled corporations	95,000,000	74,615,385	169,615,385 (Note 5)	11.83%
James Christopher Kralik	Interest of controlled corporations	95,000,000	74,615,385	169,615,385 (Note 5)	11.83%
FIL Limited	Investment manager	84,405,742	–	84,405,742	5.89%

* The percentage has been calculated based on 1,433,951,048 Shares in issue as at 31 December 2014.

Notes:

1. Mr. Li Ning is interested in 302,551,923 Shares, among which 1,370,073 Shares are held as personal interest, and he is deemed to be interested in an aggregate of 301,181,850 Shares held by Viva China BVI and Alpha Talent. Moreover, Mr. Li is deemed to be interested in 425,754,928 underlying Shares, among which (i) 1,370,073 Shares are share options granted by the Company, (ii) 1,370,073 Shares are unvested Restricted Shares granted by the Company, (iii) 113,758,944 Shares are Shares which may be issued upon the conversion of 2013 Convertible Securities in a total amount of HK\$398,156,304, and (iv) a total of 309,255,838 Offer Securities to be subscribed for under the Irrevocable Undertaking and the Underwriting Agreement dated 16 December 2014 in relation to the Open Offer. Details are as follows:
 - (a) Viva China BVI, a wholly-owned subsidiary of Viva China, is interested in 299,374,000 Shares and 421,690,652 underlying Shares, which comprise (i) 113,758,944 Shares which may be issued upon the conversion of 2013 Convertible Securities in the total amount of HK\$398,156,304 and (ii) up to a total of 307,931,708 Offer Securities which Viva China would subscribe for/underwrite under the Irrevocable Undertaking and the Underwriting Agreement. Viva China is owned as to approximately 15.06% by Victory Mind, approximately 25.09% by Lead Ahead and approximately 28.24% by Dragon City. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li and 40% by his brother, Mr. Li Chun, respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor).
 - (b) Alpha Talent is interested in 1,807,850 Shares and 753,270 underlying Shares. Alpha Talent is wholly owned by Mr. Li. Pursuant to the Irrevocable Undertaking, Alpha Talent would subscribe for 753,270 Offer Securities. Mr. Li is therefore deemed to be interested in the Shares and the underlying Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.
 - (c) Pursuant to the Irrevocable Undertaking, Mr. Li would subscribe for 570,860 Offer Securities.
2. As disclosed in Note 1(a) above, Mr. Li Chun is deemed to be interested in 299,374,000 Shares and 421,690,652 underlying Shares held by Viva China. He is the brother of Mr. Li Ning.
3. TPG Stallion, L.P. ("TPG") is interested in 53,000,000 Shares and 307,967,476 underlying Shares, which comprise (i) an aggregate of 153,340,000 Shares which may be issued upon the conversion of the Convertible Bonds due 2017 in the principal amount of RMB561,000,000, (ii) 35,396,706 Shares which may be issued upon the conversion of 2013 Convertible Securities in the principal amount of HK\$123,888,471 and (iii) up to 119,230,770 Offer Securities which TPG would subscribe for/underwrite under the Irrevocable Undertaking and the Underwriting Agreement. TPG is wholly owned by TPG Asia Advisors V, Inc. and, in turn, it is owned as to 50% by Mr. David Bonderman and 50% by Mr. James G. Coulter.
4. Tetrad Ventures Pte Ltd ("Tetrad") is interested in 58,735,500 Shares and 76,133,125 underlying Shares, which comprise (i) a total of 51,660,000 Shares which may be issued upon the conversion of the Convertible Bonds due 2017 in the principal amount of RMB189,000,000 and (ii) up to a total of 24,473,125 Offer Securities which Tetrad would subscribe for under the Irrevocable Undertaking. Tetrad is wholly owned by GIC (Ventures) Pte Ltd (formerly known as Government of Singapore Investment Corporation (Ventures) Pte Ltd). GIC Special Investments Pte Ltd manages the investment of Tetrad, and is wholly owned by GIC Private Limited (formerly known as Government of Singapore Investment Corporation Pte Ltd) ("GIC"). GIC also directly holds 15,843,626 Shares and is wholly owned by Minister for Finance.
5. Linden Street Capital Limited ("Linden"), a company owned as to 50% by Lou Yunli and 50% by James Christopher Kralik, is deemed to be interested in (a) 95,000,000 Shares, among which 50,000,000 Shares are held by Milestone Capital Strategic Holdings Limited and 45,000,000 Shares are held by Milestone Sports Limited, and (b) 74,615,385 underlying Shares, which comprise up to a total of 74,615,385 Offer Securities which Linden would subscribe for/underwrite under the Irrevocable Undertaking and the Underwriting Agreement.

Save as disclosed above, as at 31 December 2014, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

CONNECTED TRANSACTIONS WITH VIVA CHINA BVI

On 16 December 2014, the Company entered into an underwriting agreement ("Viva China Underwriting Agreement") with Viva China BVI, pursuant to which Viva China BVI agreed to underwrite 60% of all the 2015 Convertible Securities to be offered under the Open Offer other than the excluded securities in accordance with the terms and conditions to the Viva China Underwriting Agreement. The underwriting commission payable to Viva China BVI is 2.5% on the principal amount of 2015 Convertible Securities underwritten by Viva China BVI, which is approximately HK\$11.91 million and was paid in cash.

Viva China BVI, who indirectly held approximately 19.01% interests in the Company as at 16 December 2014, being the date on which the Company announced the Open Offer, was a substantial Shareholder and thus a connected person of the Company. Accordingly, the payment of the underwriting commission to Viva China BVI pursuant to the Viva China Underwriting Agreement constituted a connected transaction for the Company. As the percentage ratios (other than the profits ratio) in respect of the underwriting commission payable by the Company to Viva China BVI is more than 0.1% but less than 5%, the payment of the underwriting commission by the Company to Viva China BVI is subject to reporting and announcement but is exempt from the independent Shareholders' approval under the Listing Rules. Please refer to the announcement dated 16 December 2014 of the Company with respect to the Open Offer for details.

CONTINUING CONNECTED TRANSACTIONS WITH VIVA CHINA

The Company and Viva China (Viva China and its subsidiaries, collectively the "Viva China Group") entered into a master agreement dated 31 August 2010 ("Master Agreement") whereby the Viva China Group provided to the Group the services in relation to (i) brand or product endorsement; (ii) sponsorship; and (iii) event management (the "Viva China Transactions") for the three financial years ended 31 December 2010, 2011 and 2012. The Master Agreement was expired on 31 December 2012.

On 4 January 2013, the Company and Viva China entered into an agreement (the "Renewed Master Agreement") to renew the Master Agreement with effect from 4 January 2013 to 31 December 2015 or the day on which Viva China ceases to be a connected person of the Company (whichever is earlier). Pursuant to the Renewed Master Agreement, the annual caps for the Viva China Transactions payable by the Group to the Viva China Group for the three financial years ending 31 December 2013, 2014 and 2015 are approximately RMB60,000,000, RMB90,000,000 and RMB90,000,000 respectively. Please refer to the announcement dated 4 January 2013 of the Company in regard to the Renewed Master Agreement.

As the applicable percentage ratios for the annual caps under the Renewed Master Agreement for the three financial periods ending 31 December 2013, 2014 and 2015 are less than 5%, the Viva China Transactions are exempt from independent shareholders' approval but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules.

For the year ended 31 December 2014, there was an aggregate contracted amount of approximately RMB68,986,000 for the Viva China Transactions under the Renewed Master Agreement. The Company has complied with the relevant disclosure requirements in respect of such continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the Viva China Transactions and confirmed that these transactions were entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) in accordance with the Group's pricing policies for transactions involving the provision of services by the Group;
- (3) on normal commercial terms; and
- (4) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

- (1) have been approved by the Board;
- (2) have been in accordance with the pricing policies of the Group for transactions involving the provision of services to the Group;
- (3) have been entered into in accordance with the relevant agreements governing the transactions during the year; and
- (4) have not exceeded the annual caps disclosed in the announcement of the Company dated 4 January 2013.

RELATED-PARTY TRANSACTIONS

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

Apart from the Viva China Transactions, other related-party transactions set out in note 36 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions which are subject to the reporting, annual review, announcement and/or independent shareholders approval requirements under Chapter 14A of the Listing Rules.

CHANGE IN DIRECTOR'S INFORMATION

Mr. Jin-Goon Kim, an executive Director, was appointed as an interim CEO of the Company with effect from 21 March 2014. Mr. Kim ceased to be the Interim CEO of the Company with effect from 14 November 2014.

Mr. Zhang Zhi Yong was re-designated from an executive Director to a non-executive Director with effect from 28 June 2014. Mr. Zhang resigned as a non-executive Director with effect from 6 October 2014.

Mr. Li Ning, an executive Director, was appointed as the Interim CEO of the Company with effect from 18 March 2015.

Apart from the above, there has been no other change in information on Directors since the date of the interim report of the Company for the six months ended 30 June 2014, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its Shares during the year ended 31 December 2014. Except for the purchase of Shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the Restricted Share Award Scheme rules, neither the Company nor any of its subsidiaries purchased or sold any Shares during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2014 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2014, the Company has applied all the principles and complied with the code provisions of the Corporate Governance Code, except for certain deviations specified with considered reason as explained in the Corporate Governance Report.

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

SUBSEQUENT EVENTS

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

AUDITOR

PricewaterhouseCoopers will retire as auditor of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the 2015 AGM.

By order of the Board

Li Ning

Executive Chairman and Interim CEO

Hong Kong, 18 March 2015

INDEPENDENT AUDITOR'S REPORT



羅兵咸永道

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

We have audited the consolidated financial statements of Li Ning Company Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 87 to 159, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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

INDEPENDENT AUDITOR'S REPORT

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Other Matters

This report, including the opinion, has been prepared for and only for you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 18 March 2015

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:

CONSOLIDATED BALANCE SHEET

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December	
		2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	861,173	791,071
Land use rights	7	372,113	351,352
Intangible assets	8	446,399	380,935
Deferred income tax assets	23	311,081	345,610
Available-for-sale financial assets	9	26,000	46,930
Investments accounted for using the equity method	11	20,848	13,496
Other receivables and prepayments	14	39,473	125,807
Total non-current assets		2,077,087	2,055,201
Current assets			
Inventories	12	1,289,332	942,368
Trade receivables	13	1,260,131	1,371,240
Other receivables and prepayments – current portion	14	379,277	362,643
Current income tax recoverable		–	2,566
Restricted bank deposits	15	2,593	2,149
Cash and cash equivalents	15	1,031,386	1,280,684
Total current assets		3,962,719	3,961,650
Total assets		6,039,806	6,016,851
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	16	141,698	136,613
Share premium	16	1,298,537	1,146,845
Shares held for Restricted Share Award Scheme	16	(3,719)	(31,509)
Other reserves	17	984,398	1,101,347
(Accumulated deficit)/Retained earnings	17	(469,056)	330,934
		1,951,858	2,684,230
Non-controlling interests in equity		217,583	207,534
Total equity		2,169,441	2,891,764

CONSOLIDATED BALANCE SHEET

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December	
		2014 RMB'000	2013 RMB'000
LIABILITIES			
Non-current liabilities			
License fees payable	20	77,434	122,309
Borrowings	21	298,241	200,000
Convertible bonds	22	676,421	645,727
Deferred income tax liabilities	23	76,410	75,316
Deferred income	24	62,718	64,012
Total non-current liabilities		1,191,224	1,107,364
Current liabilities			
Trade payables	18	953,429	913,988
Other payables and accruals	19	1,104,541	836,611
License fees payable – current portion	20	57,880	54,624
Current income tax liabilities		9	–
Borrowings	21	550,782	200,000
Convertible bonds – interest payable	22	12,500	12,500
Total current liabilities		2,679,141	2,017,723
Total liabilities		3,870,365	3,125,087
Total equity and liabilities		6,039,806	6,016,851
Net current assets		1,283,578	1,943,927
Total assets less current liabilities		3,360,665	3,999,128

Li Ning
Executive Director & Chairman

Chen Yue, Scott
Non-executive Director

The notes on pages 94 to 159 are an integral part of these financial statements.

