LI NING COMPANY LIMITED
李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013 AND APPOINTMENT OF INTERIM CHIEF EXECUTIVE OFFICER

RESULTS HIGHLIGHTS

- The first phase of the Transformation Plan has achieved favourable results in various aspects, including (i) direct retail sales, which accounted for about one-third of LI-NING brand's revenues; (ii) new products in channel inventory as a proportion of total channel inventory recovering to 2011 levels; and (iii) mid-single digit year-on-year increase in retail sales of new products in the second half of 2013
- The Group's revenue of RMB5,824 million represents a decrease of 12.8% year-on-year, partly due to near-term focus on sell-in reductions, inventory clearance and optimization of store network
- EBITDA in 2013 was RMB26 million (2012: loss of RMB1,378 million); loss attributable to equity holders in the year was RMB392 million (2012: loss of RMB1,979 million)
- Operating cash flows substantially improved to near break even (2012: RMB932 million of net operating cash outflows), while the capital structure was strengthened in the year, with over RMB1 billion reduction in debt
- With the support of world-class partners, the Group invested in innovation capabilities in its core sports categories, enhanced product creation capabilities and invested in building its retail platform, including direct retail and systems enabling a 'fast fashion' model

2014 FULL YEAR OUTLOOK

- Market uncertainties could pose challenges to the continued progression of the Group's transformation
- The Group will continue to unswervingly implement the Transformation Plan, optimize its sales network, and strengthen its profitability through innovative products and enhanced retail management

ANNUAL RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2013, together with comparative figures of 2012, as follows:

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2013 RMB'000	As at 31 December 2012 RMB'000 (Restated)	As at 1 January 2012 RMB'000 (Restated)
ASSETS				
Non-current assets				
Property, plant and equipment		**791,071**	857,044	831,090
Land use rights		**351,352**	362,763	371,696
Intangible assets		**380,935**	423,382	751,836
Deferred income tax assets		**345,610**	362,067	442,078
Available-for-sale financial assets		**46,930**	46,930	46,930
Investments accounted for using the equity method		**13,496**	12,254	13,177
Other receivables and prepayments		**125,807**	49,608	92,791
Total non-current assets		**2,055,201**	2,114,048	2,549,598
Current assets				
Inventories	*4*	**942,368**	901,368	1,119,768
Trade receivables	*5*	**1,371,240**	1,479,560	2,089,065
Other receivables and prepayments – current portion		**362,643**	233,211	358,607
Current income tax recoverable		**2,566**	36,393	–
Restricted bank deposits		**2,149**	13,688	13,194
Cash and cash equivalents		**1,280,684**	1,241,304	1,188,504
Total current assets		**3,961,650**	3,905,524	4,769,138
Total assets		**6,016,851**	6,019,572	7,318,736
EQUITY				
Capital and reserves attributable to equity holders of the Company				
Ordinary shares		**136,613**	111,622	111,604
Share premium		**1,146,845**	315,972	312,379
Shares held for Restricted Share Award Scheme		**(31,509)**	(41,185)	(52,415)
Other reserves		**1,101,347**	489,485	370,106
Retained earnings		**330,934**	737,703	2,730,169
		2,684,230	1,613,597	3,471,843
Non-controlling interests in equity		**207,534**	198,644	192,816
Total equity		**2,891,764**	1,812,241	3,664,659

	Note	As at 31 December 2013 RMB'000	2012 RMB'000 (Restated)	As at 1 January 2012 RMB'000 (Restated)
LIABILITIES				
Non-current liabilities				
License fees payable		**122,309**	152,518	458,793
Borrowings		**200,000**	–	–
Convertible bonds		**645,727**	651,632	–
Deferred income tax liabilities		**75,316**	79,318	81,269
Deferred income		**64,012**	59,736	61,030
Total non-current liabilities		**1,107,364**	943,204	601,092
Current liabilities				
Trade payables	*6*	**913,988**	958,020	1,459,411
Other payables and accruals		**836,611**	735,305	655,385
License fees payable – current portion		**54,624**	111,145	71,649
Current income tax liabilities		**–**	–	28,481
Borrowings		**200,000**	1,447,157	838,059
Convertible bonds – interest payable		**12,500**	12,500	–
Total current liabilities		**2,017,723**	3,264,127	3,052,985
Total liabilities		**3,125,087**	4,207,331	3,654,077
Total equity and liabilities		**6,016,851**	6,019,572	7,318,736
Net current assets		**1,943,927**	641,397	1,716,153
Total assets less current liabilities		**3,999,128**	2,755,445	4,265,751

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2013 RMB'000	2012 RMB'000 (Restated)
Revenue	3	**5,824,110**	6,676,441
Cost of sales	7	**(3,230,134)**	(4,162,141)
Gross profit		**2,593,976**	2,514,300
Distribution expenses	7	**(2,674,235)**	(2,611,816)
Administrative expenses	7	**(235,860)**	(1,670,210)
Other income and other gains – net	8	**146,702**	168,792
Operating loss		**(169,417)**	(1,598,934)
Finance income	9	**8,699**	7,550
Finance expenses	9	**(158,696)**	(209,132)
Finance expenses – net	9	**(149,997)**	(201,582)
Share of profit/(loss) of investments accounted for using the equity method		**2,242**	(5,403)
Loss before income tax		**(317,172)**	(1,805,919)
Income tax expense	10	**(42,219)**	(149,480)
Loss for the year		**(359,391)**	(1,955,399)
Attributable to:			
Equity holders of the Company		**(391,540)**	(1,979,114)
Non-controlling interests		**32,149**	23,715
		(359,391)	(1,955,399)
Losses per share for loss attributable to equity holders of the Company (RMB cents)			
– basic	11	**(29.91)**	(172.63)
– diluted	11	**(29.91)**	(172.63)
Dividends	12	**–**	–

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
Loss for the year	**(359,391)**	(1,955,399)
Other comprehensive income/(loss):		
Items that may be reclassified to profit or loss		
Currency translation differences	**657**	(1,060)
Total comprehensive loss for the year	**(358,734)**	(1,956,459)
Attributable to:		
Equity holders of the Company	**(390,883)**	(1,980,174)
Non-controlling interests	**32,149**	23,715
	(358,734)	(1,956,459)

NOTES:

1. General information

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

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

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

These consolidated financial statements are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board on 21 March 2014.

2. Basis of preparation

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.

The 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 preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment in the process of applying the Group's accounting policies.

Changes in accounting policies and disclosures

(a) Adoption of new and revised standards and amendments to standards

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 or after 1 January 2013:

IAS 1 (Amendment)	Presentation of Items of Other Comprehensive Income
IAS 19 (Revised 2011)	Employee Benefits
IAS 27 (Revised 2011)	Separate Financial Statements
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
IFRS 1 (Amendment)	Government Loans
IFRS 7 (Amendment)	Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosure of Interests in Other Entities
IFRS 13	Fair Value Measurement
IFRS 10, 11 and 12 (Amendment)	Consolidated Financial Statement, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
Annual Improvements 2011	Annual Improvements 2009-2011 cycle
Annual Improvement 2012	Amendment to IFRS 13, 'Fair value measurement'
Annual Improvement 2013	Amendment to IFRS 1, 'First time adoption'

Other than as further explained below regarding the impact of amendment to IAS 1, IFRS 11 and IFRS 12, the adoption of the new and revised standards and amendments to standards does not have any significant financial effect on these consolidated financial statements.

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments).

- IFRS 11, 'Joint arrangements' focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of an arrangement. A joint operator accounts for its share of the assets, liabilities, revenue and expenses. Joint ventures arise where the investors have rights to the net assets of the arrangement; joint ventures are accounted for under the equity method. Proportional consolidation of joint arrangements is no longer permitted.

Before the adoption of IFRS 11, the Group's interest in its jointly controlled entity, Li-Ning Aigle Ventures Company Limited ("Li-Ning Aigle Ventures"), was accounted for by proportional consolidation. Under IFRS 11, this jointly controlled entity has been assessed to be a joint venture.

The accounting of the Group's investment in Li-Ning Aigle Ventures changed from proportionate consolidation to equity method of accounting. The Group has adopted this amendment retrospectively and the consolidated balance sheet at 1 January 2012 and 31 December 2012 and the consolidated income statement for the year ended 31 December 2012 have been restated to reflect the effect of adoption of this amendment.

The tables below show the effect on balance sheet and income statement. There was no effect on the statement of comprehensive income and losses per share and the effect on the statement of cash flows was immaterial.

Impact on balance sheet

Decrease	**31 December 2012** *RMB'000*	1 January 2012 *RMB'000*
Total assets	**12,438**	10,081
Total liabilities	**12,438**	10,081
Net assets	**–**	–

Impact on income statement

Decrease	**Year ended 31 December 2012** *RMB'000*
Revenue	62,470
Expense	62,470
Loss for the year	–

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, structured entities and other off balance sheet vehicles.

(b) Standards and amendments which are not yet effective

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 on or after 1 January 2014 or later periods, but have not been early adopted by the Group.

Effective for the accounting periods beginning on or after 1 January 2014

IAS 32 (Amendment)	Offsetting Financial Assets and Financial Liabilities
IAS 36 (Amendment)	Recoverable Amount Disclosures for Non-Financial Assets
IAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Novation of derivatives
IFRS 10, 12 and IAS 27 (2011) (Amendment)	Investment Entities

Effective for the accounting periods beginning on or after 1 July 2014

Annual Improvements 2012	Annual improvements 2010-2012 cycle
Annual Improvements 2013	Annual improvements 2011-2013 cycle

Effective for the accounting periods beginning on or after 1 January 2015

IFRS 9	Financial Instruments (effective date of this standard is open pending the finalisation of the impairment and classification and measurement requirements)

The Group will apply the above standards, interpretations and amendments from 1 January 2014 or later periods. The Group is in the process of assessing the impact of the above new standards, amendments and interpretations on the financial statements.