BALANCE SHEET

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December	
		2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries	10	2,672,914	2,134,864
Current assets			
Dividends receivable		652,728	650,494
Cash and cash equivalents	15	647	115,346
Total current assets		653,375	765,840
Total assets		3,326,289	2,900,704
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	16	141,698	136,613
Share premium and other reserves	16,17	2,027,743	2,097,259
Total equity		2,169,441	2,233,872
LIABILITIES			
Non-current liabilities			
Convertible bonds	22	676,421	645,727
Current liabilities			
Other payables and accruals	19	168,145	8,605
Borrowings	21	299,782	–
Convertible bonds – interest payable	22	12,500	12,500
Total current liabilities		480,427	21,105
Total liabilities		1,156,848	666,832
Total equity and liabilities		3,326,289	2,900,704
Net current assets		172,948	744,735
Total assets less current liabilities		2,845,862	2,879,599

Li Ning
Executive Director & Chairman

Chen Yue, Scott
Non-executive Director

The notes on pages 94 to 159 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Revenue	5	6,727,601	5,824,110
Cost of sales	25	(3,724,092)	(3,230,134)
Gross profit		3,003,509	2,593,976
Distribution expenses	25	(2,863,516)	(2,674,235)
Administrative expenses	25	(703,145)	(235,860)
Other income and other gains – net	26	34,279	146,702
Operating loss		(528,873)	(169,417)
Finance income	28	10,246	8,699
Finance expenses	28	(153,352)	(158,696)
Finance expenses – net		(143,106)	(149,997)
Share of profit of investments accounted for using the equity method	11	7,352	2,242
Loss before income tax		(664,627)	(317,172)
Income tax expense	29	(78,877)	(42,219)
Loss for the year		(743,504)	(359,391)
Attributable to:			
Equity holders of the Company		(781,481)	(391,540)
Non-controlling interests		37,977	32,149
		(743,504)	(359,391)
Losses per share attributable to equity holders of the Company for the year (expressed in RMB cents per share)			
– basic	30	(49.97)	(26.91)
– diluted	30	(49.97)	(26.91)

The notes on pages 94 to 159 are an integral part of these financial statements.

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Dividends	31	–	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in RMB unless otherwise stated)

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Loss for the year	(743,504)	(359,391)
Other comprehensive (loss)/income:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	(140)	657
Total comprehensive loss for the year	(743,644)	(358,734)
Attributable to:		
Equity holders of the Company	(781,621)	(390,883)
Non-controlling interests	37,977	32,149
	(743,644)	(358,734)

The notes on pages 94 to 159 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB unless otherwise stated)

	Attributable to equity holders of the company							Non-controlling interests in equity RMB'000	Total equity RMB'000
	Ordinary shares RMB'000 (Note 16)	Share premium RMB'000 (Note 16)	Shares held for Restricted Share Award Scheme RMB'000 (Note 16)	Other reserves RMB'000 (Note 17)	Retained earnings RMB'000 (Note 17)	Subtotal RMB'000			
As at 1 January 2013	111,622	315,972	(41,185)	489,485	737,703	1,613,597	198,644	1,812,241	
Total comprehensive income/(loss) for the year	-	-	-	657	(391,540)	(390,883)	32,149	(358,734)	
Transactions with owners:									
Net proceeds from shares issued pursuant to share option schemes	44	1,929	-	-	-	1,973	-	1,973	
Value of services provided under share option schemes	-	-	-	21,104	-	21,104	-	21,104	
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	4,285	-	(4,285)	-	-	-	-	
Shares vested under Restricted Share Award Scheme	-	-	9,676	(9,676)	-	-	-	-	
Appropriations to statutory reserves	-	-	-	15,229	(15,229)	-	-	-	
Issuance of convertible securities	-	-	-	1,441,484	-	1,441,484	-	1,441,484	
Shares converted from convertible securities	24,947	824,659	-	(849,606)	-	-	-	-	
Dividends to non-controlling interests of a subsidiary	-	-	-	-	-	-	(23,804)	(23,804)	
Acquisition of non-controlling interests of a subsidiary	-	-	-	(3,045)	-	(3,045)	(1,955)	(5,000)	
Contribution from non-controlling interests of a subsidiary	-	-	-	-	-	-	2,500	2,500	
As at 31 December 2013	136,613	1,146,845	(31,509)	1,101,347	330,934	2,684,230	207,534	2,891,764	
As at 1 January 2014	136,613	1,146,845	(31,509)	1,101,347	330,934	2,684,230	207,534	2,891,764	
Total comprehensive (loss)/income for the year	-	-	-	(140)	(781,481)	(781,621)	37,977	(743,644)	
Transactions with owners:									
Net proceeds from shares issued pursuant to share option schemes	66	3,173	-	-	-	3,239	-	3,239	
Value of services provided under share option schemes and Restricted Share Award Scheme	-	-	-	48,156	-	48,156	-	48,156	
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	(17,481)	-	17,481	-	-	-	-	
Shares vested under Restricted Share Award Scheme	-	-	29,936	(29,936)	-	-	-	-	
Shares purchased for Restricted Share Award Scheme	-	-	(2,146)	-	-	(2,146)	-	(2,146)	
Appropriations to statutory reserves	-	-	-	18,509	(18,509)	-	-	-	
Shares converted from convertible securities	5,019	166,000	-	(171,019)	-	-	-	-	
Dividends to non-controlling interests of a subsidiary	-	-	-	-	-	-	(27,928)	(27,928)	
As at 31 December 2014	141,698	1,298,537	(3,719)	984,398	(469,056)	1,951,858	217,583	2,169,441	

The notes on pages 94 to 159 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash used in operations	32	(348,691)	(17,594)
Income tax (paid)/received		(45,664)	4,063
Net cash used in operating activities		(394,355)	(13,531)
Cash flows from investing activities			
– acquisition of non-controlling interests of a subsidiary		–	(5,000)
– proceeds on disposal of investment in an associate		–	1,000
– investment in available-for-sale financial assets		(14,000)	–
– purchases of property, plant and equipment		(242,459)	(93,801)
– purchases of intangible assets		(84,769)	(119,871)
– prepayment for purchase of land use rights and buildings		–	(71,829)
– proceeds on disposal of property, plant and equipment and land use rights		1,482	61,827
– interest received		5,664	8,699
Net cash used in investing activities		(334,082)	(218,975)
Cash flows from financing activities			
– dividends paid to non-controlling interests of a subsidiary		(27,928)	(23,804)
– proceeds from issuance of ordinary shares		3,239	1,973
– shares purchased for Restricted Share Award Scheme		(2,146)	–
– contribution from non-controlling interests of a subsidiary		–	2,500
– proceeds from borrowings		921,512	1,803,005
– repayments of borrowings		(320,000)	(2,848,243)
– proceeds from issuance of convertible securities		–	1,480,488
– transaction costs paid in relation to issuance of convertible securities		–	(39,004)
– interest paid		(99,560)	(96,687)
– (increase)/decrease in restricted bank deposits		(444)	11,539
Net cash generated from financing activities		474,673	291,767
Net (decrease)/increase in cash and cash equivalents		(253,764)	59,261
Cash and cash equivalents at beginning of year		1,280,684	1,241,304
Exchange gains/(losses) on cash and cash equivalents		4,466	(19,881)
Cash and cash equivalents at end of year		1,031,386	1,280,684

The notes on pages 94 to 159 are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

1. General information

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

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

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

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the “Board”) on 18 March 2015.

2. Summary of significant accounting policies

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

2.1 Basis of preparation

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

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Hong Kong Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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

2.1.1 Going concern

For the year ended 31 December 2014, the Group incurred a net loss of RMB744 million and had net operating cash outflow of RMB394 million. The Group has considered the current economic environment, its ability to generate net cash inflows from its future operating activities, its expected ability to renew bank loans on their maturity dates, its available banking facilities and the completion of its open offer on 30 January 2015 which raised total net proceeds of approximately RMB1.2 billion. Based on these factors, the Directors of the Company are of the opinion that the Group has sufficient financial resources to meet its obligations as and when they fall due over the next twelve months. Accordingly, the consolidated financial statements are prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.1 Basis of preparation (Continued)

2.1.2 Changes in accounting policies and disclosures

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

The Group has adopted the following new and revised standards and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on 1 January 2014:

IAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities
IAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
IFRS 10, IFRS 12 and IAS 27 (2011) (Amendment)	Investment Entities

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

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

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

The following are standards and amendments to existing standards that have been published and are relevant and mandatory for the Group's accounting periods beginning after 1 January 2014 or later periods, but have not been early adopted by the Group.

Annual Improvements Project	Annual Improvements 2010-2012 Cycle, 2011-2013 Cycle and 2012-2014 Cycle ⁽¹⁾
IAS 16 and IAS 38 (Amendment)	Clarification of Acceptable Methods of Depreciation and Amortisation ⁽²⁾
IFRS 15	Revenue from Contracts with Customers ⁽³⁾
IFRS 9	Financial Instruments ⁽⁴⁾

⁽¹⁾ Effective for the accounting period beginning on 1 July 2014

⁽²⁾ Effective for the accounting period beginning on 1 January 2016

⁽³⁾ Effective for the accounting period beginning on 1 January 2017

⁽⁴⁾ Effective for the accounting period beginning on 1 January 2018

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

(c) *New Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.2 Subsidiaries

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

2.2.1 Consolidation

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

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

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

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill (Note 2.9). If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

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

(b) *Transactions with non-controlling interests*

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.2 Subsidiaries *(Continued)*

2.2.2 Separate financial statements

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

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

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements as of 1 January 2012. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

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

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

- i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- ii. income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the translation dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- iii. all resulting currency translation differences are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.7 Property, plant and equipment

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

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

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

2.8 Land use rights

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.9 Intangible assets

(a) Goodwill

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

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

(b) License rights

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

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

(c) Computer software

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.11 Financial assets

(a) Classification

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

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

- (i) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included within trade receivables, other receivables, restricted bank deposits and cash and cash equivalents in the balance sheets (Notes 2.15 and 2.16).
- (ii) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or Management intends to dispose of it within 12 months of the end of the reporting period.

(b) Recognition and measurement

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

At 31 December 2014, the Group's available-for-sale financial assets represent interests in certain unlisted companies which do not have quoted market prices in an active market and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, these investments are carried at cost less accumulated impairment losses.

2.12 Offsetting financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

(b) Assets classified as available for sale

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.14 Inventories

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

2.15 Trade receivables and other receivables

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

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

2.16 Cash and cash equivalents

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

2.17 Share capital

(a) Ordinary shares

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

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

(b) Convertible securities

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.18 Trade payables

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

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

2.19 License fees payable

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

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

2.20 Borrowings

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

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

2.21 Borrowing costs

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.22 Compound financial instruments

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

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

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

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

2.23 Current and deferred income tax

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

(a) Current income tax

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

(b) Deferred income tax

- *Inside basis differences*

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.23 Current and deferred income tax (Continued)

(b) Deferred income tax (Continued)

- *Outside basis differences*

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

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

(c) Offsetting

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

2.24 Employee benefits

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

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

In Hong Kong, the Group makes contributions to the scheme under the Mandatory Provident Fund Schemes ("MPF") Ordinance, the assets of which are generally held in separate trustee-administrated funds. The pension plans are generally funded by payments from employees and by the Group. There are similar pension schemes in the United States and South Korea to which the Group also makes contributions.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.24 Employee benefits *(Continued)*

(b) Share-based compensation

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

At the end of each reporting period, the Group revises its estimates of the number of options and shares that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Other benefits

Other directors' and employees' obligations are recorded as a liability and charged to the consolidated income statement when the Group is contractually obliged or when there is a past practice that has created a constructive obligation.

2.25 Provisions

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.26 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customers, the type of transactions and specifics of each arrangement.

(a) Sales of goods – wholesale

For wholesale business, sales of goods are recognised when a group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Revenue is adjusted for the value of expected returns. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

(b) Sales of goods – retail

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

(c) Sales of goods – internet

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

(d) Interest income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2.26 Revenue recognition *(Continued)*

(e) Dividend income

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

(f) License fee income

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

2.27 Operating leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement as other income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment and land use right are included in non-current liabilities as deferred income and are recognised in the consolidated income statement as other income on a straight-line basis over the expected lives of the related assets.

2.29 Dividend distribution

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

3. Financial risk management

3.1 Financial risk factors

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

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

(a) Market risks

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. Certain of the Group's cash and bank deposits, and trade receivables are denominated in Hong Kong dollars (HK\$), United States dollars (US\$), EURO (EUR) or South Korean Won (KRW) (Note 15). In addition, the Company is required to pay certain license fees, borrowings and other payables in foreign currencies. Any foreign currency exchange rate fluctuations against RMB may have a financial impact to the Group. The Group did not use any financial instruments to hedge against its foreign currency risk as at 31 December 2014.

As at 31 December 2014 and 2013, if RMB strengthened/weakened by 5% against HK\$/US\$/EUR/KRW with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of HK\$, US\$, EUR and KRW denominated cash and cash equivalents, trade receivables, borrowings, license fees and other payables.

		2014	2013
		RMB'000	RMB'000
Post-tax loss (decrease)/increase			
– Strengthened	5%	(32,153)	4,009
– Weakened	5%	32,153	(4,009)

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no assets bearing significant interest. Financial assets and liabilities at fixed rates expose the Group to fair value interest-rate risk. On 8 February 2012, the Company issued convertible bonds with principal amount of RMB750,000,000 due on 8 February 2017. The convertible bonds are interest-bearing at the fixed interest rate of 4% per annum and payable semi-annually in arrears (Note 22). The Group currently does not hedge its exposure to interest rate risk.

Management does not anticipate significant impact resulting from the changes in interest rates because the borrowings bear fixed interest rates. The weighted average effective interest rates per annum of the borrowings were 6.60% (2013: 6.76%) for bank borrowings denominated in RMB and 4.92% (2013: 2.26%) for bank borrowings denominated in HK\$ as disclosed in Note 21.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only parties with good credit ratings are accepted. For wholesale customers, the Group assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Management. The utilisation of credit limits is regularly monitored. All of these major customers are with good credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements. Sales to retail customers are settled in cash or using major credit cards.

The table below shows the balances with the three major banks as at the balance sheet dates.

	2014 RMB'000	2013 RMB'000
Banks*		
Bank A	353,752	414,268
Bank B	237,784	326,145
Bank C	162,984	167,096
	754,520	907,509

* All banks are prominent nationwide state-owned bank in the PRC or branch of international commercial bank in the PRC with good credit ratings.

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

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Management. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 21) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

3. Financial risk management (Continued)

3.1 Financial risk factors (Continued)

(c) Liquidity risk (Continued)

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
Group				
As at 31 December 2014				
Borrowings	580,962	306,459	–	–
Convertible bonds (a)	30,000	30,000	765,000	–
License fees payable	62,073	65,007	34,476	–
Trade payables	953,429	–	–	–
Other payables	292,957	–	–	–
	1,919,421	401,466	799,476	–
As at 31 December 2013				
Borrowings	224,303	208,050	–	–
Convertible bonds (a)	30,000	30,000	795,000	–
License fees payable	57,998	61,642	97,040	4,572
Trade payables	913,988	–	–	–
Other payables	281,889	–	–	–
	1,508,178	299,692	892,040	4,572
Company				
As at 31 December 2014				
Convertible bonds (a)	30,000	30,000	765,000	–
Borrowings	309,268	–	–	–
Other payables	168,145	–	–	–
	507,413	30,000	765,000	–
As at 31 December 2013				
Convertible bonds (a)	30,000	30,000	795,000	–
Other payables	8,605	–	–	–
	38,605	30,000	795,000	–

Note:

- (a) As stated in Note 22, the Company issued convertible bonds on 8 February 2012. Unless early redeemed, converted, or purchased and canceled, these convertible bonds will be redeemed at the outstanding principal amount together with the unpaid interest upon maturity. The annual interest payment is RMB30 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

3. Financial risk management (*Continued*)

3.2 Capital risk management

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

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

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

As at 31 December 2014, the gearing ratio of the Group was 86.4% (including convertible bonds) (31 December 2013: 39.4%) and 51.1% (excluding convertible bonds) (31 December 2013: 14.9%) respectively.

3.3 Fair value estimation

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

4. Critical accounting estimates and judgements

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

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

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

The Group tests whether goodwill, intangible assets and other non-current assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.9 and Note 2.10 respectively. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions (See Note 8). If future events do not correspond to such assumptions, the value in use amount will need to be revised, and this may have an impact on the Group's results of operation or balance sheet.

(b) Net realisable value of inventories

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

4. Critical accounting estimates and judgements (Continued)

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

The Group's Management determines the allowance for impairment of trade receivables and other receivables in accordance with the accounting policy stated in Note 2.15. Such allowance for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Company's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant judgment. The Group's customers mainly are distributors of sports products, and they vary in size and types of products to be distributed. In making the judgment on the allowance for impairment, the Company evaluates, among other factors, the historical payment pattern and credit-worthiness of each customer, default rates of prior years, aging of receivable balances and latest communication with individual customers. To the extent the financial condition of any customer deteriorates which results in an inability to make payments on time, or the customers significantly exceed their credit term and ask for payment extension, or if the Company incurs more bad debt than their original estimates, additional allowance may be required. This assessment is based on the specific facts and circumstances of each customer. Management reassesses the allowance at each balance sheet date to ensure the current allowance is still appropriate.

(d) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

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

(e) Joint arrangements

The Group holds 50% of the voting rights of its joint arrangement. The Group has joint control over this arrangement as under the contractual agreements, unanimous consent is required from all parties to the agreements for all relevant activities.

The Group's joint arrangement is structured as a limited company and provides the Group and the parties to the agreements with rights to the net assets of the limited company under the arrangements. Therefore, this arrangement is classified as a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

5. Segment information

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

Management considers the business from a brand perspective. The Group has three reportable segments as follows, LI-NING brand, Double Happiness brand and all other brands segments. Management assesses the performance of the operating segments based on operating profit/(loss). 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 and all other brands, which are RMB5,932,090,000, RMB681,708,000 and RMB113,803,000 for the year ended 31 December 2014 and RMB5,082,786,000, RMB612,409,000 and RMB128,915,000 for the year ended 31 December 2013, respectively.

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

The segment information provided to Management for the reportable segments for the years ended 31 December 2014 and 2013 is as follows:

	LI-NING brand RMB'000	Double Happiness brand RMB'000	All other brands RMB'000	Total RMB'000
Year ended 31 December 2014				
Total revenue	5,932,090	682,063	143,628	6,757,781
Inter-segment revenue	–	(355)	(29,825)	(30,180)
Revenue from external customers	5,932,090	681,708	113,803	6,727,601
Operating (loss)/profit	(679,533)	116,465	34,195	(528,873)
Distribution expenses and administrative expenses	3,381,090	174,061	11,510	3,566,661
Depreciation and amortisation	176,977	18,971	2,512	198,460
Year ended 31 December 2013				
Total revenue	5,082,786	613,084	176,005	5,871,875
Inter-segment revenue	–	(675)	(47,090)	(47,765)
Revenue from external customers	5,082,786	612,409	128,915	5,824,110
Operating (loss)/profit	(279,572)	104,958	5,197	(169,417)
Distribution expenses and administrative expenses	2,720,873	141,474	47,748	2,910,095
Depreciation and amortisation	168,756	17,316	7,123	193,195

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

5. Segment information (Continued)

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

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
Operating loss	(528,873)	(169,417)
Finance income	10,246	8,699
Finance expenses	(153,352)	(158,696)
Share of profit of investments accounted for using the equity method	7,352	2,242
Loss before income tax	(664,627)	(317,172)

Geographical information of revenue

	Year ended 31 December	
	2014 RMB'000	2013 RMB'000
The PRC (including the Hong Kong Special Administrative Region)	6,499,615	5,630,525
Other regions	227,986	193,585
Total	6,727,601	5,824,110

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

The Group has a large number of customers. For the years ended 31 December 2014 and 2013, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

6. Property, plant and equipment – Group

	Buildings RMB'000	Leasehold improvement RMB'000	Mould RMB'000	Machinery RMB'000	Office equipment and motor vehicles RMB'000	Construction-in- progress RMB'000	Total RMB'000
As at 1 January 2013							
Cost	694,146	106,281	226,653	136,540	194,464	25,613	1,383,697
Accumulated depreciation	(123,183)	(71,360)	(174,546)	(31,584)	(125,980)	–	(526,653)
Net book amount	570,963	34,921	52,107	104,956	68,484	25,613	857,044
Year ended 31 December 2013							
Opening net book amount	570,963	34,921	52,107	104,956	68,484	25,613	857,044
Additions	702	13,568	36,804	5,926	21,680	11,019	89,699
Transfer out from construction-in-progress	30,655	–	–	1,494	–	(32,149)	–
Disposals	(21,869)	(78)	–	(4,736)	(1,671)	–	(28,354)
Depreciation charge	(28,173)	(24,490)	(37,354)	(12,769)	(24,532)	–	(127,318)
Closing net book amount	552,278	23,921	51,557	94,871	63,961	4,483	791,071
As at 31 December 2013							
Cost	691,499	89,083	263,457	136,830	209,055	4,483	1,394,407
Accumulated depreciation	(139,221)	(65,162)	(211,900)	(41,959)	(145,094)	–	(603,336)
Net book amount	552,278	23,921	51,557	94,871	63,961	4,483	791,071
Year ended 31 December 2014							
Opening net book amount	552,278	23,921	51,557	94,871	63,961	4,483	791,071
Additions	44,796	125,908	33,546	3,355	15,915	5,046	228,566
Transfer out from construction-in-progress	5,021	–	–	2,542	126	(7,689)	–
Disposals	(2,361)	(358)	(5,184)	(1,729)	(3,037)	–	(12,669)
Depreciation charge	(29,463)	(48,293)	(32,729)	(12,467)	(22,843)	–	(145,795)
Closing net book amount	570,271	101,178	47,190	86,572	54,122	1,840	861,173
As at 31 December 2014							
Cost	738,838	194,401	244,367	136,872	200,352	1,840	1,516,670
Accumulated depreciation	(168,567)	(93,223)	(197,177)	(50,300)	(146,230)	–	(655,497)
Net book amount	570,271	101,178	47,190	86,572	54,122	1,840	861,173

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB4,661,000 (2013: RMB5,796,000) are built on land which the Group is in the process of applying for the legal title (Note 7).

Depreciation expenses of RMB41,644,000 (2013: RMB39,008,000) has been charged to cost of sales, RMB80,079,000 (2013: RMB54,378,000) to distribution expenses and RMB24,072,000 (2013: RMB33,932,000) to administrative expenses.

As at 31 December 2014, buildings with net book value of RMB403,819,000 were pledged as securities for the Group's borrowings. As at 31 December 2013, the Group has no secured bank borrowings (Note 21).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

7. Land use rights – Group

	RMB'000
As at 1 January 2013	
Cost	404,129
Accumulated amortisation	(41,366)
Net book amount	362,763
Year ended 31 December 2013	
Opening net book amount	362,763
Disposal	(2,610)
Amortisation charge	(8,801)
Closing net book amount	351,352
As at 31 December 2013	
Cost	399,054
Accumulated amortisation	(47,702)
Net book amount	351,352
Year ended 31 December 2014	
Opening net book amount	351,352
Additions	29,785
Amortisation charge	(9,024)
Closing net book amount	372,113
As at 31 December 2014	
Cost	428,839
Accumulated amortisation	(56,726)
Net book amount	372,113

All the Group's land use rights are located in the PRC and are held under leases for periods varying from 20 to 50 years. The Group is in the process of applying for the legal title for land use rights with net book value of RMB98,791,000 as at 31 December 2014 (31 December 2013: RMB101,613,000).