3. Revenue and segment information

Management of the Company ("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. Management has determined not to review the performance of Lotto brand separately since 1 January 2013, as a result, the Group has three reportable segments as follows, LI-NING brand, Double Happiness brand and all other brands segments. The comparative figures for the year ended 31 December 2012 have been restated to conform to the current year presentation. Management assesses the performance of the operating segments based on operating profit. Segment information provided to Management for decision-making is measured in a manner consistent with that in the financial statements.

Revenue consists of sales from LI-NING brand, Double Happiness brand and all other brands, which are RMB5,082,786,000, RMB612,409,000 and RMB128,915,000 for the year ended 31 December 2013 and RMB5,926,165,000, RMB541,555,000 and RMB208,721,000 for the year ended 31 December 2012 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 2013 and 2012 is as follows:

	LI-NING brand	Double Happiness brand	All other brands	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
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**
Year ended 31 December 2012 (Restated)				
Total revenue	5,926,165	542,713	263,836	6,732,714
Inter-segment revenue	–	(1,158)	(55,115)	(56,273)
Revenue from external customers	5,926,165	541,555	208,721	6,676,441
Operating (loss)/profit	(1,480,147)	78,946	(197,733)	(1,598,934)
Distribution expenses and administrative expenses	3,872,989	128,887	280,150	4,282,026
Depreciation and amortisation	201,169	17,588	7,982	226,739

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

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Operating loss	**(169,417)**	(1,598,934)
Finance income	**8,699**	7,550
Finance expenses	**(158,696)**	(209,132)
Share of profit/(loss) of investments accounted for using the equity method	**2,242**	(5,403)
Loss before income tax	**(317,172)**	(1,805,919)

Geographical information of revenue

	Year ended 31 December	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
The PRC (including the Hong Kong Special Administrative Region)	**5,630,525**	6,482,886
Other regions	**193,585**	193,555
Total	**5,824,110**	6,676,441

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 2013 and 2012, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Inventories

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Raw materials	**43,597**	34,699
Work in progress	**50,634**	34,135
Finished goods	**1,230,203**	1,418,530
	1,324,434	1,487,364
Less: provision for write-down of inventories to net realisable value	**(382,066)**	(585,996)
	942,368	901,368

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB3,027,645,000 for the year ended 31 December 2013 (2012: RMB3,938,122,000).

As at 31 December 2012, the Group made a provision of RMB585,996,000 to write-down the inventories to their net realisable value. In view of that the actual inventory clearance during the year ended 31 December 2013 was better than the forecast, the provision required to write-down the inventories to their net realisable value decreased to RMB382,066,000 as at 31 December 2013. 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 2013 and 2012.

5. Trade receivables

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Accounts receivable	**1,948,188**	2,399,258
Notes receivable	**13,980**	17,837
	1,962,168	2,417,095
Less: allowance for impairment of trade receivables	**(590,928)**	(937,535)
	1,371,240	1,479,560

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

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
0-30 days	**420,487**	327,513
31-60 days	**175,736**	296,705
61-90 days	**195,300**	334,420
91-180 days	**662,768**	762,544
Over 181 days	**507,877**	695,913
	1,962,168	2,417,095

Customers are normally granted credit terms within 90 days. As at 31 December 2013, trade receivables of RMB1,170,645,000 (31 December 2012: RMB1,458,457,000) were past due. 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. 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. The Group had launched a series of plans to communicate with individual customers and manage the credit risk of the customers. Management will closely monitor and continue to pursue collection of those receivables and a portion of the receivables is expected to be recovered. An allowance of RMB590,928,000 has been made as at 31 December 2013 (31 December 2012: RMB937,535,000).

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:

	2013	2012
	RMB'000	*RMB'000*
As at 1 January	**937,535**	11,400
(Reversal of provision)/provision for impairment of trade receivables	**(337,053)**	933,235
Trade receivables written off during the year as uncollectible	**(9,554)**	(7,100)
As at 31 December	**590,928**	937,535

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.

6. Trade payables

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

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
0-30 days	**651,017**	392,849
31-60 days	**206,844**	326,447
61-90 days	**27,899**	155,841
91-180 days	**18,580**	72,867
181-365 days	**2,737**	1,368
Over 365 days	**6,911**	8,648
	913,988	958,020

7. Expenses by nature

	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Cost of inventories recognised as expenses and included in cost of sales	**3,027,645**	3,938,122
Depreciation on property, plant and equipment *(Note a)*	**127,318**	141,543
Amortisation of land use rights and intangible assets	**65,877**	85,196
Impairment of intangible assets	**–**	127,838
Advertising and marketing expenses	**1,407,041**	1,307,866
Staff costs, including directors' emoluments	**670,298**	726,549
Operating lease rentals in respect of land and buildings	**582,736**	573,075
Research and product development expenses *(Note a)*	**172,571**	190,992
Transportation and logistics expenses	**237,466**	183,489
(Reversal of provision)/provision for impairment charge of trade receivables	**(337,053)**	933,235
Provision for impairment charge of investments accounted for using the equity method	**–**	5,610
Auditor's remuneration	**4,200**	3,338
Management consulting expenses	**94,596**	85,952
Travelling and entertainment expenses	**56,715**	82,847

Note:

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

8. Other income and other gains-net

	2013	2012
	RMB'000	*RMB'000*
Government grants	**101,551**	95,790
License fees income	**11,522**	4,700
Gain on modification of convertible bonds	**33,629**	–
Gain on derecognition of intangible assets and license fees payable relating to revision of the license agreement of Lotto brand	**–**	68,302
	146,702	168,792

9. Finance income and expenses

	2013 *RMB'000*	2012 *RMB'000* (Restated)
Finance income		
Interest income on bank balances and deposits	**8,699**	7,550
Finance expenses		
Amortisation of discount – license fees payable	**(21,270)**	(19,035)
Interest expense on bank borrowings	**(51,794)**	(119,782)
Interest expense on convertible bonds	**(57,724)**	(46,836)
Net foreign currency exchange loss	**(15,861)**	(1,541)
Others	**(12,047)**	(21,938)
	(158,696)	(209,132)
Finance expenses – net	**(149,997)**	(201,582)

10. Income tax expense

	2013 *RMB'000*	2012 *RMB'000* (Restated)
Current income tax		
– Hong Kong profits tax *(Note b)*	**1,823**	1,134
– The PRC corporate income tax *(Note c)*	**24,002**	52,783
– Withholding income tax on interests and dividends distributed from subsidiaries in PRC *(Note d)*	**3,939**	17,503
	29,764	71,420
Deferred income tax	**12,455**	78,060
Income tax expense	**42,219**	149,480

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 2013 (2012: 16.5%).

(c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2012: 25%) on the assessable income of each of the group companies.

(d) This mainly arose from dividends derived from the Company's subsidiaries in the PRC earned after 1 January 2008 which are subject to withholding tax at the rate of 5%. During the year ended 31 December 2013, the Group reassessed its needs to make distributions out of its subsidiaries in the PRC. As a result, withholding income tax has been provided for the dividends already distributed during the year and to the extent they are expected to be distributed in future.

11. 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 convertible securities. The below market subscription price has effectively resulted in 58,768,000 ordinary shares (2012: 93,509,000 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 2012.

	2013	2012
	RMB'000	*RMB'000*
Loss attributable to equity holders of the Company	**(391,540)**	(1,979,114)
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,250,126**	1,052,941
Adjustment for bonus element arising from the issuance of convertible securities *(in thousands)*	**58,768**	93,509
Deemed weighted average number of ordinary shares for basic losses per share *(in thousands)*	**1,308,894**	1,146,450
Basic losses per share *(RMB cents)*	**(29.91)**	(172.63)

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 shares held for 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.

	2013	2012
	RMB'000	*RMB'000*
Loss attributable to equity holders of the Company, used to determine diluted losses per share	**(391,540)**	(1,979,114)
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,250,126**	1,052,941
Adjustment for bonus element arising from the issuance of convertible securities *(in thousands)*	**58,768**	93,509
Adjustment for share options, awarded shares, convertible bonds and convertible securities *(in thousands) (Note a)*	**–**	–
Deemed weighted average number of ordinary shares for diluted losses per share *(in thousands)*	**1,308,894**	1,146,450
Diluted losses per share *(RMB cents)*	**(29.91)**	(172.63)

Note:

(a) For the year ended 31 December 2013, the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive. As at 31 December 2013, there were 41 million share options, 0.8 million restricted shares, 205 million ordinary shares assuming conversion of convertible bonds and 177 million ordinary shares assuming conversion of convertible securities that could potentially have a dilutive impact in the future but were anti-dilutive in 2013 (2012: 35 million, 2 million, 119 million and nil respectively).

12. Dividends

The Board did not propose final dividend for the years ended 31 December 2013 and 2012.

13. Events after the balance sheet date

(a) Grant of share options

On 17 January 2014, the Board granted options to certain directors, senior management and other eligible participant of the Company to subscribe for a total of 20,701,306 ordinary shares of HK$0.10 in the capital of the Company pursuant to the Company's share option scheme at an exercise price of HK$7.00 per share.

(b) Acquisition of three distributors' business

On 27 December 2013, the Group entered into an agreement with two of its major distributors, Harbin Sego Sports Franchise Ltd. and Daqing Yidong Sport Products Sales Co., Ltd. (collectively, "Harbin Sego"), pursuant to which the Group agrees to acquire the business of Harbin Sego, including the stores and customer relationships of Harbin Sego. This acquisition is not completed as at 31 December 2013.

On 30 December 2013, the Group entered into an agreement with two of its major distributors, Liaoning Dadaoren Trade Co., Ltd. and the Tianshizhixing Sport Products Store at Yangguang Life Square in Shenhe District, Shenyang (collectively, "Shenyang Yangguang"), pursuant to which the Group agrees to acquire the business of Shenyang Yangguang, including the stores and customer relationships of Shenyang Yangguang. This acquisition is not completed as at 31 December 2013.

On 20 March 2014, the Group entered into an agreement with one of its major distributors, Zhejiang Jinguan Co., Ltd. ("Zhejiang Jinguan"), pursuant to which the Group agrees to acquire the business of Zhejiang Jinguan, including the stores and customer relationships of Zhejiang Jinguan.

The total consideration in relation to the above three acquisitions is approximately RMB93 million. Up to the approval date of these consolidated financial statements, the Group is still in the progress of determining the fair value to be assigned to the identifiable assets acquired for the purpose of allocation of purchase price and calculation of goodwill, which is expected to be completed in the first half of 2014.

DIVIDEND

The Company recorded a loss for the year 2013. The Board resolved not to distribute any final dividend for the year ended 31 December 2013 (2012: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

In 2013, headwinds for near-term consumer industry including sportswear continued due to macroeconomic uncertainty and the remaining the overhang from over-expansion, but demand in core sportswear remained strong. Leading brands which innovate and transform will be best positioned for the future growth in market share.

During 2013, the Company's inventory, sales network, profitability and operating cash flow significantly improved through the implementation of the Channel Revival Plan. With the objective of reducing sell-in and non-core undifferentiated categories such as casual wear fashion and decisively exiting unprofitable markets, products and channels, we already resized to a sportswear company with healthy sales channels and core products design. With clear objective in mind, we focused on a differentiated core category strategy and clear value proposition for premium, core and basic sportswear markets. Sports participation in the China market was still relatively low but is quickly increasing with consumers moving up the value chain, and the Company took full advantages of this by providing new products with superior performance and implementing innovative business model specifically for the China Market.

The first phase turnaround is nearly completed and we are ready to grow again.

FINANCIAL REVIEW

In 2013, a series of transformation initiatives started by the Group in 2012 achieved notable effects. In particular, inventory mix was optimized through efficient clearance of channel inventory. Amid smooth progress in the implementation of the Transformation Plan, the Group's strategic focus in the year ended 31 December 2013 continued to be revitalizing its eco-system in a market without any noticeable recovery. As a result, the Group's business performance and financial indicators were still affected significantly. The key operating and financial performance indicators of the Group for the year ended 31 December 2013 are set out below:

	Year ended 31 December		**Change**
	2013	2012 (Restated)	***(%)***
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue *(Note 1)*	**5,824,110**	6,676,441	**(12.8)**
Gross profit	**2,593,976**	2,514,300	**3.2**
Operating loss	**(169,417)**	(1,598,934)	**(89.4)**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 2)*	**26,020**	(1,377,598)	**(101.9)**
Loss attributable to equity holders *(Note 3)*	**(391,540)**	(1,979,114)	**(80.2)**
Basic losses per share *(RMB cents) (Note 4)*	**(29.91)**	(172.63)	**(82.7)**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**44.5**	37.7	
Operating loss margin *(%)*	**(2.9)**	(23.9)	
Effective tax rate *(%)*	**(13.3)**	(8.3)	
Margin of loss attributable to equity holders *(%)*	**(6.7)**	(29.6)	
Return on equity attributable to equity holders *(%)*	**(18.2)**	(77.8)	
Expenses to revenue ratios			
Staff costs *(%)*	**11.5**	10.9	
Advertising and marketing expenses *(%)*	**24.2**	19.6	
Research and product development expenses *(%)*	**3.0**	2.9	

	31 December 2013	31 December 2012 (Restated)
Balance sheet items		
(All amounts in RMB thousands unless otherwise stated)		
Total assets *(Note 5)*	**6,016,851**	6,019,572
Capital and reserves attributable to equity holders *(Note 6)*	**2,684,230**	1,613,597
Key financial ratios		
Asset efficiency		
Average inventory turnover *(days) (Note 7)*	**104**	89
Average trade receivables turnover *(days) (Note 8)*	**89**	98
Average trade payables turnover *(days) (Note 9)*	**104**	112
Asset ratios		
Debt-to-equity ratio *(%) (Note 10)*	**116.4**	260.7
Interest-bearing debt-to-equity ratio *(%) (Note 11)*	**39.4**	130.8
Net asset value per share *(RMB cents)*	**211.40**	172.03

Notes:

1. Including revenue for the period from 1 January to 30 September 2013: RMB4,367,248,000.

2. 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.

3. Including loss attributable to equity holders for the period from 1 January to 30 September 2013: RMB303,405,000.

4. 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.

5. Including total assets at 30 September 2013: RMB5,861,324,000.

6. Including capital and reserves attributable to equity holders at 30 September 2013: RMB2,764,575,000.

7. 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.

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

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

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

11. The calculation of interest-bearing debt-to-equity ratio is based on total interest-bearing bank 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 2013 amounted to RMB5,824,110,000, representing a decrease of 12.8% as compared to that of 2012.

Revenue breakdown by brand and product category

	Year ended 31 December				
	2013		2012		
		% of Total revenue		% of Total revenue	**Revenue change**
	RMB'000		*RMB'000*		*(%)*
LI-NING brand					
Footwear	**2,448,712**	**42.0**	2,634,743	39.5	**(7.1)**
Apparel	**2,268,584**	**39.0**	2,909,706	43.6	**(22.0)**
Equipment/accessories	**365,490**	**6.3**	381,716	5.7	**(4.3)**
Total	**5,082,786**	**87.3**	5,926,165	88.8	**(14.2)**
Double Happiness brand					
Total	**612,409**	**10.5**	541,555	8.1	**13.1**
Other brands*					
Total	**128,915**	**2.2**	208,721	3.1	**(38.2)**
Total	**5,824,110**	**100.0**	6,676,441	100.0	**(12.8)**

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

The Group's core brand, LI-NING brand, recorded revenue of RMB5,082,786,000, which accounted for 87.3% of the Group's total revenue, representing a decrease of 14.2% as compared to that of last year. Pressing forward the Channel Revival Plan through the year, the Group adopted a business model of 'prescriptive order + quick replenishment + fast response' for its trade fair orders, aiming to achieve shorter replenishment cycle of the new products that better meet the newest market demand. However, the initiative also led to lower volume of trade fair orders temporarily. Meanwhile, the Group provided higher discounts for obsolete inventory during the year to accelerate the clearance of channel inventory, which posed a challenge to its revenue. As at the end of 2013, the Group witnessed further rationalised inventory mix and better store network, while trade fair orders began to pick up its momentum. Along with the improving financial position of certain distributors, the Group's cash flows made a significant turnaround and the effect of the Channel Revival Plan has emerged. The Management believes that the improvements in distribution channels and the ramp-up of the weight of self-operated stores and hence the profitability at the retail end under the Channel Revival Plan have yielded visible and favourable results, which is laying a foundation for future development and benefiting the Group's future financial performance.

Among the various brands under the Group, revenue of Double Happiness brand maintained a steady growth rate of 13.1%. As for other brands, save for Kason brand which posted stable revenue, Lotto brand was in the process of operational downsizing while Z-DO brand posted a material year-on-year drop in revenue as the business entered the last stage of stock clearance since the complete discontinuation of its operations.

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

	Year ended 31 December		
	2013	2012	
	% of revenue of LI-NING brand	% of revenue of LI-NING brand	**Change**
LI-NING brand			
PRC market			
Sales to franchised distributors	**64.7**	75.6	**(10.9)**
Sales from direct operation	**32.6**	22.0	**10.6**
International markets	**2.7**	2.4	**0.3**
Total	**100.0**	100.0	

As the Management was more focused on sales at the retail end and clearance of channel inventory, the weighting of revenue generated from sales to franchised distributors among total revenue recorded a significant decline in the year.

Revenue breakdown of LI-NING brand by geographical location

		Year ended 31 December				
		2013		2012		
	Note	***RMB'000***	**% of revenue of LI-NING brand**	*RMB'000*	% of revenue of LI-NING brand	**Revenue change *(%)***
LI-NING brand						
PRC market						
Eastern region	*1*	**1,578,225**	**31.1**	1,745,648	29.4	**(9.6)**
Northern region	*2*	**2,282,717**	**44.9**	2,866,201	48.4	**(20.4)**
Southern region	*3*	**1,084,367**	**21.3**	1,170,994	19.8	**(7.4)**
International markets		**137,477**	**2.7**	143,322	2.4	**(4.1)**
Total		**5,082,786**	**100.0**	5,926,165	100.0	**(14.2)**

Notes:

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

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

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

4. The Group adjusted the organisation structure and geographical delineation of the sales regions for LI-NING brand during the year (see notes 1, 2 and 3 above for details). As a result, the sales revenue for the year ended 31 December 2012 is restated according to the adjusted geographical delineation.