As at 31 December 2014, land use rights with net book value of RMB81,518,000 were pledged as securities for the Group's borrowings. As at 31 December 2013, the Group has no secured bank borrowings (Note 21).

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(All amounts in RMB unless otherwise stated)

8. Intangible assets – Group

	Goodwill RMB'000	Trademarks RMB'000	Computer Software RMB'000	License rights RMB'000	Customer relationships & Non-compete agreements RMB'000	Total RMB'000
As at 1 January 2013						
Cost	179,226	119,037	128,754	288,430	41,339	756,786
Accumulated amortisation and impairment	–	(34,507)	(73,861)	(205,210)	(19,826)	(333,404)
Net book amount	179,226	84,530	54,893	83,220	21,513	423,382
Year ended 31 December 2013						
Opening net book amount	179,226	84,530	54,893	83,220	21,513	423,382
Additions	–	–	10,930	3,699	–	14,629
Amortisation charge	–	(5,538)	(19,495)	(26,636)	(5,407)	(57,076)
Closing net book amount	179,226	78,992	46,328	60,283	16,106	380,935
As at 31 December 2013						
Cost	179,226	119,037	139,684	292,129	41,339	771,415
Accumulated amortisation and impairment	–	(40,045)	(93,356)	(231,846)	(25,233)	(390,480)
Net book amount	179,226	78,992	46,328	60,283	16,106	380,935
Year ended 31 December 2014						
Opening net book amount	179,226	78,992	46,328	60,283	16,106	380,935
Additions	67,087	–	22,078	–	19,940	109,105
Amortisation charge	–	(5,538)	(17,424)	(13,384)	(7,295)	(43,641)
Closing net book amount	246,313	73,454	50,982	46,899	28,751	446,399
As at 31 December 2014						
Cost	246,313	119,037	161,762	292,129	61,279	880,520
Accumulated amortisation and impairment	–	(45,583)	(110,780)	(245,230)	(32,528)	(434,121)
Net book amount	246,313	73,454	50,982	46,899	28,751	446,399

Note:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

8. Intangible assets – Group (Continued)

Impairment tests for goodwill

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

	Li Ning brand RMB'000	Double Happiness brand RMB'000	Kason brand RMB'000
As at 1 January and 31 December 2013	–	106,839	72,387
As at 1 January 2014	–	106,839	72,387
Additions	67,087	–	–
As at 31 December 2014	67,087	106,839	72,387

The recoverable amounts for the CGUs have been determined based on values-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by Management. The weighted average revenue growth rate used for the sixth year to the tenth year for Li Ning brand, Double Happiness brand and Kason brand are 5%, 1.8% and 3% per annum respectively. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operate. The pre-tax discount rates used are 22.8%, 14.7% and 18.8% which reflect specific risks relating to Li Ning brand, Double Happiness brand and Kason brand respectively.

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

9. Available-for-sale financial assets – Group

The Group's available-for-sale financial assets include investments in three private companies. One of the investments is impaired as at 31 December 2014.

	2014 RMB'000	2013 RMB'000
Unlisted investments, at cost	26,000	46,930
	2014 RMB'000	2013 RMB'000
As at 1 January	46,930	46,930
Additions	14,000	–
Impairment charge	(34,930)	–
As at 31 December	26,000	46,930

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company

(a) Investments in subsidiaries

	2014 RMB'000	2013 RMB'000
Investment in unlisted shares, at cost	79,568	79,568
Loan to subsidiaries	2,598,260	2,023,787
Contribution to the Restricted Share Award Scheme Trust	3,719	31,509
Less: provision of investment in subsidiaries	(8,633)	–
	2,672,914	2,134,864

Loan to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

The following is a list of the Group's subsidiaries as at 31 December 2014:

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
<i>Directly held:</i>				
RealSports Pte Ltd.	The British Virgin Islands, 8 October 2002 Limited liability company	US\$1,000	100%	Investment holding
<i>Indirectly held:</i>				
Li Ning Sports Technology Development (Hong Kong) Co., Ltd. (李寧體育科技發展(香港)有限公司)	Hong Kong, 28 May 2004 Limited liability company	HK\$1	100%	Research and development
Li Ning Sports (Hong Kong) Co., Ltd. (李寧體育(香港)有限公司)	Hong Kong, 19 March 2003 Limited liability company	HK\$100	100%	Provision of administrative services
李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Co., Ltd.)	The PRC, 25 August 1997 Limited liability company	US\$8,000,000	100%	Sale of sports goods
上海狐步信息系統有限公司 (Shanghai Huhu Information System Co., Ltd.)	The PRC, 20 April 2000 Limited liability company	RMB2,000,000	100%	Provision of information technology service
上海少昊體育用品研發有限公司 (Shanghai Shao Hao Sports Goods Research and Development Co., Ltd.)	The PRC, 18 December 2001 Limited liability company	RMB3,000,000	100%	Product design, research and development
上海悅奧體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.)	The PRC, 5 March 2003 Limited liability company	RMB3,000,000	100%	Sale of sports goods

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastic School Services Co., Ltd.)	The PRC, 31 October 1996 Limited liability company	RMB1,000,000	100%	Property management
廣東悅奧體育發展有限公司 (Guangdong Yue Ao Sports Development Co., Ltd.)	The PRC, 13 December 2001 Limited liability company	RMB8,241,000	100%	Manufacture of sports goods
李寧(中國)體育用品有限公司 (Li Ning (China) Sports Goods Co., Ltd.)	The PRC, 6 July 2007 Limited liability company	RMB416,670,000	100%	Sale of sports goods
Li Ning Sports USA, Inc. (李寧體育美國有限公司)	USA, 28 August 2007 Limited liability company	US\$1,000	100%	Design of athletic shoes and apparel
Li Ning Korea Sports Ltd. (李寧韓國有限公司)	South Korea, 21 August 2013 Limited liability company	KRW100,000,000	100%	Research and development
李寧(北京)體育用品商業有限公司 (Li Ning (Beijing) Sports Goods Commercial Co., Ltd.)	The PRC, 19 December 2007 Limited liability company	HK\$10,000,000	100%	Sale of sports goods
上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.)	The PRC, 9 July 2001 Limited liability company	RMB10,000,000	100%	Sale of sports goods
鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.)	The PRC, 25 June 1998 Limited liability company	RMB2,750,000	100%	Sale of sports goods
廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.)	The PRC, 6 October 1998 Limited liability company	RMB3,200,000	100%	Sale of sports goods
瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.)	The PRC, 10 June 1999 Limited liability company	RMB3,000,000	100%	Sale of sports goods
濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003 Limited liability company	RMB1,000,000	100%	Sale of sports goods

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.)	The PRC, 2 June 1999 Limited liability company	RMB1,000,000	100%	Sale of sports goods
北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.)	The PRC, 4 November 1997 Limited liability company	RMB5,000,000	100%	Sale of sports goods
上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.)	The PRC, 8 August 2000 Limited liability company	RMB5,000,000	100%	Sale of sports goods
天津一動體育用品銷售有限公司 (Tianjin Edosports Goods Sales Co., Ltd.)	The PRC, 14 December 1999 Limited liability company	RMB3,500,000	100%	Sale of sports goods
南京一動體育用品銷售有限公司 (Nanjing Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003 Limited liability company	RMB1,000,000	100%	Sale of sports goods
新疆一動體育用品銷售有限公司 (Xinjiang Edosports Goods Sales Co., Ltd.)	The PRC, 4 February 2005 Limited liability company	RMB1,000,000	100%	Sale of sports goods
長沙一動體育用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.)	The PRC, 26 August 1998 Limited liability company	RMB1,000,000	100%	Sale of sports goods
南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.)	The PRC, 29 July 1998 Limited liability company	RMB1,500,000	100%	Sale of sports goods
西安一動體育用品銷售有限公司 (Xian Edosports Goods Sales Co., Ltd.)	The PRC, 23 January 2006 Limited liability company	RMB1,000,000	100%	Sale of sports goods
上海心動體育用品有限公司 (Shanghai Z-DO Sports Goods Co., Ltd.)	The PRC, 14 January 2008 Limited liability company	RMB20,000,000	100%	Sale of sports goods
成都一動體育用品銷售有限公司 (Chengdu Edosports Goods Sales Co., Ltd.)	The PRC, 4 February 2008 Limited liability company	RMB1,000,000	100%	Sale of sports goods

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
昆明一動體育用品銷售有限公司 (Kunming Edosports Goods Sales Co., Ltd.)	The PRC, 24 September 2008 Limited liability company	RMB1,000,000	100%	Sale of sports goods
蘭州一動體育用品銷售有限公司 (Lanzhou Edosports Goods Sales Co., Ltd.)	The PRC, 13 May 2009 Limited liability company	RMB1,000,000	100%	Sale of sports goods
廈門悅奧商貿有限公司 (Xiamen Yue Ao Trading Co., Ltd.)	The PRC, 26 October 2009 Limited liability company	RMB1,000,000	100%	Sale of sports goods
大連悅奧商貿有限公司 (Dalian Yue Ao Trading Co., Ltd.)	The PRC, 13 June 2010 Limited liability company	RMB3,000,000	100%	Sale of sports goods
杭州悅奧體育用品銷售有限公司 (Hangzhou Yue Ao Sports Goods Sales Co., Ltd.)	The PRC, 17 December 2010 Limited liability company	RMB1,000,000	100%	Sale of sports goods
合肥一動體育用品銷售有限公司 (Hefei Edosports Goods Sales Co., Ltd.)	The PRC, 21 March 2011 Limited liability company	RMB1,000,000	100%	Sale of sports goods
上海李寧電子商務有限公司 (Shanghai Lining E-business Co., Ltd.)	The PRC, 27 September 2008 Limited liability company	RMB10,000,000	100%	Sale of sports goods
李寧體育(天津)有限公司 (Lining Sports (Tianjin) Co., Ltd.)	The PRC, 19 January 2009 Limited liability company	RMB330,000,000	100%	Sale of sports goods
上海紅雙喜股份有限公司 (Shanghai Double Happiness Co., Ltd.)	The PRC, 26 December 1995 Limited liability company	RMB112,000,000	57.5%	Manufacture and sale of sports goods
上海紅雙喜體育用品銷售有限公司 (Shanghai Double Happiness Sports Goods Sales Co., Ltd.)	The PRC, 21 August 1996 Limited liability company	RMB15,900,000	57.5%	Sale of sports goods
北京紅雙喜體育用品銷售有限公司 (Beijing Double Happiness Sports Goods Sales Co., Ltd.)	The PRC, 27 December 2010 Limited liability company	RMB2,000,000	57.5%	Sale of sports goods