During the year, the Group made certain adjustments to the organisation structure and geographical delineation of the sales regions to introduce separate retail and wholesale operations, in order to boost regional retail performance and customer management through better sales organisational efficiency and retail operating capacity under a retail-oriented business model. More specific and professional management tailored to each of these business segments was implemented to support the Company in achieving its transformation goals.

Cost of Sales and Gross Profit

For the year ended 31 December 2013, overall cost of sales of the Group amounted to RMB3,230,134,000 (2012: RMB4,162,141,000), and overall gross profit margin was 44.5% (2012: 37.7%). The significant improvement in gross profit margin during the year was attributable to the performance of LI-NING brand and Double Happiness brand.

Cost of sales of LI-NING brand amounted to RMB2,782,429,000 (2012: RMB3,630,816,000), and gross profit margin was 45.3% (2012: 38.7%). The improvement in gross profit margin of LI-NING brand during the year was mainly attributable to the fact that the Group made higher discounts to accelerate the clearance of channel inventory, leading to the reversal of provision due to clearance of obsolete inventory. Besides, revenue proportion of self-owned stores with high gross margin rate is higher. As a result of the foregoing, LI-NING brand's gross profit margin recorded a significant increase.

Cost of sales of Double Happiness brand amounted to RMB371,735,000 (2012: RMB336,719,000), and gross profit margin slightly increased to 39.3% (2012: 37.8%). The growth of 1.5 percentage points in gross profit margin was mainly attributable to greater weight of sales of high-margin products as a result of the optimized product mix.

Distribution Expenses

For the year ended 31 December 2013, the Group's overall distribution expenses amounted to RMB2,674,235,000 (2012: RMB2,611,816,000), accounting for 45.9% (2012: 39.1%) of the Group's total revenue.

Distribution expenses of LI-NING brand amounted to RMB2,572,596,000 (2012: RMB2,423,071,000), accounting for 50.6% (2012: 40.9%) of LI-NING brand's revenue. The overall growth in distribution expenses was attributable to the strategically increased sponsorships in basketball events to boost the Group's brand competitiveness, including sponsoring the Chinese Basketball Association (CBA) League and Chinese University Basketball Association and Chinese Middle School League as well as signing a sponsorship contract with the National Basketball Association (NBA) star Dwyane Wade. In addition, the Group sponsored the BWF World Championships and Sudirman Cup in 2013. An increase in transportation and logistics expenses was recorded due to the integration of the Group's supply chain to improve operational efficiency for rapid replenishment and fast response. Meanwhile, the Group's effective control resulted in the reduction of store subsidies, other advertising and marketing expenses, salaries and benefits of sales staff and miscellaneous expenses.

Distribution expenses of Double Happiness brand amounted to RMB72,739,000 (2012: RMB67,404,000), accounting for 11.9% of Double Happiness brand's revenue. This was 0.5 percentage point lower than the 12.4% recorded in 2012, mainly due to the fact that the growth in transportation and logistics expenses and the increased sponsorship for the World Table Tennis Championships and other events during the year was outpaced by the growth in revenue in 2013, leading to the result that the proportion of distribution expenses to revenue decreased slightly.

Administrative Expenses

For the year ended 31 December 2013, the Group's overall administrative expenses amounted to RMB235,860,000 (2012: RMB1,670,210,000), accounting for 4.0% (2012: 25.0%) of the Group's total revenue. The substantial decrease in administrative expenses during the year was mainly attributable to the reversal of provision for impairment of trade receivables, as the balance of trade receivables achieved a decline with optimised ageing due to the improved recovery of receivables from certain financially improved distributors following the implementation of the Channel Revival Plan. It was also due to the full provision for asset impairment in Lotto license during the previous year (year 2013: nil), as well as the reduced salaries and benefits and miscellaneous expenses of administrative staff as a result of the Group's effective cost control.

Administrative expenses of LI-NING brand amounted to RMB148,277,000 (2012: RMB1,449,918,000), accounting for 2.9% of LI-NING brand's revenue. This was 21.6 percentage points lower year-on-year than the 24.5% for 2012. These expenses mainly comprised staff costs, management consulting expenses, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses. Given the decline in LI-NING brand's revenue, the Group managed to effectively control and reduce miscellaneous expenses and labour costs. Meanwhile, certain provisions for bad debts were reversed during the year, as certain distributors showed improvements in financial position on the back of the optimized store network and improved channel profitability as a result of the Company's Channel Revival Plan.

Administrative expenses of Double Happiness brand amounted to RMB68,735,000 (2012: RMB61,483,000), accounting for 11.2% of Double Happiness brand's revenue. This was 0.2 percentage point lower year-on-year than the 11.4% for 2012. These expenses comprised mainly of staff costs, depreciation and amortisation charges and other miscellaneous expenses.

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

For the year ended 31 December 2013, the Group's EBITDA recorded a profit of RMB26,020,000 (2012: loss of RMB1,377,598,000), representing a significant year-on-year improvement, which was mainly attributable to the performance of LI-NING brand and Double Happiness brand.

EBITDA of LI-NING brand recorded a loss of RMB114,090,000 (2012: loss of RMB1,290,486,000). This was due primarily to improved gross margin and lower expenses ratio.

EBITDA of Double Happiness brand amounted to RMB122,274,000 (2012: RMB96,534,000), representing an increase of 26.7% year-on-year. Increase in EBITDA resulted from higher sales, along with higher gross margin and decreased expense ratio.

Finance Expenses

For the year ended 31 December 2013, the Group's net finance expenses amounted to RMB149,997,000 (2012: RMB201,582,000), representing 2.6% of the Group's total revenue (2012: 3.0%). The interest expense of convertible bonds amounted to RMB57,724,000 (2012: RMB46,836,000).

Income Tax Expense

For the year ended 31 December 2013, the income tax expense of the Group amounted to RMB42,219,000 (2012: RMB149,480,000) and the effective tax rate was -13.3% (2012: -8.3%).

Overall Profitability Indicators

Due to the increases in gross profit margin and the decreases in overall expense ratios, the overall profitability indicators of the Group increased for the year ended 31 December 2013. The Group's loss attributable to equity holders amounted to RMB391,540,000 (2012: RMB1,979,114,000), representing a year-on-year decrease of 80.2%. The corresponding margin of loss attributable to equity holders for the year was -6.7% (2012: -29.6%), representing a year-on-year increase of 22.9 percentage points. Return on equity attributable to equity holders for the year was -18.2% (2012: -77.8%), representing a year-on-year increase of 59.6 percentage points.

Provision for Inventories

The Group's policy in respect of provision for inventories for 2013 was the same as that in 2012. 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 sufficient in ensuring provision for inventories made by the Group.

As at 31 December 2013, accumulated provision for inventories was RMB382,066,000 (31 December 2012: RMB585,996,000). During 2012, the Group made a special provision on certain slow-moving inventories under its brands, while during the year, the provision for inventories was partially reversed as the clearance of inventories gained notable results due to increased sales efforts in line with the expansion of clearance channels.

Provision for Doubtful Debts

The Group's accounting policy in respect of provision for doubtful debts for 2013 was the same as that in 2012.

As at 31 December 2013, the accumulated provision for doubtful debts was RMB590,928,000 (31 December 2012: RMB937,535,000). During the year, provision for doubtful debts was partially reversed following the increase in ratio of repayment of receivables attributable to improved collection of trade receivables from distributors.

Liquidity and Financial Resource

The Group's net cash outflow from operating activities for the year ended 31 December 2013 amounted to RMB13,531,000 (2012: net outflow of RMB931,814,000). As at 31 December 2013, cash and cash equivalents (including cash at bank and in hand, and fixed deposits held at banks with original maturity of no more than three months) amounted to RMB1,280,684,000. This represented a net increase of RMB39,380,000 as compared with the Group's position as at 31 December 2012. The increase was due to the following items:

Items	**Year ended 31 December 2013** *RMB'000*
Net cash used in operating activities	**(13,531)**
Net capital expenditure	**(223,674)**
Net decrease in bank borrowings	**(1,045,238)**
Net proceeds from issuance of convertible securities	**1,441,484**
Other net cash outflow	**(119,661)**
Net increase in cash and cash equivalents	**39,380**

The Group's cash flows were significantly improved as collection of trade receivables due from distributors showed improvements under the Group's Channel Revival Plan.

As at 31 December 2013, the Group's available banking facilities amounted to RMB1,528,580,000, amongst which outstanding bank borrowings amounted to RMB400,000,000. During the year, the Group issued convertible securities in the principal amount of HK$1,847,838,000, and received net proceeds of HK$1,798,838,000 (equivalent to approximately RMB1,441,484,000) after deducting the issuance costs. As at the end of the year, the outstanding bank borrowings and convertible bonds to equity ratio (i.e. the gearing ratio) was 39.4% (31 December 2012: 130.8%). The Company completed the issuance of convertible securities in April 2013 and repaid part of its borrowings, resulting in a decrease in the gearing ratio.

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 subsidiary in South Korea and the United States uses South Korean Won and United States Dollars as their respective functional currency. A small portion of the Group's cash and bank deposits are 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 had financial impacts on the Group.

Pledge of Assets

As at 31 December 2013, there were no building and land use rights pledged as security for the Group's borrowings. As at 31 December 2012, buildings with net book value of RMB18,441,000 and land use rights with net book value of RMB14,594,000 were pledged as security for certain bank borrowings of the Group.

Contingent Liabilities

As at 31 December 2013, the Group had no significant contingent liabilities.

BUSINESS REVIEW

The Company took on two aspects of the transformation concurrently – fixing the business and turnaround as well as building a retail business platform. It achieved satisfying results on both fronts, which enabled it to pursue its vision of establishing China's leading sportswear brand through a differentiated product strategy and retail business model. The Company made bold investments in strengthening its fundamental retail capabilities across all segments of the Company's operations, integrating 1) product merchandising and fast-response supply chain; 2) product R&D; 3) marketing and branding; 4) human resources and talents recruitment, training and retention, all backed by a significantly enhanced RBM platform and IT system. The Company effectively improved its cost structure and operations cost reduction fully funded investments in the platform and its growth.

The following are the key initiatives and progress that the Company made in 2013:

Fixing the business and near-term turnaround

Channel Revival Plan Nearly Completed – Over 90% of the distributors have signed up the Channel Revival Plan. Through the implementation of a new business model, the store mix has improved by the increased number of self-owned stores. This resulted in a healthier cost structure, significant improvement in operating cash flow and healthier channel inventory level.

Resize to healthy core sportswear – The Company reduced undifferentiated and non-core categories such as casualwear fashion and expanded on core sportswear categories. The Company strategically exited the unprofitable markets, products and channels and reduced sell-in to focus on core products and categories.

Turnaround – The Company has been on track and successful in turning around the business, but weak channel partners still face challenges and many lack the resources for growth and transformation. Hence, the Company will need to invest more time and resources to continue restructuring the weak links and supporting the strong partners. To tackle that, the Company increased the number of self-owned stores and regular stores, implemented a new operating model with an improved store mix, optimized new product mix and closed stores with low efficiency.

Building China's leading brand

Repositioning of LI-NING brand and enhancing its compelling product value proposition – The Company leveraged Li Ning's unique strategic advantages to expand market share by targeting niche market based on its established existing core market and expanding to entry price and premium market. Before the implementation of the Transformation Plan, LI-NING brand was built upon a unique combination of local cost structure and premium value proposition, sitting in between the premium sector, mainly represented by international brands, and the commodity level, which was characterized by heavy price discounts, fierce competition and low entry barriers and was largely occupied by local brands. After the commencement of the transformation, the Company captured the fast growing middle-class consumer market, and expanded up and down the value chain while maintaining its core market share.

Operating model transformed by adopting key elements of direct-retail and fast-fashion – The Company transformed from a traditional Chinese wholesaler which lacks direct communications with consumers to a fast-fashion direct retailer through differentiated retail experience with a direct-retail operating model that has clear advantages on cost and productivity. Shops sell merchandise according to local demand and season patterns using data analytics and IT systems. A consumer-centric strategy was adopted to enhance overall customer experience.

Enhanced and innovative merchandising model led to overall stronger performance for new products – The new merchandising model featuring "prescriptive trade fair orders (A+) + quick replenishment (QR) + fast response (QS)" that was introduced at the beginning of 2013 has effectively improved order guidelines and stocking arrangements to distributors and ensured that consumers demand is met on a more timely basis, which is as demonstrated by higher contribution from A+/QR/QS products.

Retail business platform for fast response supply chain and end-to-end retail capabilities – Li Ning has fully embarked on the Retail Business Model (RBM) program to establish a fully integrated end-to-end retail business platform connecting four key modules – demand forecasting, merchandising planning, supply chain collaboration and retail operation at company, subsidiary and channel level. The RBM involves a sales centric business process which improved inventory efficiency and reduced cash conversion cycle through demand analysis and merchandising planning, and allowed real time response to actual sales in retail stores; it also ensures that we have the right inventory at the right time and the right place to optimize sales in the same store.

Focused marketing and branding strategy on key sponsorships and five core sports categories and leveraged versatile digital marketing to create sports experience and the LI-NING market – During 2013, the Company continued to commit resources to basketball and established the most comprehensive coverage of basketball events, including basketball sponsorship resources such as CBA, Dwayne Wade and NBL. In line with our strategy of repositioning of LI-NING brand to capture the fast growing young consumer group in basketball, the Company also started sponsoring CBA Junior and Chinese Student Leagues, which was very well received by students from campuses across the country. In addition to basketball, the Company focused on the other four sports categories, namely running, training, badminton and sports life, which are the fastest growing sports activities among consumers in China. LI-NING brand also optimized its digital marketing platform, the most effective way to communicate closely with young consumers during the year. The Company sought to improve the efficiencies of consumer communications, develop customer-oriented products, provide support to marketing campaigns and provide professional product presentation based on big-data analysis.

LI-NING Brand

Over the course of 2013, the Group has been investing decisively but wisely in building its retail capabilities and repositioning the LI-NING brand as China's leading brand with authenticity, premium positioning, and unique marketing assets. The brand's value proposition is striking the equilibrium between value and price, while integrating sports functionality and fashion, to deliver the best consumer experience.

As part of the Transformation Plan, the Group optimized its sponsorship resources by focusing on the top sports leagues and icons most relevant to the five core sports categories - basketball, running, badminton, training and sports life. In particular, the Group committed great deal of resources to basketball that covered a comprehensive range of events and sponsorships of CBA, NBL, CBA Junior and Chinese Student Leagues, which corresponds to the brand strategy of focusing on the growing middle-class consumer. The Group also continued to invest in the marketing of "Way of Wade" series, a best seller in the LI-NING product family, as well as the sponsorship of various running and badminton events.

In 2013, the Group adopted innovative and integrated marketing to deepen its interaction with target consumer groups. With the use of digital platforms such as WeChat (mobile application) and the release of limited edition products on e-commerce platforms, coupled with online creative idea collection and offline interaction, the Group was able to facilitate more communications between the brand and its target consumers.

Forge the sports brand equity with a Chinese hallmark

LI-NING brand is differentiated from most of the other sports brands by virtue of its origin and history. In addition to its close ties with China's sporting achievements, it also symbolizes the stunning accomplishments and sporting career of the Group's founder and Chairman, Mr. Li Ning. His sportsmanship in pursuing excellence, as well as his efforts in enriching the daily lives of the Chinese people with sports are revered by generations young and old.

Allocating resources to focus on key sponsorships in the fastest growing categories

"Way of Wade"

The series received enthusiastic feedback from basketball fans and an overall positive response from the market. Integrating promotional campaigns in the Chinese and American markets, the products featured quality, workmanship and fashion elements which spearheaded the creation of new trends in China and abroad, and enhanced the value of the LI-NING brand.

A series of marketing events which took place in early July including Wade's China Tour attracted the attention of over 40 million consumers. The creative outdoor advertisement at Wangfujing, themed the story of "Way of Wade" as well as the online and in-store voting platforms for "special colour" selection made the "Way of Wade" series a best seller in the LI-NING product family.

Chinese Basketball Association League (CBA)

CBA is playing an instrumental role in enhancing the brand image of LI-NING products and establishing its exclusive positioning in the industry. Through in-depth interactions with professional players on their sporting needs, the Group developed professional apparel and footwear to help the players improve their performance during the seasons. As a result, there was significantly higher exposure of the Group's basketball shoes in the 2013-14 season, reaching 30% among the foreign players in the league.

The Group also actively promoted basketball teams and fan culture in regional markets through the CBA platform. In addition to the apparel and fan packs launched in the previous season, the Group successively rolled out city-specific uniforms for fans at original, professional and amateur levels this season. This integration of professional sport and fan culture boosted the growth of our product lines and business. In the early 2013-14 season, an apparel customisation programme for CBA fans was launched at our official online mall, which attracted active customer participation. The customised apparel facilitated online sharing, promoted fan culture and enhanced LI-NING brand's overall reputation among consumers.

During the 2013-14 season, a series of marketing campaigns specific to the local culture of fans took place. They include the Opener, the 20th Anniversary of Hongyuan, the Youngest Player in CBA to Achieve 1,000 Points, Shanghai Club's Vintage Night, promotion of the Apparel of Shanxi, "My Home Court" microblog-based fan culture promotion and the All-Star Game. Combining local culture, consumer experience and new offerings, the campaigns contributed to the sell-out of CBA fan packs and basketball products.

Chinese Campus Basketball Leagues: China Junior & High School Basketball League, Chinese University Basketball Association League (CUBA) and Chinese University Basketball Super League (CUBS)

In 2013, as part of its strategy to target the growing middle-class consumers in China, the Group sponsored domestic basketball events at campus level, including China Junior & High School Basketball League, CUBA and CUBS. This saw the creation of a campus basketball era. By integrating with campus events, the Group helped to expand the influence of basketball and cultivate reserve talents for Chinese basketball. In 2013, the China Junior & High School Basketball League attracted more than 4,400 players from 349 teams in 19 zones, covering over 700,000 students; CUBA attracted more than 17,800 players and coaches from over 800 teams in 32 zones, covering over 16 million students; and CUBS attracted more than 600 players from 40 teams in 12 zones, covering over 800,000 students.

The sponsorship of student leagues allowed the LI-NING brand to be effectively integrated into campus life and showcased in the student basketball arena. Capturing the opportunities to interact with the younger generations through venue display, cooperation with school basketball teams, training of cheerleaders and other campus events, the LI-NING brand firmly positioned itself in campus and student life and laid a solid foundation for future basketball marketing.

Sponsorship of Running Events

In 2013, LI-NING brand has been committed to developing professional running products with superior performance through research and development and innovations. A matrix of star products were launched and well received during the year, including "LI-NING Unit-Bow", "10th Generation Super Light", "3rd Generation LI-NING Arc", etc. At the same time, the LI-NING brand organised "LI-NING China 10K Road Racing League" (LI-NING 10K run), LI-NING "FUNRUN" Carnival, Shenzhen International Marathon and other events and activities, to promote the understanding, participation and popularity of running.