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
廣州紅雙喜體育用品銷售有限公司 (Guangzhou Double Happiness Sports Goods Sales Co., Ltd.)	The PRC, 6 May 2011 Limited liability company	RMB2,000,000	57.5%	Sale of sports goods
上海紅雙喜體育用品蘇州有限公司 (Suzhou Double Happiness Guan Du Sports Goods Co., Ltd.)	The PRC, 10 August 2002 Limited liability company	RMB15,000,000	43.1%	Manufacture and sale of sports goods
上海紅冠體育用品有限責任公司 (Shanghai Hong Guan Sports Goods Co., Ltd.)	The PRC, 29 July 1998 Limited liability company	RMB500,000	57.5%	Sale of sports goods
上海李寧體育用品電子商務有限公司 (Shanghai Li Ning Sports Goods E-business Co., Ltd.)	The PRC, 27 July 2011 Limited liability company	RMB10,000,000	100%	Sale of sports goods
樂途體育用品有限公司 (Lotto Sports Goods Co., Ltd.)	The PRC, 19 January 2009 Limited liability company	RMB400,000,000	100%	Sale of sports goods
樂途(大慶)體育用品有限責任公司 (Lotto (Daqing) Sports Goods Co., Ltd.)	The PRC, 24 January 2011 Limited liability company	RMB5,000,000	100%	Sale of sports goods
李寧(福建)羽毛球科技發展有限公司 (Li Ning (Fujian) Badminton Technology Development Co., Ltd.)	The PRC, 30 June 2008 Limited liability company	RMB20,000,000	100%	Manufacture and sale of sports goods
Kason Sports (Hong Kong) Ltd. (凱勝體育(香港)有限公司)	Hong Kong, 15 January 2008 Limited liability company	HK\$1	100%	Investment holding
Li Ning International Trading (Hong Kong) Co., Ltd. (李寧國際貿易(香港)有限公司)	Hong Kong, 27 August 2010 Limited liability company	HK\$2	100%	Sales of sports goods
李寧(湖北)體育用品有限公司 (Li Ning (Hubei) Sports Goods Co., Ltd.)	The PRC, 2 November 2010 Limited liability company	RMB411,844,000	100%	Manufacture and sale of sports goods
湖北李寧鞋業有限公司 (Hubei Li Ning Footwear Co., Ltd.)	The PRC, 18 April 2013 Limited liability company	RMB50,00,000	95%	Manufacture and sale of sports goods

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company (Continued)

(a) Investments in subsidiaries (Continued)

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
哈爾濱一動體育用品銷售有限公司 (Harbin Edosports Goods Sales Co., Ltd.)	The PRC, 25 December 2013 Limited liability company	RMB1,000,000	100%	Sale of sports goods
大慶悅動體育用品銷售有限公司 (Daqing Yue Dong Sports Goods Sales Co., Ltd.)	The PRC, 25 December 2013 Limited liability company	RMB1,000,000	100%	Sale of sports goods
寧波一動體育用品有限公司 (Ningbo Edosports Goods Co., Ltd.)	The PRC, 2 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
重慶悅奧體育用品銷售有限公司 (Chongqing Yue Ao Sports Goods Sales Co., Ltd.)	The PRC, 15 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
溫州一動體育用品有限公司 (Wenzhou Edosports Goods Co., Ltd.)	The PRC, 22 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
貴陽悅奧體育用品有限公司 (Guiyang Yue Ao Sports Goods Co., Ltd.)	The PRC, 23 May 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
海口一動體育用品銷售有限公司 (Haikou Edosports Goods Sales Co., Ltd.)	The PRC, 6 June 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods

(b) Material non-controlling interests

As at 31 December 2014, the total non-controlling interests of the Group is RMB217,583,000, of which RMB215,033,000 attributed to Shanghai Double Happiness Co., Ltd. The non-controlling interest in respect of Hubei Li Ning Footwear Co., Ltd. is not material.

Set out below are the summarised financial information of Shanghai Double Happiness Co., Ltd. that has non-controlling interests that are material to the Group. There is no material transaction with non-controlling interests during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company (Continued)

(b) Material non-controlling interests (Continued)

Summarised balance sheet

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Current		
Assets	288,041	291,790
Liabilities	267,455	238,060
Net current assets	20,586	53,730
Non-current		
Assets	639,596	584,506
Liabilities	62,471	64,997
Net non-current assets	577,125	519,509
Net assets	597,711	573,239

Summarised income statement

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Revenue	680,761	606,828
Profit before income tax	115,062	98,782
Income tax expense	(26,698)	(25,555)
Profit for the year	88,364	73,227
Total comprehensive income	88,364	73,227
Total comprehensive income allocated to Non-Controlling Interests	37,927	32,149

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Investment in subsidiaries – Company (Continued)

(b) Material non-controlling interests (Continued)

Summarised cash flows

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	162,982	188,251
Income tax paid	(31,489)	(25,720)
Net cash generated from operating activities	131,493	162,531
Net cash used in investing activities	(10,514)	(75,362)
Net cash used in financing activities	(73,463)	(83,571)
Net increase in cash and cash equivalents	47,516	3,598
Cash and cash equivalents at beginning of year	93,726	90,804
Exchange losses on cash and cash equivalents	(1,038)	(676)
Cash and cash equivalents at end of year	140,204	93,726

The information above is the amount before inter-company eliminations.

11. Investments accounted for using the equity method – Group

The amounts recognised in the balance sheet are as follows:

	2014		2013	
	RMB'000		RMB'000	
Associates	–		–	
Joint ventures	20,848		13,496	
As at 31 December	20,848		13,496	

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

	2014		2013	
	RMB'000		RMB'000	
Associates	–		(3,275)	
Joint ventures	7,352		5,517	
For the year ended 31 December	7,352		2,242	

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(All amounts in RMB unless otherwise stated)

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

Investment in associates

The following is a list of the principal associates as at 31 December 2014:

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Group	Principal activities
Tianjin Kuan Mao Mi Children's Products Company Limited ("Tianjin Kuan Mao Mi")	The PRC, 24 May 2011 Limited liability company	RMB30,000,000	13.30%	Sale of sports goods
Tianjin Yue Hao Tuo Outdoor Sports Company Limited ("Tianjin Yue Hao Tuo")	The PRC, 3 August 2011 Limited liability company	RMB20,790,000	14.82%	Sale of sports goods

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

The Group does not have any share of loss from continuing operations and total comprehensive income of its associates for the year ended 31 December 2014. The Group's share of loss from continuing operations and total comprehensive income of its associates for the year ended 31 December 2013 were RMB3,275,000 and RMB3,275,000, respectively. The Group does not have any share of post-tax or other comprehensive income of its associates for the years ended 31 December 2014 and 2013.

Investment in joint venture

	2014 RMB'000	2013 RMB'000
As at 1 January	13,496	7,979
Share of profit	7,352	5,517
As at 31 December	20,848	13,496

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

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Group	Principal activities
Li-Ning Aigle Ventures Company Limited ("Li-Ning Aigle Ventures")	Hong Kong, 3 July 2005 Limited liability company	HK\$48,600,000	50%	Investment holding

The Group has a 50% equity interest in Li-Ning Aigle Ventures which is a company jointly controlled by the Group and Aigle International S.A., a company incorporated in France. Li-Ning Aigle Ventures and its subsidiary are principally engaged in the manufacture, marketing and distribution of AIGLE brand apparel and footwear products in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

12. Inventories – Group

	2014 RMB'000	2013 RMB'000
Raw materials	39,611	43,597
Work in progress	32,930	50,634
Finished goods	1,481,024	1,230,203
	1,553,565	1,324,434
Less: provision for write-down of inventories to net realisable value	(264,233)	(382,066)
	1,289,332	942,368

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB3,520,187,000 for the year ended 31 December 2014 (2013: RMB3,027,645,000). Inventory provision and the amount of reversal have been included in cost of sales in the consolidated income statement for the years ended 31 December 2014 and 2013.

13. Trade receivables – Group

	2014 RMB'000	2013 RMB'000
Accounts receivable	1,825,483	1,948,188
Notes receivable	31,414	13,980
	1,856,897	1,962,168
Less: allowance for impairment of trade receivables	(596,766)	(590,928)
	1,260,131	1,371,240

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

	2014 RMB'000	2013 RMB'000
0 – 30 days	367,794	420,487
31 – 60 days	218,264	175,736
61 – 90 days	237,383	195,300
91 – 180 days	560,231	662,768
Over 180 days	473,225	507,877
	1,856,897	1,962,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

13. Trade receivables – Group (Continued)

Customers are normally granted credit terms within 90 days. As at 31 December 2014, trade receivables of RMB1,033,456,000 (31 December 2013: RMB1,170,645,000) were past due. As discussed in Note 4(c), the Group's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, ageing of receivable balances, and latest communication with individual customers. Management have been closely monitoring the credit risk of each customer and actively pursue collection of those receivables until all efforts are exhausted. An allowance of RMB596,766,000 has been made as at 31 December 2014 (31 December 2013: RMB590,928,000).

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

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

	2014 RMB'000	2013 RMB'000
As at 1 January	590,928	937,535
Provision/(reversal of provision) for impairment of trade receivables	8,942	(337,053)
Trade receivables written off during the year as uncollectible	(3,104)	(9,554)
As at 31 December	596,766	590,928

The creation and release of provision for impaired trade receivables have been included in administrative expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of trade receivables mentioned above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

14. Other receivables and prepayments – Group

	2014 RMB'000	2013 RMB'000
Prepaid rentals and other deposits	221,973	209,648
Advances to suppliers	46,587	12,434
Deductible value-added tax input balance	32,810	–
Loans to a joint venture	21,246	20,441
Prepayment for advertising expenses	18,069	37,837
Staff advances and other payments for employees	9,860	8,736
Prepayment for purchase of land use rights and buildings	–	71,829
Prepayment for acquisition of the business of certain distributors (Note 35)	–	66,956
Others	68,205	60,569
	418,750	488,450
Less: non-current portion	(39,473)	(125,807)
Current portion	379,277	362,643

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

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

15. Cash, cash equivalents and restricted bank deposits – Group and Company

As at 31 December 2014, the Group had the following cash, cash equivalents and restricted bank deposits mainly held at banks in the PRC (including the Hong Kong Special Administrative Region):

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Cash and cash equivalents	1,031,386	1,280,684	647	115,346
Restricted bank deposits	2,593	2,149	–	–
	1,033,979	1,282,833	647	115,346

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

15. Cash, cash equivalents and restricted bank deposits – Group and Company (Continued)

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

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Denominated in RMB	970,446	1,144,405	–	–
Denominated in HK\$	18,560	125,544	626	115,346
Denominated in US\$	13,590	9,332	21	–
Denominated in EUR	30,406	3,352	–	–
Denominated in KRW	977	200	–	–
	1,033,979	1,282,833	647	115,346

At present, Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currencies and remittance of Renminbi out of the PRC is subject to the rules and regulations of exchange control promulgated by the PRC government.

Cash at banks, short-term deposits and restricted bank deposits are neither past due nor impaired and are deposits with banks which are mainly prominent nationwide state-owned banks or PRC branches of international commercial banks with good credit ratings.

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

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

	Number of shares (Thousands)	Approximate amount HK\$'000
Authorised at HK\$0.10 each		
As at 31 December 2014 and 2013	10,000,000	1,000,000

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(All amounts in RMB unless otherwise stated)

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

Issued and fully paid

	Number of share of HK\$0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Subtotal RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
As at 1 January 2013	1,053,470	111,622	315,972	427,594	(41,185)	386,409
Net proceeds from shares issued pursuant to share option schemes (Note)	551	44	1,929	1,973	–	1,973
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	4,285	4,285	–	4,285
Shares vested under Restricted Share Award Scheme	738	–	–	–	9,676	9,676
Shares converted from convertible securities	313,175	24,947	824,659	849,606	–	849,606
As at 31 December 2013	1,367,934	136,613	1,146,845	1,283,458	(31,509)	1,251,949
As at 1 January 2014	1,367,934	136,613	1,146,845	1,283,458	(31,509)	1,251,949
Net proceeds from shares issued pursuant to share option schemes (Note)	830	66	3,173	3,239	–	3,239
Shares converted from convertible securities (Note 17)	63,488	5,019	166,000	171,019	–	171,019
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(17,481)	(17,481)	–	(17,481)
Shares vested under Restricted Share Award Scheme	1,706	–	–	–	29,936	29,936
Shares purchased for Restricted Share Award Scheme	(470)	–	–	–	(2,146)	(2,146)
As at 31 December 2014	1,433,488	141,698	1,298,537	1,440,235	(3,719)	1,436,516

Note:

During the year ended 31 December 2014, the Company issued 830,000 shares (2013: 551,000 shares) of HK\$0.10 each to certain directors and employees of the Group at weighted-average issue price of HK\$4.927 (2013: HK\$4.519) per share pursuant to the Company's 2004 Share Option Scheme (see Note 33).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

17. Reserves – Group and Company

Group

	Capital reserves	Statutory reserve funds	Share-based compensation reserves	Convertible bonds reserves	Convertible securities reserves	Currency translation difference	Subtotal	Retained Earnings/ (accumulated deficit)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2013	64,175	233,945	74,074	113,395	-	3,896	489,485	737,703	1,227,188
Loss for the year	-	-	-	-	-	-	-	(391,540)	(391,540)
Value of services provided under share option schemes	-	-	21,104	-	-	-	21,104	-	21,104
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	-	(4,285)	-	-	-	(4,285)	-	(4,285)
Share options lapsed	5,661	-	(5,661)	-	-	-	-	-	-
Shares vested under Restricted Share Award Scheme	-	-	(9,676)	-	-	-	(9,676)	-	(9,676)
Appropriations to statutory reserves	-	15,229	-	-	-	-	15,229	(15,229)	-
Issuance of convertible securities (Note c)	-	-	-	-	1,441,484	-	1,441,484	-	1,441,484
Shares converted from convertible securities	-	-	-	-	(849,606)	-	(849,606)	-	(849,606)
Acquisition of non-controlling interests of a subsidiary	(3,045)	-	-	-	-	-	(3,045)	-	(3,045)
Translation difference of foreign currency financial statements	-	-	-	-	-	657	657	-	657
As at 31 December 2013	66,791	249,174	75,556	113,395	591,878	4,553	1,101,347	330,934	1,432,281
As at 1 January 2014	66,791	249,174	75,556	113,395	591,878	4,553	1,101,347	330,934	1,432,281
Loss for the year	-	-	-	-	-	-	-	(781,481)	(781,481)
Value of services provided under share option schemes and Restricted Share Award Scheme	-	-	48,156	-	-	-	48,156	-	48,156
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	-	17,481	-	-	-	17,481	-	17,481
Share options lapsed	12,023	-	(12,023)	-	-	-	-	-	-
Shares vested under Restricted Share Award Scheme	-	-	(29,936)	-	-	-	(29,936)	-	(29,936)
Appropriations to statutory reserves	-	18,509	-	-	-	-	18,509	(18,509)	-
Shares converted from convertible securities (Note c)	-	-	-	-	(171,019)	-	(171,019)	-	(171,019)
Translation difference of foreign currency financial statements	-	-	-	-	-	(140)	(140)	-	(140)
As at 31 December 2014	78,814	267,683	99,234	113,395	420,859	4,413	984,398	(469,056)	515,342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

17. Reserves – Group and Company (Continued)

Company

	Retained profits RMB'000	Capital reserves RMB'000	Share-based compensation reserves RMB'000	Convertible bonds reserves RMB'000	Convertible securities reserves RMB'000	Total RMB'000
As at 1 January 2013	222,185	–	74,074	113,395	–	409,654
Loss for the year	(58,261)	–	–	–	–	(58,261)
Value of services provided under share option schemes	–	–	21,104	–	–	21,104
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(4,285)	–	–	(4,285)
Share options lapsed	–	5,661	(5,661)	–	–	–
Issuance of convertible securities (Note c)	–	–	–	–	1,441,484	1,441,484
Shares converted from convertible securities	–	–	–	–	(849,606)	(849,606)
Shares vested under Restricted Share Award Scheme	–	–	(9,676)	–	–	(9,676)
As at 31 December 2013	163,924	5,661	75,556	113,395	591,878	950,414
As at 1 January 2014	163,924	5,661	75,556	113,395	591,878	950,414
Loss for the year	(85,890)	–	–	–	–	(85,890)
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	48,156	–	–	48,156
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	17,481	–	–	17,481
Share options lapsed	–	12,023	(12,023)	–	–	–
Shares converted from convertible securities (Note c)	–	–	–	–	(171,019)	(171,019)
Shares vested under Restricted Share Award Scheme	–	–	(29,936)	–	–	(29,936)
As at 31 December 2014	78,034	17,684	99,234	113,395	420,859	729,206

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(All amounts in RMB unless otherwise stated)

17. Reserves – Group and Company (Continued)

(a) Capital reserves

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

(b) Statutory reserve funds

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

Statutory reserve funds include Statutory Surplus Reserve and Reserve Fund.

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

Pursuant to applicable PRC laws and regulations, PRC Companies incorporated under the "Law of the PRC on Joint Ventures Using Chinese and Foreign Investment" may appropriate a percentage of net profit determined in accordance with the PRC accounting regulations to Reserve Fund after offsetting accumulated losses from prior years. The percentage of appropriation is determined by the board of directors of the companies.

Pursuant to applicable PRC laws and regulations, PRC Companies incorporated under the "Law of the PRC on Enterprise Operated Exclusively with Foreign Capital" are required to allocate at least 10% of the companies' net profit determined in accordance with the PRC accounting regulations to the Reserve Fund until such fund reaches 50% of the companies' registered capital. The Reserve Fund, upon approval by relevant authorities, may be used to offset accumulated losses or to increase registered capital of the Company.

(c) Convertible securities reserves

In April 2013, the Company issued convertible securities (the "CS") in the aggregate principal amount of HK\$1,847,838,000 (equivalent to approximately RMB1,480,488,000). The CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK\$3.50 per ordinary share of the Company (subject to standard anti-dilution adjustments). The CS can be converted into 527,953,814 ordinary shares of the Company.

The CS cannot be redeemed unless the Company exercises the pre-emption right (but shall not be obliged) to redeem (or procure the purchase of) all or part of the principal amount of the CS.

As the Company has no contractual obligation to settle the CS in cash, the CS do not meet the definition of financial liabilities under IAS 32. As a result, all of the CS are classified as equity upon initial recognition and the net proceeds of HK\$1,798,838,000 (net of the transaction costs of HK\$49,000,000), which is equivalent to approximately RMB1,441,484,000, are included in shareholders' equity as other reserve. In relation to the issuance of the CS, the Company paid HK\$18,617,000 and HK\$12,412,000 to Viva China Holdings Limited ("Viva China") and TPG Stallion, L.P. ("TPG") respectively, which, equivalent to approximately RMB14,819,000 and RMB9,879,000 respectively, had been included as part of the transaction costs.

As at 31 December 2014, convertible securities with carrying value of HK\$1,283,360,000 (equivalent to approximately RMB1,020,625,000) had been converted into ordinary shares of the Company, amongst which carrying value of HK\$216,314,000 (equivalent to approximate RMB171,019,000) were converted into 63,488,000 ordinary shares of the Company during the year ended 31 December 2014 (Note 16).

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(All amounts in RMB unless otherwise stated)

18. Trade payables – Group

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

	2014 RMB'000	2013 RMB'000
0 – 30 days	704,434	651,017
31 – 60 days	122,191	206,844
61 – 90 days	97,512	27,899
91 – 180 days	19,335	18,580
181 – 365 days	5,126	2,737
Over 365 days	4,831	6,911
	953,429	913,988

19. Other payables and accruals – Group and Company

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Accrued sales and marketing expenses	379,293	305,439	–	–
Loan from a related party (Note a)	152,106	–	152,106	–
Advances from customers	130,442	106,270	–	–
Wages and welfare payables	124,046	102,488	–	–
Other tax payables	32,537	18,354	–	–
Payable for property, plant and equipment	11,650	49,096	–	–
Others	274,467	254,964	16,039	8,605
	1,104,541	836,611	168,145	8,605

- (a) On 15 August 2014, a related party of the company has lent HK\$187,500,000 to the Company. The loan is repayable on demand, and bears an effective interest rate of 7.2% per annum during the year. Interest accrued for the year was approximately RMB4,187,000. The principal together with the interest were fully repaid in January 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

20. License fees payable – Group

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

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

	RMB'000
As at 1 January 2013	263,663
Acquisition of license rights	3,699
Payment of license fees	(108,941)
Amortisation of discount (Note 28)	21,270
Adjustment for exchange difference	(2,758)
As at 31 December 2013	176,933
As at 1 January 2014	176,933
Payment of license fees	(59,685)
Amortisation of discount (Note 28)	18,044
Adjustment for exchange difference	22
As at 31 December 2014	135,314

	2014 RMB'000	2013 RMB'000
Analysis of license fees payable:		
Non-current		
– over five years	–	2,324
– the second to fifth year	77,434	119,985
Current	57,880	54,624
	135,314	176,933

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

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

	2014 RMB'000	2013 RMB'000
Less than 1 year	62,073	57,998
Between 1 and 5 years	99,483	158,682
Over 5 years	–	4,572
	161,556	221,252

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

21. Borrowings – Group and Company

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Borrowings				
– non-current	298,241	200,000	–	–
– current	550,782	200,000	299,782	–
	849,023	400,000	299,782	–
Borrowings denominated in				
– RMB	251,000	400,000	–	–
– HK\$	299,782	–	299,782	–
– US\$	298,241	–	–	–
	849,023	400,000	299,782	–
Borrowings				
– secured	498,241	–	–	–
– unsecured	350,782	400,000	299,782	–
	849,023	400,000	299,782	–

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

The weighted average effective interest rates per annum of the borrowings were 6.60% (2013: 6.76%) for those borrowings denominated in RMB and 4.92% (2013: 2.26%) for those borrowings denominated in other currencies for the year ended 31 December 2014.

As at 31 December 2014, bank borrowings amounting to RMB498,241,000 were secured by the Group's buildings and land use rights (Notes 6 and 7), in which balance of RMB200,000,000 were unsecured as at 31 December 2013 but became secured during the year ended 31 December 2014. As at 31 December 2013, the Group has no secured bank borrowings.

As at 31 December 2014, the Group has undrawn borrowing facilities within one year amounting to RMB200,000,000 (31 December 2013: RMB1,128,580,000). These facilities have been arranged to finance the Group's working capital.

In May 2014, the Group, certain of the Group's suppliers (the "Suppliers") and a PRC bank entered into trade financing facilities arrangement amounting to RMB130 million. As at 31 December 2014, RMB38.9 million has been utilised by the Suppliers under this arrangement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

21. Borrowings – Group and Company (Continued)

Movement in borrowings is analysed as follows:

	Group RMB'000	Company RMB'000
As at 1 January 2013	1,447,157	162,157
Additions	1,803,005	–
Effect of change in exchange rate	(1,919)	(1,919)
Repayments	(2,848,243)	(160,238)
As at 31 December 2013	400,000	–
As at 1 January 2014	400,000	–
Additions	772,299	300,694
Effect of change in exchange rate	(3,276)	(912)
Repayments	(320,000)	–
As at 31 December 2014	849,023	299,782

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

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
– Less than 6 months	350,782	5,000	299,782	–
– Between 6 and 12 months	200,000	195,000	–	–
– Between 1 and 2 years	298,241	200,000	–	–
	849,023	400,000	299,782	–

22. Convertible bonds – Group and Company

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

The CB cannot be redeemed prior to maturity, unless due to events of default, upon which the holders have the right to require early redemption at 130% of the outstanding principal amount of the CB plus any unpaid interests.

The initial fair value of the liability component and the equity conversion component was determined based on net proceeds at issuance. The fair value of the liability component was calculated by using a market interest rate for an equivalent non-convertible bond. The residual amount of RMB113,395,000, representing the value of the equity conversion component, was included in shareholders' equity as other reserves (Note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

22. Convertible bonds – Group and Company (Continued)

Subsequently on 23 January 2013 (the “Modification Date”), the Company and the bondholders signed an amendment under which both parties agreed to (1) modify certain clauses for the remaining term of the CB, as such clauses may create future financial constraints on the Company, and (2) reset the conversion price from the initial conversion price of HK\$7.74 to HK\$4.5 per ordinary share of the Company. The amendment became effective on the Modification Date.

The above two changes constituted a substantial modification of the original CB, which resulted in the derecognition of the carrying value of the debt portion of the CB as of the Modification Date amounting to RMB668,525,000 and the recognition of a new financial liability based on the fair value of the debt portion of the CB as of the Modification Date amounting to RMB634,896,000. The consequential gain of RMB33,629,000 was recognised in the consolidated income statement in 2013 as “Other income and other gains – net” (Note 26).

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

	Group and Company	
	2014	2013
	RMB'000	RMB'000
Liability component as at 1 January/Modification Date	658,227	634,896
Payment of interest	(30,000)	(30,000)
Interest expenses	60,694	53,331
Liability component as at 31 December	688,921	658,227
Less: Interest payable due within one year	(12,500)	(12,500)
Non-current portion	676,421	645,727

The face value of the CB as at 31 December 2014 is RMB750,000,000. No part of the CB was converted to ordinary shares of the Company during the year or subsequent to 31 December 2014 and before the approval date of these consolidated financial statements. The carrying value of the liability component is calculated using cash flows discounted at an initial risk adjusted market interest rate of 9.51% per annum. The carrying value of the liability component approximates its fair value as of 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

23. Deferred income tax – Group

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

	Provisions RMB'000	Share schemes RMB'000	Unrealised profit on intra-group sales RMB'000	Fair value gains RMB'000	Accumulated tax losses RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
Deferred income tax assets								
As at 1 January 2013	36,066	2,019	4,676	–	92,524	204,313	22,469	362,067
(Charged)/credited to income statement	(11,314)	(2,019)	(592)	–	(28,079)	25,699	(152)	(16,457)
As at 31 December 2013	24,752	–	4,084	–	64,445	230,012	22,317	345,610
As at 1 January 2014	24,752	–	4,084	–	64,445	230,012	22,317	345,610
(Charged)/credited to income statement	(6,739)	–	5,365	–	(23,627)	(17,118)	7,590	(34,529)
As at 31 December 2014	18,013	–	9,449	–	40,818	212,894	29,907	311,081
Deferred income tax liabilities								
As at 1 January 2013	–	–	–	(77,158)	–	–	(2,160)	(79,318)
Credited/(charged) to income statement	–	–	–	4,093	–	–	(91)	4,002
As at 31 December 2013	–	–	–	(73,065)	–	–	(2,251)	(75,316)
As at 1 January 2014	–	–	–	(73,065)	–	–	(2,251)	(75,316)
Credited/(charged) to income statement	–	–	–	3,937	–	–	(46)	3,891
Business combinations (Note 35)	–	–	–	(4,985)	–	–	–	(4,985)
As at 31 December 2014	–	–	–	(74,113)	–	–	(2,297)	(76,410)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

23. Deferred income tax – Group (Continued)

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

	2014 RMB'000	2013 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	225,619	252,459
– to be recovered after more than 12 months	85,462	93,151
	311,081	345,610
Deferred income tax liabilities		
– to be recovered within 12 months	(5,821)	(6,336)
– to be recovered after more than 12 months	(70,589)	(68,980)
	(76,410)	(75,316)

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB443,837,000 (2013: RMB272,231,000) in respect of tax losses amounting to RMB1,782,390,000 (2013: RMB1,096,351,000) that can be carried forward against future taxable income and will expire between 2015 and 2019 as Management believes it is more likely than not that such tax losses would not be utilised before they expire.

Deferred income tax liabilities of RMB16,311,000 (2013: RMB21,078,000) have not been recognised for the withholding tax that would be payable on the distributable retained profits of the Company's subsidiaries in the PRC earned after 1 January 2008. Such amounts totaling RMB326,220,000 (2013: RMB421,563,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

24. Deferred income – Group

	RMB'000
As at 1 January 2013	59,736
Addition	5,570
Credited to income statement	(1,294)
As at 31 December 2013	64,012
As at 1 January 2014	64,012
Credited to income statement	(1,294)
As at 31 December 2014	62,718

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

25. Expenses by nature

	2014 RMB'000	2013 RMB'000
Cost of inventories recognised as expenses and included in cost of sales	3,520,187	3,027,645
Depreciation on property, plant and equipment (Note a)	145,795	127,318
Amortisation of land use rights and intangible assets	52,665	65,877
Advertising and marketing expenses	1,297,881	1,407,041
Staff costs, including directors' emoluments	819,699	670,298
Operating lease rentals in respect of land and buildings and related expenses	746,661	582,736
Research and product development expenses (Note a)	173,795	172,571
Transportation and logistics expenses	277,099	237,466
Provision/(reversal of provision) for impairment of trade receivables	8,942	(337,053)
Impairment of available-for-sale financial assets	34,930	–
Auditor's remuneration	4,350	4,200
Management consulting expenses	93,638	94,596
Travelling and entertainment expenses	59,223	56,715

Note:

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

26. Other income and other gains – net

	2014 RMB'000	2013 RMB'000
Government grants	25,412	101,551
License fee income	8,867	11,522
Gain on modification of the CB (Note 22)	–	33,629
	34,279	146,702

27. Staff costs

	2014 RMB'000	2013 RMB'000
Wages and salaries	403,312	351,394
Contributions to retirement benefit plan (Note c)	55,183	46,678
Share options and restricted shares granted to directors and employees	48,156	21,104
Staff quarters and housing benefits	19,043	16,789
Other costs and benefits	294,005	234,333
	819,699	670,298

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

27. Staff costs (Continued)

(a) Directors' emoluments

The remuneration of each director for the year ended 31 December 2013 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Mr. Li Ning	–	3,710	960	17	161	4,848
Mr. Zhang Zhi Yong	127	1,371	–	2,446	113	4,057
Mr. Jin-Goon Kim	500	–	–	215	–	715
Ms. Wang Ya Fei	270	–	–	355	–	625
Mr. Koo Fook Sun, Louis	270	–	–	355	–	625
Mr. Chan Chung Bun, Bunny	250	–	–	355	–	605
Mr. James Chun-Hsien Wei (ii)	167	–	–	43	–	210
Mr. Chen Yue, Scott	250	–	–	215	–	465
Mr. Su Jing Shyh, Samuel	250	–	–	215	–	465

The remuneration of each director for the year ended 31 December 2014 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Discretionary bonuses RMB'000	Other benefits(i) RMB'000	Employer's contribution to pension scheme RMB'000	Total RMB'000
Mr. Li Ning	–	3,710	–	13,124	162	16,996
Mr. Zhang Zhi Yong (iii)	191	–	–	439	67	697
Mr. Jin-Goon Kim	500	–	–	17,388	–	17,888
Ms. Wang Ya Fei	270	–	–	156	–	426
Mr. Koo Fook Sun, Louis	270	–	–	156	–	426
Mr. Chan Chung Bun, Bunny	250	–	–	156	–	406
Mr. Chen Yue, Scott	250	–	–	126	–	376
Mr. Su Jing Shyh, Samuel	266	–	–	126	–	392

(i) Other benefits include insurance premium, housing allowance and fair value of share options charged to the consolidated income statement during the year.

(ii) Mr. James Chun-Hsien Wei ceased to be a non-executive director of the Company with effect from 1 September 2013.

(iii) Mr. Zhang Zhi Yong ceased to be a non-executive director of the Company with effect from 6 October 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

27. Staff costs (Continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included two directors for the years ended 31 December 2014 and 2013, and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining three individuals whose emoluments were the highest in the Group for 2014 and 2013 are as follows:

	2014 RMB'000	2013 RMB'000
Salaries and allowances	5,331	7,647
Other benefits	6,195	7,155
Contributions to retirement benefit scheme	212	263
	11,738	15,065

The emoluments fell within the following bands:

	Number of individuals	
	2014	2013
Emoluments bands		
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$4,500,001 to HK\$5,000,000	1	–
HK\$5,000,001 to HK\$5,500,000	–	1
HK\$5,500,001 to HK\$6,000,000	1	–
HK\$6,000,001 to HK\$6,500,000	–	1
HK\$7,500,001 to HK\$8,000,000	–	1
	3	3

(c) Pensions – defined contribution plans

The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 5% to 22% of the employees' basic salary dependent upon the applicable local regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

28. Finance income and expenses

	2014 RMB'000	2013 RMB'000
Interest income on bank balances and deposits	5,664	8,699
Net foreign currency exchange gain	4,582	–
Finance income	10,246	8,699
Amortisation of discount – license fees payable (Note 20)	(18,044)	(21,270)
Interest expense on bank and other borrowings	(37,873)	(51,794)
Interest expense on convertible bonds	(60,694)	(57,724)
Net foreign currency exchange loss	–	(15,861)
Others	(36,741)	(12,047)
Finance expenses	(153,352)	(158,696)
Finance expenses – net	(143,106)	(149,997)

29. Income tax expense

	2014 RMB'000	2013 RMB'000
Current income tax		
– Hong Kong profits tax (Note b)	3,361	1,823
– The PRC corporate income tax (Note c)	41,059	24,002
– Withholding income tax on interest income from subsidiaries in PRC (Note d)	3,819	3,939
	48,239	29,764
Deferred income tax	30,638	12,455
Income tax expense	78,877	42,219

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 2014 (2013: 16.5%).
- (c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2013: 25%) on the assessable income of each of the group companies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

29. Income tax expense (Continued)

Notes: (Continued)

- (d) This mainly arose from the interests due by the Company's subsidiaries in the PRC to other group companies in Hong Kong during the years ended 31 December 2014 and 2013, which are subject to withholding tax at the rate of 7%.

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

	2014 RMB'000	2013 RMB'000
Loss before income tax	(664,627)	(317,172)
Tax calculated at a tax rate of 25% (2013: 25%)	(166,157)	(79,293)
Effects of different overseas tax rates	5,934	(684)
Temporary differences and tax losses for which no deferred income tax asset is recognised	193,934	113,204
Expenses not deductible for tax purposes	54,410	20,087
Income not subject to tax	(13,063)	(15,034)
Withholding tax on interest income	3,819	3,939
Tax charge	78,877	42,219

30. Losses per share

Basic

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

In April 2013, the Company has completed the issuance of the CS (see Note 17). The below market subscription price has effectively resulted in 35,717,000 ordinary shares (2013: 58,768,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of ordinary shares for the purpose of basic losses per share calculation. Such shares issued for nil consideration have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2013.

In January 2015, the Company has completed the open offer transaction (see Note 37). The below market subscription price has effectively resulted in 145,904,000 ordinary shares (2013:145,904,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of ordinary shares for the purpose of basic losses per share calculation. Such shares issued for nil consideration have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

30. Losses per share (Continued)

Basic (Continued)

	2014 RMB'000	2013 RMB'000 (Restated)
Loss attributable to equity holders of the Company	(781,481)	(391,540)
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	1,382,244	1,250,126
Adjustment for bonus element arising from the issuance of the CS and offer securities (in thousands)	181,621	204,672
Deemed weighted average number of ordinary shares for basic losses per share (in thousands)	1,563,865	1,454,798
Basic losses per share (RMB cents)	(49.97)	(26.91)

Diluted

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

	2014 RMB'000	2013 RMB'000 (Restated)
Loss attributable to equity holders of the Company, used to determine diluted losses per share	(781,481)	(391,540)
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (in thousands)	1,382,244	1,250,126
Adjustment for bonus element arising from the issuance of the CS and offer securities (in thousands)	181,621	204,672
Deemed weighted average number of ordinary shares for diluted losses per share (in thousands)	1,563,865	1,454,798
Diluted losses per share (RMB cents)	(49.97)	(26.91)

Note:

For the year ended 31 December 2014, the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive. As at 31 December 2014, there were 55 million share options, 1.8 million restricted shares, 205 million ordinary shares assuming conversion of convertible bonds and 124 million ordinary shares assuming conversion of convertible securities that could potentially have a dilutive impact in the future but were anti-dilutive in 2014 (2013: 41 million, 0.8 million, 205 million and 177 million respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

31. Dividends

The Board did not propose final dividend for the years ended 31 December 2014 and 2013.

32. Statement of cash flows

Reconciliation of loss before income tax to cash used in operations are as follows:

	2014 RMB'000	2013 RMB'000
Loss before income tax	(664,627)	(317,172)
Adjustments for:		
Depreciation	145,795	127,318
Amortisation	52,665	65,877
Loss/(gain) on disposal of property, plant and equipment and land use rights	12,686	(52,879)
Gain on modification of the CB (Note 22)	–	(33,629)
Provision/(reversal of provision) for impairment of trade receivables	8,942	(337,053)
Reversal of provision for write-down of inventories to net realisable value	(117,833)	(203,930)
Impairment of available-for-sale financial assets	34,930	–
Share options and restricted shares granted to directors and employees	48,156	21,104
Finance expenses – net	139,830	149,997
Amortisation of deferred income	(1,294)	(1,294)
Share of profit of investments accounted for using the equity method	(7,352)	(2,242)
Operating loss before working capital changes	(348,102)	(583,903)
(Increase)/decrease in inventories	(229,131)	162,930
Decrease in trade receivables	13,892	378,417
Decrease/(increase) in other receivables and prepayments	81,067	(50,011)
Increase/(decrease) in trade payables	39,441	(44,032)
Increase in other payables and accruals	94,142	119,005
Cash used in operations	(348,691)	(17,594)

33. Share-based compensation

(a) 2004 Share Option Scheme

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

33. Share-based compensation (Continued)

(a) 2004 Share Option Scheme (Continued)

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

The maximum number of shares that may be granted under the 2004 Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. Lapsed or cancelled options may be re-granted in accordance with the terms of the 2004 Share Option Scheme.

An option may be exercised in accordance with the terms of the 2004 Share Option Scheme at any time during a period to be notified by the Company's board of directors, which must not be more than 10 years from the date of the grant.

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

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

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

	2014		2013	
	Weighted average exercise price (per share) HK\$	Outstanding Options (thousands)	Weighted average exercise price (per share) HK\$	Outstanding options (thousands)
As at 1 January	7.677	40,780	8.884	35,451
Granted	6.933	21,456	4.783	9,420
Adjustment in relation to issuance of the CS (i)	–	–	8.167	3,040
Exercised	4.927	(830)	4.519	(551)
Lapsed	9.745	(6,072)	6.628	(6,580)
As at 31 December	7.203	55,334	7.677	40,780
Exercisable as at 31 December	8.635	27,172	11.696	14,525

- (i) As a result of the issuance of the CS, the exercise prices and the number of the shares to be allotted and issued upon full exercise of the outstanding share options were adjusted in accordance with the 2004 Share Option Scheme. The above adjustments have taken effect from 22 April 2013. Save for the above adjustments, all other terms and conditions of the share options granted under the 2004 Share Option Scheme remain unchanged.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

33. Share-based compensation (Continued)

(a) 2004 Share Option Scheme (Continued)

Share options outstanding under the 2004 Share Option Scheme at the end of the years have the following expiry date and exercise price:

Expiry date	2014		2013	
	Exercise price (per share) HK\$	Share options (Thousands)	Exercise price (per share) HK\$	Share options (Thousands)
4 July 2014	15.820	–	15.820	1,301
31 December 2014	4.920	–	4.920	9,937
19 January 2015	10.450	6,948	10.450	7,465
1 April 2015	12.110	–	12.110	450
22 October 2015	20.090	2,147	20.090	2,567
15 July 2017	9.090	2,569	9.090	2,932
4 July 2018	4.310	726	4.310	726
31 December 2018	4.920	15,135	4.920	7,980
31 December 2018	7.000	1,950	–	–
30 September 2019	7.000	15,071	–	–
31 December 2019	5.070	5,890	5.070	6,328
31 December 2019	6.790	984	6.790	1,094
31 December 2020	7.000	3,264	–	–
31 December 2020	5.100	650	–	–
		55,334		40,780

The fair value of the options granted under the 2004 Share Option Scheme during the years ended 31 December 2014 and 2013 determined by using Black-Scholes valuation model were as follows:

	2014 RMB'000	2013 RMB'000
The 2004 Share Option Scheme	38,825	12,922

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

33. Share-based compensation (Continued)

(a) 2004 Share Option Scheme (Continued)

Significant inputs into the model were as follows:

	2014	2013
The 2004 Share Option Scheme		
Weighted average share price (HK\$)	6.65	5.57
Weighted average exercise price (HK\$)	6.94	5.58
Expected volatility	52.6%	52.7%
Expected option life (years)	3.23	4.36
Weighted average annual risk free interest rate	0.8%	0.9%
Expected dividend yield	0.3%	1.0%

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

The fair value of the 2004 Share Option Scheme is charged to the consolidated income statement over the vesting period of the option. The amount charged during the year ended 31 December 2014 was RMB35,409,000 (2013: RMB17,220,000).

(b) 2014 Share Option Scheme

On May 30, 2014, the Company adopted a new share option scheme (the "2014 Share Option Scheme"). No option has been granted under the 2014 Share Option Scheme for the year ended 31 December 2014.

(c) Restricted Share Award Scheme

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

33. Share-based compensation (Continued)

(c) Restricted Share Award Scheme (Continued)

The maximum number of Restricted Shares shall not exceed 5% of the Company's share capital in issue from time to time. For each selected participant, the maximum number of Restricted Shares granted in aggregate shall not exceed 10,278,000 shares, being 1% of the Company's issued share capital as at the adoption date of 14 July 2006.

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

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

	2014		2013	
	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)
As at 1 January	19.61	825	18.27	1,774
Granted	6.71	2,740	–	–
Vested	8.60	(1,706)	18.75	(738)
Lapsed	8.96	(49)	11.38	(211)
As at 31 December	10.743	1,810	19.61	825

The fair value of Restricted Shares charged to the consolidated income statement was RMB12,747,000 during the year ended 31 December 2014 (2013: RMB3,884,000).

34. Commitments

(a) Capital commitments

There is no capital expenditure authorised but not contracted for by the Group and the Company as at 31 December 2014 and 2013.

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

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

	2014 RMB'000	2013 RMB'000
Not later than 1 year	243,368	248,935
Later than 1 year and not later than 5 years	303,773	443,192
Later than 5 years	11,744	31,197
	558,885	723,324

The Company does not have any operating lease commitments as at 31 December 2014 and 2013.

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(All amounts in RMB unless otherwise stated)

35. Business combinations

On 11 February 2014, the Group acquired the business of two distributors in Heilongjiang region, namely Harbin Sego Sports Franchise Ltd. and Daqing Yidong Sport Products Sales Co., Ltd. (collectively, "Harbin Sego"), for a total consideration of RMB33,612,000.

On 22 February 2014, the Group acquired the business of two distributors in Liaoning region, namely Liaoning Dadaoren Trade Co., Ltd. and Tianshizhixing Sport Products Store at Yangguang Life Square in Shenhe District, Shenyang (collectively, "Shenyang Yangguang"), for a total consideration of RMB30,542,000.

On 28 March 2014, the Group acquired the business of a distributor in Zhejiang region, namely Zhejiang Jinguan Co., Ltd. ("Zhejiang Jinguan"), for a total consideration of RMB32,323,000.

The above acquisitions are expected to increase the Group's retail sales and market share in the related regions. None of the goodwill recognised is expected to be deductible for income tax purposes.

As a result of these acquisitions, a goodwill of RMB67,087,000 was generated mainly from the retail network of the distributors' stores which did not meet the criteria for recognition as an intangible asset and unrecognised assets such as the workforce.

The following table summarises the consideration paid for the above acquisitions, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	Harbin Sego 11 February 2014 RMB'000	Shenyang Yangguang 22 February 2014 RMB'000	Zhejiang Jinguan 28 March 2014 RMB'000
Purchase considerations	33,612	30,542	32,323
Identifiable assets acquired and liabilities assumed Fair value			
Other receivables and prepayments	506	2,827	5,539
Property, plant and equipment	1,997	562	3,004
Intangibles:			
– Customer relationships (Note 8)	10,100	5,640	4,200
Deferred income tax liabilities	(2,525)	(1,410)	(1,050)
Total identifiable net assets	10,078	7,619	11,693
Goodwill (Note 8)	23,534	22,923	20,630
	33,612	30,542	32,323

Acquisition-related costs amounting to RMB170,000 have been included in administrative expenses in the consolidated income statement for the year ended 31 December 2014.

The above acquisitions are non-cash transactions and the purchase considerations were settled by the Group's trade receivables due from the related distributors. As a result, there was no impact on the consolidated statement of cash flows for the year ended 31 December 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

35. Business combinations (Continued)

Revenue and profit contribution

The acquired businesses contributed revenues of RMB244,909,000 and net profit of RMB31,564,000 (after intra-group eliminations) to the Group for the period from acquisition date to 31 December 2014. If the acquisitions had occurred on 1 January 2014, the Group's pro-forma consolidated revenue and consolidated loss for the year ended 31 December 2014 would have been RMB6,744 million and RMB741 million respectively, which are calculated by aggregating the financial information of the acquired businesses and the Group and after intra-group eliminations.

36. Related-party transactions

Related party is a party that is related to the Group if directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group (including the Company or its wholly or non-wholly owned subsidiaries); or the party has an interest in the Group that gives it significant influence over the Group; or the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual who is a member of the key management personnel of the Group.

Besides as disclosed elsewhere in these consolidated financial statements, the Group has following related-party transactions during the year:

(a) Sales of goods to:

	2014 RMB'000	2013 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd., all being controlled by a key management personnel of a non-wholly owned subsidiary	8,795	3,675

(b) Purchases of goods from:

	2014 RMB'000	2013 RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	18,381	16,184
Subsidiary of Li-Ning Aigle Ventures	7,361	6,469
	25,742	22,653

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

36. Related-party transactions (Continued)

(c) Sales of services to:

	2014 RMB'000	2013 RMB'000
License fee from:		
Tianjin Kuan Mao Mi	4,050	4,023
Tianjin Yue Hao Tuo	1,484	965
Rental fee from:		
Subsidiary of Viva China	860	–
Subsidiary of Li-Ning Aigle Ventures	480	500
	6,874	5,488

(d) Purchases of services from:

	2014 RMB'000	2013 RMB'000
Subsidiaries of Viva China	68,986	46,188

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

(e) Key management compensation

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

	2014 RMB'000	2013 RMB'000
Salaries and other benefits	20,334	22,138
Contribution to retirement benefit scheme	653	556
Employee share schemes for value of services provided	36,558	9,362
	57,545	32,056

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

36. Related-party transactions (Continued)

(f) Year-end balances

	2014 RMB'000	2013 RMB'000
Receivables from related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	444	–
Subsidiary of Viva China	–	6,750
Tianjin Kuan Mao Mi	–	900
Tianjin Yue Hao Tuo	1,428	462
	1,872	8,112
Payables to related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	4,635	4,016
Loan from Viva China	152,106	–
Subsidiaries of Viva China	59,200	8,688
	215,941	12,704

37. Events after the balance sheet date

Equity Fund Raising Plan

On 16 December 2014, the Company announced its equity fund raising plan in order to support its sales growth and optimise its capital structure. The fund raising is conducted by way of open offer to qualifying shareholders, on the basis of five offer securities for every twelve existing ordinary shares held by the qualifying shareholders on the record date. The offer securities are offered at the subscription price of HK\$2.60 each.

On 30 January 2015, the Company completed the open offer transaction and successfully raised a net proceeds of RMB1.2 billion. On the same day, the Company announced the adjustment to the exercise price of outstanding share options pursuant to the anti-dilution clauses in the 2004 Scheme, as a result of the open offer.

GLOSSARY

In this annual report, unless the context states otherwise, the following expressions have the following meanings:

“Alpha Talent”	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning for the purpose of holding the relevant Shares under the share purchase scheme adopted on 5 June 2004
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company” or “Li Ning Company”	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group” or “Li Ning Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“PRC” or “China”	the People’s Republic of China
“Restricted Share Award Scheme”	the restricted share award scheme adopted by the Company on 14 July 2006 and as amended on 30 April 2009 and 4 July 2012
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	shareholders of the Company
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.



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