In particular, LI-NING 10K run was organised in nine major domestic cities in 2013. With nearly 60,000 runners participating, the competition became a unique platform for brand communication, product experience and interaction with runners and target consumers across the country. At the same time, the brand's reputation among professional and senior amateur runners was enhanced through the sponsorship of Shenzhen International Marathon and extreme events including the 100km+ and 100km marathons respectively held in south-eastern Guizhou and Dali.

Sponsorship of Badminton Events

In 2013, LI-NING brand continued to focus on the national badminton team, through event marketing supported by professional channel promotion and R&D expenditures on a sales-oriented basis. Capitalising on its strong sports resources and demonstrating its leadership in innovation and research, LI-NING brand established China's first top-notch racket technology platform.

The performance of the Chinese badminton team (and international sponsored players), sponsored by LI-NING brand, in 14 major international tournaments in 2013 significantly boosted the brand's exposure and reputation. All major events sponsored by LI-NING brand included onsite marketing and brand experience activities, resulting in a marketing effect with over 40,000 person-times of onsite coverage and over 100 million person-times of online dissemination.

Sponsorship of Peng Shuai

LI-NING sponsored tennis player Peng Shuai, who recorded impressive performance in 2013 by winning women's doubles championship at Wimbledon, WTA (Women's Tennis Association) Rome station and Cincinnati station, Guangzhou Tennis Championships and successfully defending her title at the 12th National Games with four gold medals in women's singles, women's doubles, mixed doubles and team competition. She was also awarded women's doubles championship in WTA annual finals. On 17 February 2014, Peng Shuai was ranked No. 1 globally for the first time in her career with 8,555 points, according to the world doubles ranking published by WTA. At the same time, she became the first Chinese player to be ranked No. 1 globally (including singles and doubles), an unprecedented feat in China's tennis sporting history.

As a LI-NING sponsored athlete, Peng Shuai actively interacts with consumers. Her story of success and struggle is able to strike a chord with the public.

Sponsorship of Isinbayeva

Isinbayeva, the world's top women's pole vault athlete, regained the world title after a lull of four years at the World Athletics Championships in Moscow, in August 2013. When sharing her story with LI-NING brand, the champion stressed their commonality: an ultimate success after many setbacks.

Sponsorship of Gold Medal Teams

In 2013, LI-NING brand focused the sponsorship of gold medal teams on the following marketing campaigns: identifying and fostering post-Olympic pacesetters in gymnastics, diving, table tennis and shooting; strengthening the communication of stories on sportsmanship. Marketing activities in 2013 were carried out mainly through two key events, namely the Gymnastics World Championships and the Table Tennis World Championships, including signing sessions and brand promotions at 18 stations, with more than 40 exposures of sportsmen at Olympic champion level. Leveraging on digital platforms to reach over 100 million audiences, the image of LI-NING brand was strengthened through top-level athletes.

Hiking the Great Wall with LI-NING

This outdoor hiking event was organised to support the new generation of LI-NING Arc sneakers featuring the "self-releasing" technology, which was rolled out in the summer of 2013. Partnering with the People's Daily Online, a mainstream official media, the event resonated with sports enthusiasts immediately after its online advertisement. Olympic champions were invited to share their growth experience, encouraging the participants to complete the challenge.

The event allowed the participants to gain a deeper experience of the "3rd Generation LI-NING Arc", while establishing ties with younger consumers. From online advertisement to the kick-off ceremony to the event's conclusion, it attracted continuous coverage from domestic mainstream print, television and online media, including a dedicated channel on People's Daily Online with over 10 million visits per day. The offline/online communication campaign combined LI-NING's official microblog, microblog of Olympic champions, self-media of celebrities, forwards and reposts, resulting in coverage of over 10 million people through the marketing innovation which integrated experience in both the brand and the products.

Let's Shine

This school talent show was used as an innovative, integrated marketing campaign directly promoting the LI-NING brand to young people. It drew upon Renren.com, a social networking (SNS) platform for students, to bridge the gap with youth consumer groups through coverage on a dedicated website as well as offline campus recruitments. At the same time, it partnered with YOHO!, the most influential fashion portal for young Chinese, as well as Zheng Kai, a pop star, to expand the awareness of LI-NING brand among the younger generations.

The dedicated website attracted over 100,000 participants together with student coverage of more than 24 million person-times. Thanks to the re-dissemination through Renren.com, over 60% visits and participations were derived from non-advertising resources.

Investing in digital marketing innovations to continuously deepen communication with target consumer groups

Innovations in digital platform

Digital platform as a popular communication channel has gradually become a key media for LI-NING brand to connect with consumers, and is beginning to deliver returns. Content creation through cartoon and comics featuring hot topics was introduced in marketing campaigns for running, AT technology platform and instant take-off zipper products in the second half of 2013, which combined multiple digital platforms (microblog, WeChat, Renren.com, interactive communities, etc.) to attract consumer attention to our brand and products.

Mobile platform

As mobile phones exceeded personal computers for the first time in 2013 as the largest surfing terminal, LI-NING's official account at WeChat was opened in July 2013. While providing information on products, brand and large events such as CBA, it also integrates practical functions such as queries on product authenticity, nearby sports venues and weather conditions.

Retail terminals connected to e-commerce

Digital platforms have been interconnected with e-commerce portals, while offline campaigns were organized to generate traffic to stores. A number of shoe models including the "Way of Wade" limited editions were offered or debuted on digital platforms in 2013, where design and sale of customised apparel for supporters of respective CBA teams were introduced innovatively and highly appreciated by basketball fans.

Product Design, Research and Development

In 2013, the Company's product strategy continued to focus on building a product portfolio with superior sports performance combined with outstanding design. The goal is to lead the market in innovation while offering Li Ning customers an outstanding price commensurate with the value proposition. This means offering the best materials and technologies available anywhere in the world, with outstanding design and choice – all at a highly competitive price. This value proposition has been rolled out across the full range of products, from premium to core to entry price levels, in order to meet the demands of consumers who want the best value and innovation available to them.

Li Ning 2014 Basketball Season Hero Products

The Company identified three key areas of innovation to achieve this goal:

Functional innovation technology – combining superior comfort and functionality with the latest technologies available on the global market today.

Water Shell: Addressing rainy and snowy days in winter and waterproof and windproof needs of consumers, we rolled out the Water Shell technology, a new water-repellent and windproof materials technology to cater for seasonal needs. The combination of close-knit water repellent fabric and seamless craftsmanship helps to keep the feet dry and achieve sound windproof effect. Compared to leather or waterproof membrane, fabric materials are more effective in preventing foot mugginess. The close-knit upper materials can effectively prevent wetting and keep feet dry in rain and snow weathers while preventing cold wind intrusion and excessive heat loss from inside, hence becoming an ideal choice for complicated weather conditions. In addition, the large area camouflage patterns through transfer print on upper materials provide a perfect visual presentation through the combination of functions, protection and aesthetics.

Warm Shell: This new heat preservation technology combines built-in microfibre efficient insulated fleece and insulated lining to constitute a strong insulation system, providing efficient protection and heat preservation for feet in cold winters. Certified by ITS, our Warm Shell products incorporating 3M™ Thinsulate efficient insulated fleece were rolled out in the fourth quarter of 2013, which provide heat preservation of more than 80% over common shoes, achieving superior heat insulation effect with lighter weight.

The products featuring Warm Shell technology debuting in the winter of 2013 consisted of the sports life, urban sports and outdoor series, which were targeted at different regions and market levels for winters. The heat preservation function at basic, medium and premium levels, supported by dedicated shoe designs, offered flexible heat insulation choices to effectively cover consumer needs in target regions. With satisfactory feedbacks at trade fairs, the products accounted for 13% of the orders, representing a growth of 136% year-on-year; and the average unit price increased by 6%.

The 10th generation super light running shoes: These light and functional shoes weigh only 212g. Utilising the simplest supporting cross-strap structure with a lightweight and simplistic instep structure, the overall upper provides effective protection and support. The shoes for men are made of carbon fibre which is very light yet with high strength support, while the shoes for women are made with glass fibre, providing better resilience and impact resistance. The midsole applies our proprietary Foam EVA lightweight formula to provide a comfortable feeling and reduce energy loss. Bounse+ material is utilised at full length soles to provide sound rebounding effect and resistance to compression. The TPU balancing patches at arches can effectively prevent excessive midfoot twisting in running.

The 10th generation super light basketball shoes: It follows the design of the 10th generation super light running shoes, featuring the same lightweight streamlined appearance. With carbon fibre cloth inside and outside to ensure stability of movements, the super light weight of 340g helps to improve performance on basketball court.

LI-NING Cloud: This cutting-edge shock-absorption material provides full protection to feet to reduce impact from movements. The brand new "LI-NING Cloud" anti-shock midsole employs our unique polymer formula at full length soles to effectively accumulate the impact through cushioning and convert it into rebounding energy in an efficient energy recycling system. Soft and lightweight, it can cushion external impacts and help to improve athletic performance. The three-dimensional printing at full length uppers can reflect glaring colours to enhance the value. Another 3M reflective edition is available to meet needs in night runs. With delicate structural design, the product provides soft, flexible and better wrapping experience.

Design Innovation – creating functional products with inspirational design to offer the right mix of sports performance with contemporary fashion that works as well on the court as well as off court.

Over the last year, the Company has built an industry-leading design team made up of both local and international designers located in design centers in China, Korea and the U.S. This team is developing highly differentiated products for a broad range of customers, identified by consumer type (sport or fashion), sports category, as well the differing demand patterns across China by region, tier city, and seasonal relevance.

In the year, Li Ning also entered into a number of strategic agreements with world-class, industry-leading technology and material vendors. These partnerships are enabling Li Ning to design and develop highly innovative performance products at a much more attractive price given the Company's competitive cost structure. For example the Way of Wade (WoW) 2 premium shoe is made of a high performance carbon fiber foot plate.

Innovation in Creation – building a product development and supply chain model that enables Li Ning to create and launch new trends faster to respond to the latest demand from consumers. The Company has moved from a traditional wholesale model to a highly collaborative relationship with its distributors, coupled with a strong and growing portfolio of self-owned retail stores. This new operating model, which combines "prescriptive trade fair orders + quick replenishment + fast response", has been enabled by our investment in the next generation IT and data analytics and tracking systems. This has resulted in improved sales channel performance as the Company is able to track changing trends in market demand and deliver the right products at the right time to capitalize on high performing, high sales products in the market.

Sales Channel Expansion and Management

As at 31 December 2013, the number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to a total of 5,915, representing a net decrease of 519 stores as compared to 31 December 2012. The number of distributors increased to 55, up by 2 from 31 December 2012. Store breakdown as at 31 December 2013 is as follows:

Number of franchised and directly-operated retail stores

LI-NING brand stores	**31 December 2013**	31 December 2012	Change
Franchised retail stores	**4,989**	5,803	(14.0%)
Directly-operated retail stores	**926**	631	46.8%
Total	**5,915**	6,434	(8.1%)

Number of retail stores by geographical location

LI-NING brand stores	**31 December 2013**	31 December 2012	Change
Eastern Region *(Note 1)*	**2,197**	2,602	(15.6%)
Northern Region *(Note 2)*	**2,324**	2,432	(4.5%)
Southern Region *(Note 3)*	**1,394**	1,400	(0.4%)
Total	**5,915**	6,434	(8.1%)

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.

The key sales initiative in 2013 was to continue to build a business model that delivered the right merchandise at the right place, right time and right price. A few examples of this effort include:

- Re-profiling of our store portfolio to have stores with clear category focus, consideration for the commercial environment and consumer shopping behavior, and targeted focus on basketball, running, training, badminton and sports life;

- Clear categorizing of store types into regular, discount and factory stores, with clear assortment and pricing management guidelines. We also started to shift from whole seasonal product promotion to differentiated pricing management for fast moving and Hero items versus flat and slow moving items to drive velocity in product sales. As a result, we saw improved discount and margin in regular stores.

- Driving A+ directed assortment at trade fairs since 2013 Q2. We introduced basketball category assortment in category-focused stores, while building running, training and sports life assortments for 2014 Q4. We have also introduced "Quick Strike" and evergreen products to enable our fast retail to stay close to market trend and consumer preferences.

As distributors continued their revival and de-stocking throughout 2013, we drove sales of season products in regular stores while continued to use discount and factory stores to drive inventory clearance. We rolled out Distributor Retail Programs to 20 distributors, pairing Li Ning team with distributors' teams to drive daily retail operations focusing on the above areas. Over 70% of the distributors achieved beyond their 2013 profitability plan.

At the same time, we also launched various pilot programs at our self-owned retail stores, such as the remodeled Beijing Wangfujing flagship store, the basketball-focused store in Beijing Lisheng Mall and the remapping of store floor plan to drive better sales with an aim to enhance the overall consumer shopping experience. We have also embarked on redesigning our current 6th generation retail store format, with increased lighting, more flexible SKU capacity, and improved store image to better convey our brand and product stories. We will see the enhanced new formats quickly implemented in our new stores and renovation projects.

Store staff turnover has been a challenge in the sportswear industry. While we focus on building training capabilities, we have also successfully launched e-learning platform with complete store staff training programs. We plan to implement these for distributors' and sub-distributors' employees in 2014. Among all employees, store managers are critical in overseeing store operations. Our piloted Store Coach training with distributors has seen strong performance. We plan to expand these to the majority of our store managers in 2014, to improve service quality.

We have also focused on stabilizing and optimizing our store portfolio. We closed non-productive stores, while adding 761 new stores with better productivity. Sub-distributors' business continued to struggle, and we have made a clear strategic move to work closely with key distributors who are strong retailers and supportive of the Company's initiatives. Our team will work hand in hand to drive operational decisions including product allocation, replenishment, pricing, personnel decisions, etc. As we expedite our opening of direct stores and taking over of some markets where stronger retail operations management are needed, we will continue to expand our direct stores in 2014 to have a balanced and strong presence in major cities and markets, and as such, better serve our consumers.

All of the above changes require organizational and retail capabilities. We have established the nationwide retail organization to drive retailing capabilities, and added the key position of Operations Managers in our wholesale organizations to work closely with distributors. We have also shifted our sales team's focus beyond account management to retail management. We have worked closely with many experienced partners to help us build the retail operations platform, to name a few: McKinsey to build Cashflow Model and Resource Management Platform; ESPEC, a Korean visual merchandising company to design our seasonal in-store initiative launches and product displays; APT, a US company to analyze promotion effectiveness. RBM/Merchandise operations Management (MOM) system launched last November helped to drive better store cluster merchandise planning. We have just successfully launched new Electronic Point of Sales in all our direct stores, and plan to cover all distributors and sub-distributors by the end of 2014. Not only will the integrated systems enhance operational efficiency, but the timeliness and accuracy of its store level data will also provide better data analytical capabilities to drive timely and better operational decisions. We are building tools, processes and product control teams to monitor and manage the store portfolios and control the store operations.

The above initiatives have yielded great results in 2013. We have seen A+ now representing about 45% of our open-to-buy (OTB) from 28% from the first season launch, though we still have room to strengthen the Hero items to avoid stock out and to optimize sales; A+/QR/QS products consistently outperformed the rest with a 5 percentage points better sell-out rate on average. In general, 2013 products outperformed 2012 products with the same-period sell-out rate improving by double digit.

In 2014, we will stay the course and continue to elevate our retailing capabilities to drive store productivity, to better connect with and serve our consumers and help distributors to improve their profitability.

Retail Business Model

Li-Ning is seeking a strategic transformation from wholesale to market-driven retail-oriented business model, with the purpose of advancing its channel efficiency and operation effectiveness so as to expand the market share and elevate the profitability for the Company and its business partners.

The platform will strengthen capabilities in providing the right product to the right customers at the right time and the right place and will impact the entire retail business processes within Li-Ning and the processes associated with its business partners.

Key features of the platform include:

- Real time sales data collection and analysis allows Product & Sales Team to capture and predict market demand trends.

- Centralized and integrated merchandising and assortment planning to market the right products at the right places.

- A common planning tool for multi-tier suppliers with push & pull supply chain model that makes fast response a reality. The much reduced cycle time supports batch production and delivery which improves inventory efficiency and minimizes risks.

Standardized store operations with automated process for replenishment, consolidation, exchange and return orders to maximize sales in the same store.

Double Happiness Brand

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

During the period, Double Happiness continued to adopt "sponsorship of sports stars and sports events" as its core marketing and promotion strategy. In 2013, Double Happiness continued with its endorsement with 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), who were all spokespersons for its table tennis equipment.

Double Happiness signed the 2013-2016 cooperation agreement with the International Table Tennis Federation (ITTF), under which the brand was granted the official table tennis equipment supplier status for the 2016 Olympic Games. This cooperation also gives Double Happiness the role of equipment sponsor for the World Table Tennis Championships from 2014 to 2016, the Table Tennis World Cup from 2013 to 2016 and the ITTF Professional Tour from 2013 to 2016.

During 2013, Double Happiness attained the sponsorship and marketing for the table tennis competitions of the 2nd Youth Olympics and the 52nd World Table Tennis Championships in Paris, and continued to provide professional equipment for events such as the Pro Tour and Final of the ITTF, Men's and Women's Table Tennis World Cups and the Chinese Table Tennis Club Super League.

Double Happiness possesses strong capabilities in product research, development and design. Over 85% of China National Table Tennis team members opted for Double Happiness covering, and Double Happiness blades were among the most popular choices. Besides equipment for professional players, Double Happiness introduced and successfully launched more than 170 new products in 2013, including table tennis products and badminton products. These new products expanded the product line of the Double Happiness brand, demonstrating the strong product development and design capabilities of Double Happiness and consolidating its market position.

Double Happiness products are mainly distributed via wholesale and integrated sporting goods stores. It has adopted a wholesale model for its domestic business, with a relatively stable clientele across 30 provinces and municipalities in China. In 2013, Double Happiness continued the optimization of the structure of wholesale channels and control of the channels, as well as the expansion of supermarket channels, while developing unique products for the e-commerce channels to expedite the exploration on expansion of the e-commerce channels.

Other Brands

AIGLE Brand

Despite the fact that the general economic and retail environment remained challenging and the performance of major leisure and outdoor brands fell due to unfavourable market impacts, AIGLE brand continued to achieve a stable growth in its retail results and enhance its market positioning and competitive edge.

During the period, AIGLE brand continued its effective retail management and well-paced shop opening strategy, with the total number of shops reaching 100, thus achieving a stable growth in retail results. Its high-end, trendy and outdoor leisure brand positioning continued to maintain a location-wise competitive edge in first-tier malls in major cities, as well as airports at various places.

In the future, AIGLE brand will continue the following major operational strategies to increase brand recognition and loyalty among consumers and sustain its business growth:

- Continue to penetrate into provincial capitals and other first-tier cities in addition to Beijing and Shanghai. It will gradually open brand image stores with a globally common identity, increase retail store coverage in cities above the provincial level and diversify the channel portfolio.
- Strengthen the assessment and selection of agents in various places to build up a foundation for future development.
- Enhance the product mix and retail inventory management in accordance with the needs of different markets and customer sectors following the opening of various types of channels and shops.
- Continue to enhance customer relations management for consumers to raise their loyalty.

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.

The business of Kason brand remained stable in 2013. During the reporting period, Kason continued to strengthen its classic brand positioning perceived by consumers through optimizations in product mix, production costs and cost performance of products as well as replicas of classic models of racket products, so that the classic racket products of Kason brand remained popular, and the newly developed apparel and shoes maintained market competitiveness in terms of product design and pricing.

Through differentiated brand positioning for LI-NING brand and Kason brand, the Group will continue to increase product competitiveness and make reasonable use of the brands' top-class sports marketing resources to increase its market share in the badminton category.

Lotto Brand

In 2013, the Company shifted the business focus of Lotto from offline stores to online channels, and authorized LI-NING Shanghai E-commerce to manage its production, research and development and marketing. Offline stores across China were closed as scheduled to reduce costs and expenses.

For inventory clearance purpose, the Company arranged its self-operated subsidiaries to take up residual inventories of Lotto, and took initiatives such as establishment of outlets and identification of appropriate business channels to cut down the inventories.

HUMAN RESOURCES

The transformation of the Company's business required a new and enhanced approach in Human Resources to ensure our alignment with the strategic direction of the Company of establishing a Retail Business Model. Over the past 12 months, we have undertaken a series of initiatives to strengthen the overall retail operational and execution capabilities across the Company, including the introduction of an organizational and talent review system, the nurturing of a performance-oriented culture, and a reward system to recognize outperformers. Other major tasks during the year were as follows:

- International design talents have been recruited to establish our Korean Design Center.

- Management Trainee program had been introduced by recruiting a number of outstanding university graduates with a view to fast-tracking them to be our reserved talent pool. The Company had defined a one-year program with detailed training plan, job rotation arrangement and assigned mentors to make sure that the MTs are fully engaged with the Company and can quickly step up as passionate and professional retail talents.

- By introducing Organizational and Talent Review (OTR), we established a group-wide program that provides a platform for organizational efficiency review, and conducts performance assessment for critical positions and promising talents. We adopt a two-pronged approach of promoting from within the firm, and seeking experienced hires externally. While we have, and are continuously in search for, international talents to support the transformation of our brand and design, Li Ning Company is also a strong believer in promoting internally to reduce regretted loss and enhance employees' sense of responsibility.

- In 2013, we launched the Company's inaugural corporate culture survey for the first time which achieved participation of 98% of the Company's employees. The majority of the feedbacks indicated that our employees approve the Company's culture.

- Last, but equally as important, is the overhaul of our employee performance recognition and incentive system. We reviewed the existing incentive system for the purpose of achieving more alignment with performance, and facilitating the establishment of performance-oriented culture. Our ultimate goal is to reward outperformers appropriately to differentiate them from underperformers.

As at 31 December 2013, the Group has in total 3,592 employees (3,447 employees as at 31 December 2012). Included in this number are 1,991 employees at the Group's Headquarter and retail subsidiaries (1,676 employees as at 31 December 2012), and 1,601 employees at the Group's other subsidiaries (1,771 employees as at 31 December 2012).

ISSUANCE OF CONVERTIBLE SECURITIES

In April 2013, the Company issued convertible securities in the aggregate principal amount of HK$1,847,838,000 to eligible shareholders on the basis of each of such convertible securities for every two existing shares held on 19 March 2013 (the "Convertible Securities"). No interest is payable to the holders of the Convertible Securities. The Convertible Securities are convertible into shares of the Company at an initial conversion price of HK$3.5 per share (the "Initial Conversion Price").

The issuance of the Convertible Securities was completed on 18 April 2013. Convertible Securities in the principal amount of HK$1,847,838,000 were issued to relevant investors, and the net proceeds of the Convertible Securities issuance, after deduction of expenses, of approximately HK$1,798,838,000 were used in areas such as implementing the Transformation Plan including rebuilding and revitalising the LI-NING brand, investing in brand and product development, facilitating better supply chain and retail operations, building a more retail and customer-oriented business model and optimizing the business platform; enhancing the capital structure of the Group; and utilised as general working capital of the Group.

OUTLOOK AND CORRESPONDING STRATEGIES

While the long-term effect of stimulating domestic consumption by the Chinese government remains to be seen, consumption growth in the sportswear sector is expected to remain robust in China despite the near-term industry headwinds and the remaining overhang from over-expansion. With the increasing sophistication and demand of Chinese consumers for better value and quality sportswear products, the Company believes that the upfront investment during the year was necessary to pave the way for the transformation of our business model to become more market-oriented and consumer-focused. The Company expects the effect of investment in transformation will take time to reflect fully in its financial results.

In 2014, the Company will continue to push forward the Transformation Plan to address consumers' demand by improving channel efficiency, enhancing operating capabilities, providing market with products with our unique value proposition and consolidating our leading brand positioning. With the Transformation Plan progressing smoothly in the past 18 months, we firmly believe in our current transformation direction and the vision of building the leading brand in China, and it is the best way to deliver the highest value for stakeholders in the medium to long term.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its shares during the year ended 31 December 2013. Except for the purchase of shares by the trustee of the Restricted Share Award Scheme pursuant to the Restricted Share Award Scheme rules and the trust deed, neither the Company nor any of its subsidiaries purchased or sold any shares of the Company during the year.

CORPORATE GOVERNANCE

The Company is committed to upholding a high standard of corporate governance by continued review and enhancement of its corporate governance practices, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in an effective and efficient manner. During the year ended 31 December 2013, the Company complied with all the code provisions in the Corporate Governance Code ("code provisions") set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation with considered reason as set out below.

According to paragraph A.2.1 of the code provisions, the role of the chairman and chief executive of the Company should be separate and should not be performed by the same individual. During the year, the day-to-day responsibilities of the Chief Executive Officer ("CEO") have been assumed by Mr. Li Ning, the Executive Chairman, who manages the external affairs and relationships of the Group, and by Mr. Jin-Goon Kim, the Executive Vice Chairman, who manages the internal affairs and the operations of the Group respectively. Therefore, there was no separation of the roles of the chairman and the CEO as both of the roles are currently undertaken by the Executive Chairman and/or the Executive Vice Chairman of the Board. Notwithstanding the above, the Board is of the view that the current management structure remains effective for the Group's operations and sufficient checks and balances are in place. As at the date of this announcement, Mr. Jin-Goon Kim, Executive Vice Chairman and an executive director of the Company, has been appointed as Interim CEO of the Company with effect from 21 March 2014. The operations and management of the Company are 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.

Code provision A.5.1 of the Corporate Governance Code states that 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. The Company's nomination committee (the "Nomination Committee") consisted of the following directors of the Company: Mr. Jin-Goon Kim (Executive Vice Chairman), Mr. Li Ning (Executive Chairman) and Mr. Chan Chung Bun, Bunny (independent non-executive Director), with Mr. Jin-Goon Kim acting as the chairman of the Nomination Committee during the year. In view of the Group being amidst a period of reform, the Board hopes to garner greater support from TPG-nominated Directors during this process of reform, and thus had decided to appoint Mr. Jin-Goon Kim as the chairman of the Nomination Committee. The Board also needs the Executive Chairman, Mr. Li Ning, to become more involved with the work of the Nomination Committee. The Board considered that this arrangement is necessary for the Company in this current stage.

Details about the corporate governance practices of the Company are set out in the Corporate Governance Report contained in the 2013 annual report of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company, consisting of three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2013.

APPOINTMENT OF INTERIM CHIEF EXECUTIVE OFFICER

Mr. Jin-Goon Kim ("Mr. Kim"), Executive Vice Chairman and an executive director of the Company, has been appointed as Interim CEO of the Company with effect from 21 March 2014.

Mr. Kim, aged 46, also serves as a member of the Nomination Committee and a member of the Executive Committee. Mr. Kim became a director of the Company in April 2012. 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, 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 of Hong Kong Limited, 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.

Save as disclosed, Mr. Kim did not hold directorships in any other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years nor did he hold any other major appointments.

As at the date of this announcement, Mr. Kim had interests, within the meaning of Part XV of the Securities and Futures Ordinance, in share options to subscribe for an aggregate of 14,013,644 shares of the Company granted under the existing share option scheme of the Company, representing approximately 1.02% of the issued share capital of the Company.

Mr. Kim has entered into a service contract with the Company with a term of three years. He is entitled to an annual remuneration of RMB500,000 and participation in the Company's share schemes and other benefits and allowances which are determined with reference to his duties and responsibilities with the Company, the Company's performance and the prevailing market condition and are subject to review and revision by the Remuneration Committee and the Board from time to time.

Save as disclosed above, Mr. Kim does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company.

Save as disclosed above, there are no other matters concerning Mr. Kim that need to be brought to the attention of the Shareholders nor any information which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at 11:00 am on Friday, 30 May 2014.

The notice of the AGM will be despatched to the shareholders together with the 2013 annual report of the Company on or around 11 April 2014 and published on the website of the Company (www.lining.com) and the "HKExnews" website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

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

Hong Kong, 21 March 2014

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Jin-Goon Kim and Mr. Zhang Zhi Yong. The non-executive director is Mr. Chen Yue, Scott. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Mr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel.