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## **LI NING COMPANY LIMITED**

**李寧有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2331)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014 AND THE OUTLOOK FOR THE FULL YEAR OF 2014**

#### **FINANCIAL AND OPERATIONAL HIGHLIGHTS**

- The Group recorded revenue of RMB3,137 million, which represents an increase of 8.0% year over year, mainly due to higher retail sales of new products, with the Group's expanding self-owned retail store network
- EBITDA for the six months ended 30 June 2014 was loss of RMB351 million; loss attributable to equity holders for the six months ended 30 June 2014 was RMB586 million
- Excluding one-time costs, our platform overhead cost relative to revenue scale created significant negative leverage for our profitability and resulting in negative operating cash flow
- The Transformation Plan has achieved anticipated results in (i) Improving sell-through momentum on new products; (ii) Rationalizing store network and supply chain

#### **Prospect**

- The Group will unswervingly implement the Transformation Plan, but the benefits will take time to be reflected financially as well as to reach full profit potential and achieve long-term sustainable growth
- The Group will continue to focus on enhancing brand image through core sports resources, optimizing channel efficiency and cost structure, improving value proposition of products and consumer experience in stores, to create value for our shareholders.

#### **INTERIM RESULTS**

The board of directors (the "Board") of Li Ning Company Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2014, together with comparative figures, as follows:

## INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
		<b>30 June</b>	31 December
	<i>Note</i>	<b>2014</b>	2013
		<b>RMB'000</b>	<b>RMB'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>817,966</b>	791,071
Land use rights		<b>376,916</b>	351,352
Intangible assets		<b>449,410</b>	380,935
Deferred income tax assets		<b>311,137</b>	345,610
Available-for-sale financial assets		<b>26,000</b>	46,930
Investments accounted for using the equity method		<b>15,938</b>	13,496
Other receivables and prepayments		<b>42,377</b>	125,807
		<hr/>	<hr/>
<b>Total non-current assets</b>		<b>2,039,744</b>	2,055,201
		<hr/>	<hr/>
<b>Current assets</b>			
Inventories	4	<b>1,089,580</b>	942,368
Trade receivables	5	<b>1,317,736</b>	1,371,240
Other receivables and prepayments – current portion		<b>363,120</b>	362,643
Current income tax recoverable		<b>6,635</b>	2,566
Restricted bank deposits		<b>1,569</b>	2,149
Cash and cash equivalents		<b>909,304</b>	1,280,684
		<hr/>	<hr/>
<b>Total current assets</b>		<b>3,687,944</b>	3,961,650
		<hr/>	<hr/>
<b>Total assets</b>		<b>5,727,688</b>	6,016,851
		<hr/> <hr/>	<hr/> <hr/>

	<i>Note</i>	<b>Unaudited As at 30 June 2014 RMB'000</b>	<b>Audited As at 31 December 2013 RMB'000</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares		136,692	136,613
Share premium		1,142,126	1,146,845
Shares held for Restricted Share Award Scheme		(18,232)	(31,509)
Other reserves		1,132,098	1,101,347
(Accumulated deficit)/retained earnings		<u>(254,840)</u>	<u>330,934</u>
		<b>2,137,844</b>	<b>2,684,230</b>
<b>Non-controlling interests in equity</b>		<u>230,719</u>	<u>207,534</u>
<b>Total equity</b>		<u><b>2,368,563</b></u>	<u><b>2,891,764</b></u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
License fees payable		101,609	122,309
Borrowings		200,000	200,000
Convertible bonds		661,074	645,727
Deferred income tax liabilities		79,179	75,316
Deferred income		<u>63,365</u>	<u>64,012</u>
<b>Total non-current liabilities</b>		<u><b>1,105,227</b></u>	<u><b>1,107,364</b></u>
<b>Current liabilities</b>			
Trade payables	6	997,489	913,988
Other payables and accruals		884,481	836,611
License fees payable – current portion		57,208	54,624
Borrowings		291,000	200,000
Convertible bonds – interest payable		<u>23,720</u>	<u>12,500</u>
<b>Total current liabilities</b>		<u><b>2,253,898</b></u>	<u><b>2,017,723</b></u>
<b>Total liabilities</b>		<u><b>3,359,125</b></u>	<u><b>3,125,087</b></u>
<b>Total equity and liabilities</b>		<u><b>5,727,688</b></u>	<u><b>6,016,851</b></u>
<b>Net current assets</b>		<u><b>1,434,046</b></u>	<u><b>1,943,927</b></u>
<b>Total assets less current liabilities</b>		<u><b>3,473,790</b></u>	<u><b>3,999,128</b></u>

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Revenue	3	3,137,078	2,905,908
Cost of sales	7	(1,737,467)	(1,639,454)
<b>Gross profit</b>		<b>1,399,611</b>	<b>1,266,454</b>
Distribution expenses	7	(1,372,291)	(1,209,512)
Administrative expenses	7	(494,499)	(157,425)
Other income and other gains – net	8	19,009	61,867
<b>Operating loss</b>		<b>(448,170)</b>	<b>(38,616)</b>
Finance income	9	5,352	3,625
Finance expenses	9	(67,727)	(94,003)
Finance expenses – net	9	(62,375)	(90,378)
Share of profit/(loss) of investments accounted for using the equity method		2,442	(178)
<b>Loss before income tax</b>		<b>(508,103)</b>	<b>(129,172)</b>
Income tax expense	10	(54,486)	(32,948)
<b>Loss for the period</b>		<b>(562,589)</b>	<b>(162,120)</b>
<b>Attributable to:</b>			
Equity holders of the Company		(585,774)	(184,237)
Non-controlling interests		23,185	22,117
		<b>(562,589)</b>	<b>(162,120)</b>
<b>Losses per share for loss attributable to equity holders of the Company (RMB cents)</b>			
– basic	11	(41.63)	(15.19)
– diluted	11	(41.63)	(15.19)
<b>Dividends</b>	12	–	–

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Loss for the period</b>	<b>(562,589)</b>	(162,120)
<b>Other comprehensive (loss)/income:</b>		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	(257)	453
	<u>(562,846)</u>	<u>(161,667)</u>
<b>Total comprehensive loss for the period</b>	<b><u>(562,846)</u></b>	<b><u>(161,667)</u></b>
<b>Attributable to:</b>		
Equity holders of the Company	(586,031)	(183,784)
Non-controlling interests	<u>23,185</u>	<u>22,117</u>
	<b><u>(562,846)</u></b>	<b><u>(161,667)</u></b>

## Notes:

### 1. General information

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

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

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

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board on 13 August 2014.

This condensed consolidated interim financial information has not been audited.

### 2. Basis of preparation and significant accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with International Accounting Standard (“IAS”) 34, ‘Interim Financial Reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2013, as described in those annual financial statements.

- The Group has adopted IFRIC-Int 21 ‘Levies’. IFRIC-Int 21 addresses the accounting for a liability to pay a levy if that liability is within the scope of IAS 37 ‘Provisions’. The interpretation addresses what the obligating event is that gives rise to pay a levy, and when should a liability be recognised. The Group is not currently subject to significant levies. The adoption of the interpretation has had no significant effect on the financial statements for earlier periods and on the interim financial information for the period ended 30 June 2014. The Group does not expect IFRIC-Int 21 to have a significant effect on the results for the financial year ending 31 December 2014.
- Other amendments to IFRSs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the Group.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

### 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. The Group has three reportable segments as follows, LI-NING brand, Double Happiness brand and all other brands segments. Management assesses the performance of the operating segments based on operating profit/loss. Segment information provided to management for decision-making is measured in a manner consistent with that in this financial information.

Revenue consists of sales from LI-NING brand, Double Happiness brand and all other brands, which are RMB2,673,616,000, RMB411,334,000 and RMB52,128,000 for the six months ended 30 June 2014 and RMB2,458,286,000, RMB377,150,000 and RMB70,472,000 for the six months ended 30 June 2013 respectively.

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

The segment information provided to the management for the reportable segments for the six months ended 30 June 2014 and 2013 is as follows:

	<b>LI-NING brand RMB'000</b>	<b>Unaudited Double Happiness brand RMB'000</b>	<b>All other brands RMB'000</b>	<b>Total RMB'000</b>
<b>Six months ended 30 June 2014</b>				
Total revenue	2,673,616	411,525	62,698	3,147,839
Inter-segment revenue	–	(191)	(10,570)	(10,761)
<b>Revenue from external customers</b>	<b>2,673,616</b>	<b>411,334</b>	<b>52,128</b>	<b>3,137,078</b>
Operating (loss)/profit	(532,156)	69,547	14,439	(448,170)
Distribution expenses and administrative expenses	1,756,564	104,375	5,851	1,866,790
Depreciation and amortisation	82,308	9,423	3,427	95,158
<b>Six months ended 30 June 2013</b>				
Total revenue	2,458,286	377,621	95,188	2,931,095
Inter-segment revenue	–	(471)	(24,716)	(25,187)
<b>Revenue from external customers</b>	<b>2,458,286</b>	<b>377,150</b>	<b>70,472</b>	<b>2,905,908</b>
Operating (loss)/profit	(112,048)	70,371	3,061	(38,616)
Distribution expenses and administrative expenses	1,254,008	85,056	27,873	1,366,937
Depreciation and amortisation	84,021	8,785	3,637	96,443

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

	<b>Unaudited Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Operating loss</b>	<b>(448,170)</b>	<b>(38,616)</b>
Finance income	5,352	3,625
Finance expenses	(67,727)	(94,003)
Share of profit/(loss) of investments accounted for using the equity method	2,442	(178)
<b>Loss before income tax</b>	<b>(508,103)</b>	<b>(129,172)</b>

#### Geographical information of revenue

	<b>Unaudited Six months ended 30 June</b>	
	<b>2014</b>	<b>2013</b>
	<b>RMB'000</b>	<b>RMB'000</b>
The PRC (including the Hong Kong Special Administrative Region)	3,056,927	2,821,661
Other regions	80,151	84,247
<b>Total</b>	<b>3,137,078</b>	<b>2,905,908</b>

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

The Group has a large number of customers. For the six months ended 30 June 2014 and 2013, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

#### 4. Inventories

	<b>Unaudited 30 June 2014 RMB'000</b>	Audited 31 December 2013 RMB'000
Raw materials	39,590	43,597
Work in progress	45,805	50,634
Finished goods	<u>1,404,637</u>	<u>1,230,203</u>
	<b>1,490,032</b>	1,324,434
Less: provision for write-down of inventories to net realisable value	<u>(400,452)</u>	<u>(382,066)</u>
	<b><u>1,089,580</u></b>	<b><u>942,368</u></b>

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB1,651,012,000 for the six months ended 30 June 2014 (30 June 2013: RMB1,561,851,000).

Inventory provision and the amount of reversal have been included in cost of sales in the interim condensed consolidated income statement for the six months ended 30 June 2014 and 2013.

#### 5. Trade receivables

	<b>Unaudited 30 June 2014 RMB'000</b>	Audited 31 December 2013 RMB'000
Accounts receivable	1,956,784	1,948,188
Notes receivable	<u>43,940</u>	<u>13,980</u>
	<b>2,000,724</b>	1,962,168
Less: allowance for impairment of trade receivables	<u>(682,988)</u>	<u>(590,928)</u>
	<b><u>1,317,736</u></b>	<b><u>1,371,240</u></b>

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

	<b>Unaudited 30 June 2014 RMB'000</b>	Audited 31 December 2013 RMB'000
0 – 30 days	410,401	420,487
31 – 60 days	240,603	175,736
61 – 90 days	337,741	195,300
91 – 180 days	348,648	662,768
Over 181 days	<u>663,331</u>	<u>507,877</u>
	<b><u>2,000,724</u></b>	<b><u>1,962,168</u></b>



Customers are normally granted credit terms within 90 days. As at 30 June 2014, trade receivables of RMB1,011,979,000 (31 December 2013: RMB1,170,645,000) 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 significantly 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 RMB682,988,000 has been made as at 30 June 2014 (31 December 2013: RMB590,928,000).

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

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

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	<i>RMB'000</i>
<b>As at 1 January</b>	<b>590,928</b>	937,535
Provision/(reversal of provision) for impairment of trade receivables	<b>92,148</b>	(106,868)
Trade receivables written off during the period as uncollectible	<b>(88)</b>	(8,565)
	<hr/>	<hr/>
<b>As at 30 June</b>	<b>682,988</b>	822,102
	<hr/> <hr/>	<hr/> <hr/>

The creation and release of provision for impaired trade receivables have been included in administrative expenses in the interim condensed 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:

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2014</b>	2013
	<b>RMB'000</b>	<i>RMB'000</i>
0 – 30 days	<b>738,021</b>	651,017
31 – 60 days	<b>213,304</b>	206,844
61 – 90 days	<b>31,366</b>	27,899
91 – 180 days	<b>6,793</b>	18,580
181 – 365 days	<b>526</b>	2,737
Over 365 days	<b>7,479</b>	6,911
	<hr/>	<hr/>
	<b>997,489</b>	913,988
	<hr/> <hr/>	<hr/> <hr/>

## 7. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Cost of inventories recognised as expenses included in cost of sales	1,651,012	1,561,851
Depreciation on property, plant and equipment ( <i>Note a</i> )	67,796	62,462
Amortisation of land use rights and intangible assets	27,362	33,981
Advertising and marketing expenses	607,344	599,132
Staff costs, including directors' emoluments	432,667	315,924
Operating lease rentals and related expenses in respect of land and buildings	357,930	275,899
Research and product development expenses ( <i>Note a</i> )	69,517	67,128
Transportation and logistics expenses	134,800	130,350
Provision/(reversal of provision) for impairment of trade receivables	92,148	(106,868)
Impairment of available-for-sale financial assets	34,930	–
Auditor's remuneration	2,100	2,000
Management consulting expenses	50,950	41,688
Travelling and entertainment expenses	26,222	21,389

*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

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Government grants	14,816	23,191
License fees income	4,193	5,047
Gain on modification of convertible bonds	–	33,629
	<u>19,009</u>	<u>61,867</u>

## 9. Finance income and expenses

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
<b>Finance income</b>		
Interest income on bank balances and deposits	3,453	3,625
Net foreign currency exchange gain	1,899	–
	<u>5,352</u>	<u>3,625</u>
<b>Finance expenses</b>		
Amortisation of discount – license fees payable	(9,021)	(10,784)
Interest expense on bank borrowings	(16,347)	(31,219)
Interest expense on convertible bonds	(30,347)	(28,635)
Net foreign currency exchange loss	–	(14,741)
Others	(12,012)	(8,624)
	<u>(67,727)</u>	<u>(94,003)</u>
<b>Finance expenses – net</b>	<u>(62,375)</u>	<u>(90,378)</u>

## 10. Income tax expense

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Current income tax		
– Hong Kong profits tax	(9)	1,630
– PRC corporate income tax	21,144	28,514
	<u>21,135</u>	<u>30,144</u>
Deferred income tax	<u>33,351</u>	<u>2,804</u>
Income tax expense	<u><u>54,486</u></u>	<u><u>32,948</u></u>

## 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 period. 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 37,986,000 ordinary shares (30 June 2013: 79,288,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of ordinary shares for the purpose of basic losses per share calculation. Such shares issued for nil consideration have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2013.

	Unaudited	
	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Loss attributable to equity holders of the Company	<u>(585,774)</u>	<u>(184,237)</u>
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme ( <i>in thousands</i> )	1,369,009	1,133,761
Adjustment for bonus element arising from the issuance of convertible securities ( <i>in thousands</i> )	<u>37,986</u>	<u>79,288</u>
Deemed weighted average number of ordinary shares for basic losses per share ( <i>in thousands</i> )	<u><u>1,406,995</u></u>	<u><u>1,213,049</u></u>
Basic losses per share ( <i>RMB cents</i> )	<u><u>(41.63)</u></u>	<u><u>(15.19)</u></u>

### 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 period) 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.

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	<b>RMB'000</b>
Loss attributable to equity holders of the Company, used to determine diluted losses per share	<b>(585,774)</b>	(184,237)
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme ( <i>in thousands</i> )	<b>1,369,009</b>	1,133,761
Adjustment for bonus element arising from the issuance of convertible securities ( <i>in thousands</i> )	<b>37,986</b>	79,288
Adjustment for share options, awarded shares, convertible bonds and convertible securities ( <i>in thousands</i> ) ( <i>Note a</i> )	-	-
Deemed weighted average number of ordinary shares for diluted losses per share ( <i>in thousands</i> )	<b>1,406,995</b>	1,213,049
Diluted losses per share ( <i>RMB cents</i> )	<b>(41.63)</b>	(15.19)

*Note:*

- (a) For the six months ended 30 June 2014, the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive. As at 30 June 2014, there were 59 million share options, 2 million restricted shares, 205 million ordinary shares assuming conversion of convertible bonds and 176 million ordinary shares assuming conversion of convertible securities that could potentially have a dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2014 (30 June 2013: 37 million, 2 million, 205 million and 189 million respectively).

## **12. Dividends**

The Board did not propose interim dividend for the six months ended 30 June 2014 and 2013.

## **13. Business combinations**

On 11 February 2014, the Group acquired the business of two distributors in Heilongjiang region, namely Harbin Segoo Sports Franchise Ltd. and Daqing Yidong Sport Products Sales Co., Ltd. (collectively, "Harbin Segoo"), for a total consideration of RMB33,612,000.

On 22 February 2014, the Group acquired the business of two distributors in Liaoning region, namely Liaoning Dadaoren Trade Co., Ltd. and the Tianshizhixing Sport Products Store at Yangguang Life Square in Shenhe District, Shenyang (collectively, "Shenyang Yangguang"), for a total consideration of RMB30,542,000.

On 28 March 2014, the Group acquired the business of a distributor in Zhejiang region, namely Zhejiang Jinguan Co., Ltd. ("Zhejiang Jinguan"), for a total consideration of RMB32,323,000.

The above acquisitions are expected to increase the Group's retail sales and market share in the related regions. None of the goodwill recognised is expected to be deductible for income tax purposes.

The goodwill of RMB67,087,000 mainly arises from the retail network of the distributors' stores which does not meet the criteria for recognition as an intangible asset and unrecognised assets such as the workforce.

The following table summarises the consideration paid for the above acquisitions, and the amounts of the assets acquired and liabilities assumed recognised at the acquisition date.

	<b>Harbin Segoe 11 February 2014 RMB'000</b>	<b>Shenyang Yangguang 22 February 2014 RMB'000</b>	<b>Zhejiang Jinguan 28 March 2014 RMB'000</b>
Purchase considerations	33,612	30,542	32,323
<b>Recognised amounts of identifiable assets acquired and liabilities assumed</b>			
<b>Fair value</b>			
Other receivables and prepayments	506	2,827	5,539
Property, plant and equipment	1,997	562	3,004
Intangibles:			
– Customer relationships	10,100	5,640	4,200
Deferred income tax liabilities	(2,525)	(1,410)	(1,050)
Total identifiable net assets	10,078	7,619	11,693
Goodwill	23,534	22,923	20,630
	<u>33,612</u>	<u>30,542</u>	<u>32,323</u>

Acquisition-related costs amounting to RMB170,000 have been included in administrative expenses in the interim condensed consolidated income statement for the period ended 30 June 2014.

The above acquisitions are non-cash transactions and the purchase considerations were settled by the Group's trade receivables due from the related distributors. As a result, there was no impact on the interim condensed consolidated statement of cash flows for the six months ended 30 June 2014.

#### ***Revenue and profit contribution***

The acquired businesses contributed revenues of RMB109,144,000 and net profit of RMB16,797,000 (after intra-group eliminations) to the Group for the period from acquisition date to 30 June 2014. If the acquisitions had occurred on 1 January 2014, the Group's pro-forma consolidated revenue and consolidated loss for the half year ended 30 June 2014 would have been RMB3,153,360,000 and RMB560,489,000 respectively, which are calculated by aggregating the financial information of the acquired businesses and the Group and after intra-group eliminations.

## **INTERIM DIVIDENDS**

The Company recorded a loss for the first half of 2014. The Board resolved not to distribute any interim dividend for the six months ended 30 June 2014 (2013: nil).

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OVERVIEW**

In the first half of 2014, macroeconomic uncertainty, the remaining overhang from over-expansion and excess inventory continued to pose challenges to domestic sportswear industry. While defocusing on non-core sportswear categories and unprofitable markets, the Group is investing boldly, yet wisely, to implement brand building initiatives, redesign the business model, research and development for new products, as well as selectively open retail stores.

New product sales recorded double digits growth, which proved further consumer acceptance of new products with upgraded design and functionality. Organisation and teams within the Company have been integrated around the five core categories to further drive the implementation of category specific strategies. Furthermore, improved marketing model was developed to provide a parallel digital platform, creating better return on investment.

As the first phase of the turnaround is completed with an optimised and stable store network, the Company is poised for the next stage of re-expansion.

## FINANCIAL REVIEW

During the first half of 2014, the Group carried forward upfront investment in line with the transformation plan initiated in July 2012 (“Transformation Plan”), including the investments in direct-retail network expansion and marketing resources of core sports categories. Meanwhile, the Group maintained active control over sell-in during the channel inventory clearance period and, as a result, the wholesale of new products stayed below the optimal year-on-year growth during the first half of 2014. These key initiatives allowed the Group to gradually release its full earning potential for sustainable growth in the long run, although it takes more time to realise financial benefits. Thus, there is still pressure on the Group’s business and financial performance indicators in the short term. The key operating and financial performance indicators of the Group for the six months ended 30 June 2014 are set out below:

	<b>Unaudited</b>		<b>Change</b>
	<b>Six months ended 30 June</b>		
	<b>2014</b>	2013	( <b>%</b> )
<b>Income statement items</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue	<b>3,137,078</b>	2,905,908	8.0
Gross profit	<b>1,399,611</b>	1,266,454	10.5
Operating loss	<b>(448,170)</b>	(38,616)	1,060.6
Earnings before interest, tax, depreciation and amortisation (EBITDA) <i>(Note 1)</i>	<b>(350,570)</b>	57,649	(708.1)
Loss attributable to equity holders <i>(Note 2)</i>	<b>(585,774)</b>	(184,237)	217.9
Basic losses per share <i>(RMB cents) (Note 3)</i>	<b>(41.63)</b>	(15.19)	174.1
<b>Key financial ratios</b>			
<b>Profitability ratios</b>			
Gross profit margin (%)	<b>44.6</b>	43.6	
Operating loss margin (%)	<b>(14.3)</b>	(1.3)	
Effective tax rate (%)	<b>(10.7)</b>	(25.5)	
Margin of loss attributable to equity holders (%)	<b>(18.7)</b>	(6.3)	
Return on equity attributable to equity holders (%)	<b>(24.3)</b>	(8.2)	
<b>Expenses to revenue ratios</b>			
Staff costs (%)	<b>13.8</b>	10.9	
Advertising and marketing expenses (%)	<b>19.4</b>	20.6	
Research and product development expenses (%)	<b>2.2</b>	2.3	
<b>Asset efficiency</b>			
Average inventory turnover <i>(days) (Note 4)</i>	<b>106</b>	96	
Average trade receivables turnover <i>(days) (Note 5)</i>	<b>78</b>	88	
Average trade payables turnover <i>(days) (Note 6)</i>	<b>92</b>	91	
	<b>Unaudited</b>	Audited	
	<b>30 June</b>	31 December	
	<b>2014</b>	2013	
<b>Asset ratios</b>			
Debt-to-equity ratio (%) <i>(Note 7)</i>	<b>157.1</b>	116.4	
Interest-bearing debt-to-equity ratio (%) <i>(Note 8)</i>	<b>55.0</b>	39.4	
Net asset value per share <i>(RMB cents)</i>	<b>172.9</b>	211.40	

*Notes:*

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of loss for the period, income tax expense, finance expenses – net, depreciation on property, plant and equipment, and amortisation of land use rights and intangible assets.
  2. Including loss attributable to equity holders for the period from 1 January to 31 March 2014: RMB314,610,000.
  3. The calculation of basic losses per share is based on the loss attributable to equity holders of the Company for the period, divided by the weighted average number of ordinary shares in issue less ordinary shares held for Restricted Share Award Scheme.
  4. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances of the period divided by cost of sales and multiplied by the number of days in the period.
  5. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables of the period divided by revenue and multiplied by the number of days in the period.
  6. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables of the period divided by total purchases and multiplied by the number of days in the period.
  7. 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 period.
  8. 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 period.
- \* *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 six months ended 30 June 2014 amounted to RMB3,137,078,000, representing an increase of 8.0% as compared to the corresponding period last year.

*Revenue breakdown by brand and product category*

	Six months ended 30 June				Revenue change (%)
	2014		2013		
	RMB'000	% of total revenue	RMB'000	% of total revenue	
<b>LI-NING brand</b>					
Footwear	1,305,262	41.6	1,238,670	42.6	5.4
Apparel	1,195,759	38.1	1,047,451	36.0	14.2
Equipment/accessories	172,595	5.5	172,165	6.0	0.2
<b>Total</b>	<b>2,673,616</b>	<b>85.2</b>	<b>2,458,286</b>	<b>84.6</b>	<b>8.8</b>
<b>Double Happiness brand</b>					
Total	411,334	13.1	377,150	13.0	9.1
<b>Other brands*</b>					
Total	52,128	1.7	70,472	2.4	(26.0)
<b>Total</b>	<b>3,137,078</b>	<b>100.0</b>	<b>2,905,908</b>	<b>100.0</b>	<b>8.0</b>

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



The Group's core brand, LI-NING brand, recorded revenue of RMB2,673,616,000, which accounted for 85.2% of the Group's total revenue, representing an increase of 8.8% as compared to the corresponding period last year. Since 2013, the Group has started the transformation gradually from the traditional wholesale model to retail-oriented model, while focusing on the five core product categories in order to meet the increasingly matured consumer demand in China. The new strategies have paid off on new products. The growth in LI-NING brand's revenue year-on-year was attributable to the strong recovery of new products, especially in core sports categories, since the second half of 2013 and their robust performance throughout the first half of 2014, as well as the Group's continuous expansion of self-owned retail store network.

Revenue of Double Happiness brand maintained a steady growth rate of 9.1% for the period.

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

	Six months ended 30 June		Change (%)
	2014 % of revenue of LI-NING brand	2013 % of revenue of LI-NING brand	
<b>LI-NING brand</b>			
PRC market			
Sales to franchised distributors	59.6	66.7	(7.1)
Sales from direct operation	38.3	31.3	7.0
International markets	2.1	2.0	0.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

As the management was more focused on sales and expansion at the retail end due to changes in operation models, the weighting of revenue generated from sales to franchised distributors among total revenue recorded a significant decline during the period.

*Revenue breakdown of LI-NING brand by geographical location*

	Note	Six months ended 30 June		Revenue change (%)
		2014 % of revenue of LI-NING Brand	2013 % of revenue of LI-NING brand	
		RMB'000	RMB'000	
<b>LI-NING brand</b>				
PRC market				
Eastern region	1	867,413	750,830	15.5
Northern region	2	1,267,467	1,136,065	11.6
Southern region	3	483,847	522,549	(7.4)
International markets		54,889	48,842	12.4
<b>Total</b>		<b>2,673,616</b>	<b>2,458,286</b>	<b>8.8</b>

*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.

Geographically, southern market recorded a decrease in revenue year-on-year, given the slower expansion paces of direct-retail network and lower sales discounts due to the fiercer competition than eastern and northern markets where steady growths were posted.

### ***Cost of Sales and Gross Profit***

For the six months ended 30 June 2014, overall cost of sales of the Group amounted to RMB1,737,467,000 (2013: RMB1,639,454,000), and overall gross profit margin was 44.6% (2013: 43.6%). The improvement in gross profit margin during the period was mainly attributable to the performance of LI-NING brand and Double Happiness brand.

Cost of sales of LI-NING brand amounted to RMB1,467,917,000 (2013: RMB1,373,243,000), and gross profit margin was 45.1% (2013: 44.1%). During the period, the Group's reforms in product design, supply chain and retail promotion resulted in continuous improvements in new product sales, as witnessed by the higher selling prices and sell-through speed of direct-retail outlets as well as the significantly increased proportion of new products with higher gross profit margin. Such contribution of higher-margin new products was partially offset by the increased inventory provision to reflect higher balance of inventories in the current period, compared to the reversal of inventory provision due to the clearance of obsolete inventory in the same period last year. Nevertheless, as a result of the foregoing, LI-NING brand's gross profit margin still rose by 1 percentage point year-on-year in the first half of 2014.

Cost of sales of Double Happiness brand amounted to RMB237,712,000 (2013: RMB226,673,000), and gross profit margin was 42.2% (2013: 39.9%), representing an increase of 2.3 percentage points as compared to the corresponding period last year, which was mainly attributable to the decrease in the cost of major raw materials for the period.

### ***Distribution Expenses***

For the six months ended 30 June 2014, the Group's overall distribution expenses amounted to RMB1,372,291,000 (2013: RMB1,209,512,000), accounting for 43.7% (2013: 41.6%) of the Group's total revenue.

Distribution expenses of LI-NING brand amounted to RMB1,307,721,000 (2013: RMB1,135,988,000), accounting for 48.9% (2013: 46.2%) of LI-NING brand's revenue. To push ahead with the transformation towards the retail-oriented model under the Transformation Plan, the Company carried forward upfront investment in the first half of 2014 for expansion of its direct-retail network as scheduled. Staff costs and store rental expenses recorded substantial growths during the period, mainly attributable to the significantly increasing number of direct-retail stores and hence the increases in store operating and management staff as compared with the same period last year. Advertising and marketing expenses remained essentially unchanged, as a result of greater investment in marketing resources of core sports categories (especially basketball) and less investment in other non-core sports marketing resources.

Distribution expenses of Double Happiness brand amounted to RMB61,291,000 (2013: RMB55,930,000), accounting for 14.9% of Double Happiness brand's revenue. This was 0.1 percentage point higher than the 14.8% recorded in the same period of 2013, remaining relatively stable.

### ***Administrative Expenses***

For the six months ended 30 June 2014, the Group's overall administrative expenses amounted to RMB494,499,000 (2013: RMB157,425,000), accounting for 15.8% (2013: 5.4%) of the Group's total revenue.

Administrative expenses of LI-NING brand amounted to RMB448,843,000 (2013: RMB118,020,000), accounting for 16.8% of LI-NING brand's revenue. This was 12.0 percentage points above the 4.8% for the same period of 2013. 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. The notable increase in administrative expenses during the period was mainly attributable to the provision for impairment of trade receivables and staff costs. The increase in the provision for impairment of trade receivables was attributable to the increase in long-ageing trade receivables, as certain channel partners continued to weaken in the course of channel deleveraging although most distributors have improved their profitability through the Channel Revival Plan (adopted in December 2012 as a key component of the Transformation Plan). The provision further reduced the residual risk in bad debt from the weakest channel partners known so far. As for staff costs, the year-on-year increase was attributable to the experienced management executives recruited for the Company's turnaround and transformation since the second half of 2013, coupled with options granted to senior executives according to progress of the Transformation Plan. Besides, the administrative expenses of LI-NING brand included certain expenses arising from investments and closure of flagship stores as well as other one-off expense items, which further increased the administrative expenses.

Administrative expenses of Double Happiness brand amounted to RMB43,084,000 (2013: RMB29,126,000), accounting for 10.5% of Double Happiness brand's revenue. This was 2.8 percentage points higher year-on-year than the 7.7% for the same period of 2013. These expenses comprised mainly staff costs, depreciation and amortisation charges and other miscellaneous expenses. The significant increase in administrative expenses of Double Happiness brand during the period was mainly attributable to the expense incurred for the transformation of the network system and the expense of experts' verification and market research on the development of new materials for table tennis during the period.

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

For the six months ended 30 June 2014, the Group's EBITDA amounted to a loss of RMB350,570,000 (2013: an earning of RMB57,649,000), representing a year-on-year decrease of 708.1%, which was mainly attributable to the performance of LI-NING brand.

EBITDA of LI-NING brand recorded a loss of RMB449,848,000 (2013: a loss of RMB28,205,000). This was mainly attributable to the increase in staff costs, rental expenses of stores, provision for impairment of trade receivables and provision for inventories.

EBITDA of Double Happiness brand remained relatively stable at RMB78,970,000 (2013: RMB79,156,000).

### ***Finance Expenses***

For the six months ended 30 June 2014, the Group's net finance expenses amounted to RMB62,375,000 (2013: RMB90,378,000), representing 2.0% (2013: 3.1%) of the Group's total revenue. The net finance expenses included the interest expense of convertible bonds for the period amounting to RMB30,347,000 (2013: RMB28,635,000).

### ***Income Tax Expense***

For the six months ended 30 June 2014, income tax expense of the Group amounted to RMB54,486,000 (2013: RMB32,948,000) and the effective tax rate was -10.7% (2013: -25.5%).

### ***Overall Profitability Indicators***

Despite the increase in sales revenue and gross profit, the overall profitability indicators of the Group decreased for the six months ended 30 June 2014 due to the surge in expense ratios. The Group's loss attributable to equity holders amounted to RMB585,774,000 (2013: loss attributable to equity holders of RMB184,237,000), representing a year-on-year decrease of 217.9%. The corresponding margin of loss attributable to equity holders for the period was -18.7% (2013: -6.3%), representing a year-on-year decrease of 12.4 percentage points. Return on equity attributable to equity holders was -24.3% (2013: -8.2%), representing a year-on-year decrease of 16.1 percentage points.

### ***Provision for Inventories***

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

As at 30 June 2014, the accumulated provision for inventories was RMB400,452,000 (31 December 2013: RMB382,066,000). As at the end of the period, LI-NING brand witnessed an increase in the original value of inventories as compared with that as at 31 December 2013, resulting in a slight increase in the balance of the overall provision for inventories.

### ***Provision for Doubtful Debts***

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

As at 30 June 2014, the accumulated provision for doubtful debts was RMB682,988,000 (31 December 2013: RMB590,928,000). Due to the higher balance of long ageing trade receivables, the Group made certain provision for doubtful debts during the period.

### ***Liquidity and Financial Resource***

As at 31 December 2012, the Group had cash and cash equivalents of RMB1,241,304,000. The Group raised RMB1,441,484,000 in funds from the open offer ("Open Offer") of convertible securities issued in April 2013. The Group had operating and investing activities net cash outflow of RMB232,506,000 in 2013, including investments of RMB637,000,000 in the Transformation Plan, as well as financing activities net cash outflow (excluding proceeds from the Open Offer) of RMB1,169,598,000 in 2013, among which RMB1,045,238,000 was used for the repayment of bank loans to de-risk the balance sheet in view of the tightening credit environment in China. Consequently, most of the proceeds from the Open Offer were used to pay down bank loans, with the remainder used to invest in the Transformation Plan and other general purposes. The Group ended with cash and cash equivalents of RMB1,280,684,000 as at 31 December 2013.

The Group's net cash outflow from operating activities for the six months ended 30 June 2014 amounted to RMB319,249,000 (2013: net cash outflow of RMB242,787,000). As at 30 June 2014, cash and cash equivalents (including cash at banks and in hand, and fixed deposits held at banks with original maturity of no more than three months) amounted to RMB909,304,000, representing a net decrease of RMB371,380,000 as compared with the position as at 31 December 2013. The decrease was due to the following items:

<b>Items</b>	<b>Unaudited Six months ended 30 June 2014 RMB'000</b>
Net cash used in operating activities	(319,249)
Net capital expenditure	(128,576)
Net proceeds from bank borrowings	91,000
Other net cash outflow	(14,555)
	<hr/>
Net decrease in cash and cash equivalents	<u>(371,380)</u>

The Group's operating cash flow was affected significantly, and this was mainly attributable to the continuous weakening of certain channel partners, less recovery of trade receivables and substantial investment in direct-retail network expansion.

As at 30 June 2014, the Group's available banking facilities amounted to RMB1,100,000,000, amongst which outstanding bank borrowings and utilised suppliers trading financing facilities, in aggregate, amounted to RMB560,000,000. As at the end of the period, the outstanding bank borrowings and convertible bonds to equity ratio (i.e. the gearing ratio) was 55.0% (31 December 2013: 39.4%)

During the period, 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 period. Any significant exchange rate fluctuations of foreign currencies against Renminbi could have had financial impact on the Group.

### ***Pledge of Assets***

As at 30 June 2014, buildings and land use rights with net book value of RMB412,477,000 and RMB82,447,000 respectively were pledged as securities for the Group's borrowings. As at 31 December 2013, there were no buildings and land use rights pledged as security for the Group's borrowings.

### ***Contingent Liabilities***

As at 30 June 2014, the Group had no significant contingent liabilities.

## **BUSINESS REVIEW**

The Company continued to embrace the Transformation Plan to pursue the development of various core businesses during the first half of 2014. With a focus on attracting more consumers to our core sports categories, we achieved encouraging results by concentrating our resources to invest systematically in key sports resources; re-designing our merchandising model and supply chain systems; building our direct retail network; enhancing the design, functionality and value proposition of products; optimizing management capabilities; and strengthening our brand value. The Channel Revival Plan has improved the profitability of most channel partners.

### ***Focusing on product differentiation and superior retail experience to provide best value proposition***

During the process of transforming to the retail-oriented business model, we constantly believed in the direction of gaining market recognition through providing differentiated products. By focusing on the dynamic demand of multiple target consumers as the driving force, we target to deliver the right products to the right place at the right time with the right price. During the first half of 2014, we continued to execute the merchandising model of combining trade fair orders, A+, Quick Replenishment (QR)/Quick Strike (QS) during product launches. The contribution of such prescriptive orders continued to grow steadily. Meanwhile, we established the resources management platform to monitor and optimize inventory. While implementing the IT integrated full retail platform for all self-owned and part of distributor-owned stores, we applied the standardised and automated “E2E” process in stages. In order to minimize the supply and replenishment time, we rolled out one common planning tool to suppliers to ensure quick response to market demand changes. This demand-driven, quick response model also created challenges for the Company’s R&D capabilities, and we are able to provide optimized product choices with both innovative functionality and fashionable appearance in different price range. During the first half of 2014, the performance of new products continued to be strong.

### ***Focused investment resources to promote brand value***

The Company’s disciplined cost cutting enabled bold investment in strategic marketing on core sports resources. With the solid foundation which we have laid in 2013, we continued to reach target consumer groups while extending our market coverage across price segments. Through hosting various events to promote the five core sports categories and combining top sports resources, we offered more real and unique brand experience for target consumers. At the same time, we have continuously improved the visual display and image of our stores to provide better shopping experience.

### ***Building the “Win” corporate culture, and striving to become the most admired employer in the PRC***

During the period, the Company continued to establish the performance-oriented culture and implement the Organizational and Talent Review (“OTR”) policy. With an emphasis on employer brand-building, we aimed to enhance the bonding within the enterprise so as to maintain sustainable human resources development.

## **LI-NING BRAND**

### **Brand vision**

In the first half of 2014, the Group continued to promote its interaction with target consumer groups, particularly the growing middle class consumers, with a focus on the five most popular core sports categories, namely basketball, running, badminton, training and sports life. Immense resources were invested in launching fashionable sports products of consumers’ preference to offer more real and unique brand experience for sports enthusiasts.



We expect a higher level of brand recognition among consumers and sports professionals to regard LI-NING brand as a symbol of pride and confidence which showcases true sportsmanship and the commitment to product innovation and sports experience. LI-NING brand is dedicated to motivating consumers to breakthrough and enjoy at the same time through sports.

## **Developing core categories to encourage participation in sports and expand and strengthen brand awareness**

### ***Basketball***

Enhancing functionality and cost-performance through continuous product innovation, boosting reputation among professionals by themed products

– Professional basketball shoes series

- LI-NING Cloud

The proprietary structure technology and materials result in fully enhanced shock-absorption and rebounding performance, coupled with trendy and stylish designs which are well received among CBA professional players and basketball enthusiasts.

- LI-NING BBlite2

Equipped with the new carbon midsole developed based on our “lightweight” technology, this series enjoys higher pricing advantage and cost-performance reputation among consumers, and has been rated by Hupu.com users as a must-have item for this summer.

- Rebirth series

This affordable series targeting students and off-campus games is a perfect combination of practicality and cool design. The product blog was forwarded more than 1,000 times within 3 days and over 95% of the comments we received on our official Weibo account and Hupu forum were positive.

– “Way of Wade” series: WOW2 – Signature models featuring Chinese elements

- Based on our insight into the domestic basketball market and target consumers’ preference, we rolled out two new models featuring distinctive Chinese elements, namely, “WOW2 Commemorative Edition 2014” and “WOW2 Screws Limited Edition”.

- The new models received positive feedbacks on the Internet, and were sold out on the first day of launch.

### ***Marketing supported by sports resources***

– Leveraging top domestic basketball resources to enhance sports experience with a focus on events, players, city teams, fans and youth in campus

- Chinese Basketball Association League (CBA)

Effectively publicise the professional functions of our products and increase brand exposure through product sponsorship. The 2013-14 CBA games broadcasted by CCTV-5 recorded an audience of 510 million in China, contributing to 540 million views in aggregate. The CBA official video-on-demand pages hosted on Sohu.com captured an average 1.09 million clicks per day, up by 36% over the previous season. The CBA official videos shared through PPTV.com captured 720 million clicks and accumulated 310 million independent visitors, up by 329% over the previous season.

- Sponsorship of four levels of domestic basketball student leagues (China Junior & High School Basketball Leagues, CUBA and CUBS) to build up communication channels with students and young people and to foster brand awareness and favour to supplement our investment in the CBA.

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

## ***Running***

Pushing forward product innovations and functional upgrades to meet differentiated needs of beginners, amateurs, advanced runners and professionals

- Focusing on products' functional upgrades to create better running experience

Addressing runners' needs and the functions required such as rebounding, shock-absorption, lightweight, comfort and elegance, the Group rolled out a complete fleet of high-performance new running products including LI-NING Cloud, Super Light 11, LI-NING Arc IV, Strike Transition (雙渡) and other professional models.

- Joining the efforts of experts and international researchers to launch shoes and apparel dedicated for runners
  - Shock-absorption series – Strike Transition (雙渡) running shoes: A series catering for the running style of midfoot/heel landing which was co-developed with Dr. Chen Fangcan, a famous sports rehabilitation expert.
  - Control series – Furious Rider (烈駿) running shoes: Co-developed with Rsscan Lab, a Belgium-based world-class sports testing service provider.
  - Racing series – Cloud Racer (雲馬) running shoes: Jointly tested and developed with top marathon runners in the domestic track-and-field teams.

Extending the runner coverage of “LI-NING China 10K Road Racing League” to enhance running experience with LI-NING brand

- This official competition of the Chinese Athletic Association initiated by the Company and exclusively named under the LI-NING brand represents the first road racing competition held in the form of a league in China. The participating runners were provided with professional running testing services and guides.
- The league comprises 10 events held throughout the year. Following the first championship in Shenzhen on 23 March, 8 other events were successfully completed as at 29 June, in Shenzhen, Chongqing, Xi'an, Changsha, Wuhan, Shanghai, Qingdao and Shenyang respectively.
- The first 8 races attracted 37,870 participants (nearly 5,000 participants per station on average), with participants aged below 40 accounting for 82% and a male/female ratio of approximately 7:3.



## ***Badminton***

Uplifting brand advantages continuously through top events, professional players and channel promotion

- In 2014, the badminton segment of LI-NING brand carried forward a consumer-oriented integrated marketing strategy. Focusing on sports stars, events, badminton courts, products and promotion channels, we highlighted the national badminton team and promoted international and domestic professional events, while boosting the participation of consumers through a combination of channels. The deepened cooperation with industry leaders further enhanced our brand influence at badminton courts, the closest window for consumers experience.

Effectively integrating sports resources and marketing strengths, enhancing recognition for products' professional functions and promoting sales of products

- As regards top-level sports resources allocation, in addition to the exclusive equipment sponsorship for China National Badminton Team, LI-NING brand partnered with national teams of Indonesia and Australia and entered into sponsorship agreement with international players including Sindhu.
- In China, we partnered with 12 provincial teams including Bayi, Zhejiang, Tianjin and Beijing to provide equipment for these teams.
- Among the major international events in 2014, LI-NING brand was the title sponsor for the Thomas-Uber Cup and the BWF World Championships and the equipment sponsor for the BWF Super Series China Open and the BWF Super Series China Masters (Changzhou), and offered equipment to 12 stations of the BWF Super Series China Tour.

## **Building brand loyalty and boosting favour and referrals among young consumers**

### ***Pushing forward digital marketing***

- To continue to push forward its digital marketing strategy, LI-NING brand strengthened the marketing efforts through self-media and social network. The proportion of online advertising expenses increased from 45% in 2013 to 60% in 2014.
- A number of well-received social network marketing campaigns were launched, such as the LI-NING Cloud “X-lab” video clip, the Weibo-based Super Light 11 “Lightness knows no bound” interaction and the WeChat-based Thomas-Uber Cup “Take the rackets” interaction. These initiatives attained superior communication effect and media value, effectively enhanced the appeal of LI-NING brand to young consumers and captured the awareness of more target users of our brand.
- To link up traditional television, outdoor advertising and digital marketing channels through huati.weibo.com, two-dimensional code and other means, integrating online and offline marketing resources to maximise marketing effect.

### ***Bringing our brand closer to the youth through the campus platform***

- Campus carnivals

In late May, the campus carnivals themed “Your turn to shine it up” debuted on 4 college towns in China. The “Campus life” series product promotions specifically designed for the youth attracted more than 10,000 direct participants with an exposure to over 200,000 persons, establishing a large potential customer base for our brand.

## Maximising product and brand exposure and strengthening the brand's image of professional functionality through sponsorship and marketing with top-level sports resources

### – China National Table Tennis Team

Weibo-based digital marketing and public relation campaigns effectively integrated topics on the World Table Tennis Championships (Tokyo) which enhanced brand awareness and product exposure.

### – China National Shooting Team

In the first half of 2014, China National Shooting Team participated in 5 international events, winning 22 gold medals and 61 medals in total. The Beijing event of ISSF Shooting World Cup recorded 18,823 Weibo views and graphic/text conversion rate up of 37.81%, with 1,229 times of sharing and forwarding.

### – Gymnastics

In March 2014, LI-NING brand became the exclusive sports apparel sponsor for the Gymnastics World Championships (Nanning).

### – China National Diving Team

China National Diving Team won 40 gold and 19 silver medals in 6 stations of the FINA World Diving Series, as well as 36 gold, 15 silver and 4 bronze medals in 5 stations of the FINA Diving Grand Prix as at the first half of 2014. The sponsorship of the Diving World Cup (Shanghai) further strengthened our brand exposure in world-class events.

## Sales Channel Expansion and Management

As at 30 June 2014, the number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to a total of 5,671, representing a net decrease of 244 stores as compared to 31 December 2013. The number of distributors decreased to 52, down by 3 from 31 December 2013. Store breakdown as at 30 June 2014 is as follows:

### *Number of franchised and directly-operated retail stores*

	<b>30 June 2014</b>	31 December 2013	<b>Change</b>
<b>LI-NING brand stores</b>			
Franchised retail stores	<b>4,552</b>	4,989	(8.8%)
Directly-operated retail stores	<b>1,119</b>	926	20.8%
<b>Total</b>	<b><u>5,671</u></b>	<b><u>5,915</u></b>	<b>(4.1%)</b>

### *Number of retail stores by geographical location*

	<b>30 June 2014</b>	31 December 2013	<b>Change</b>
<b>LI-NING brand stores</b>			
Eastern Region (Note 1)	<b>2,126</b>	2,197	(3.2%)
Northern Region (Note 2)	<b>2,259</b>	2,324	(2.8%)
Southern Region (Note 3)	<b>1,286</b>	1,394	(7.8%)
<b>Total</b>	<b><u>5,671</u></b>	<b><u>5,915</u></b>	<b>(4.1%)</b>

*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.

To drive order quality and fast response to market/consumer demands and trend, in our “Go To Market” process, we continued to carry out Trade Fair Orders/Quick Replenishment (QR)/Quick Strike (QS) model, among which QS/QR represented over 15% of our total delivery. Also, traditional future orders continued to grow along with the results brought by the Transformation Plan and the market pick-up in early 2014. Most importantly, we saw continuously increased take-in of our prescriptive A+ products. Since the introduction of our A+ product portfolio from the 2nd quarter (Q2) of 2013, A+ orders have gradually taken up over 50% of the future orders, which demonstrates distributors’ strong confidence in both the range of selection of A+ products and the order-placing mechanism and their view that such mechanism will help drive better order quality by broadening the width and depth of SKU. As our production department continues to improve our product design and production capabilities, our sales department will continue to expand our A+ product portfolio and expand store coverage of our A+ products to drive sell-through.

Simultaneously, the Company continues to improve its retail operation capabilities through system, tool and process enhancement. We have worked with multiple retail experts and consultants, such as Accenture, McKinsey, Opera, etc., to ensure that we can deliver the right merchandise at the right place, the right time and the right price.

Our sales department has worked with our product category department, merchandisers and distributors to classify our stores by attributes, in order to drive better store assortment planning with around 50 different store groups. One critical and fruitful initiative taken in 2014 was to increase new product sales in regular stores, and we made great progress in the first half of 2014 by having over 70% of our sales driven by our current and prior season products, which helped raise retail discount across the stores and increase distributors’ profitability.

A “Retail and Merchandising Operations Platform” was established to drive in-season product management. We piloted advance launch of key products for stores in suitable districts as a season starts to test market reception, which helped us decide earlier whether to restore or cancel phased manufacturing orders or to add more orders. These major decisions were being made through weekly QS/QR executive committee meetings. On a weekly basis, by tracking product coverage in stores, visual display, retail discount and sell-through rates, we were able to determine inventory movements (replenishment, consolidation, off the shelf, etc.), promotional activities and visual display adjustments to provide a better consumer experience and further drive revenue growth.

A “Resources Management Platform” was built to monitor and optimise inventory resources, in order to move them around to the stores that can sell them at the highest price with the fastest speed. The platform helped us identify distributors and subsidiaries which have inventory excess/shortfall. We were able to catch the opportunity to replenish the bestsellers in 2014 Q2 to distributors and sub-distributors with out-of-stock or short-in-size situations. We also intentionally offloaded some 2014 Q2 new products to be sold in discount stores to clear up the space in regular stores, while addressing the product shortage issue. This platform will continue to help us optimise and expand our inventory.

We also built various tools and processes to keep in touch with consumers, stores, sales managers, distributors and our satellite offices using advanced technology. Our customer loyalty program “NingJu” card has seen growth in membership to over 300,000 since its launch in earlier 2013, covering all of our self-owned stores. Members frequently visit our stores and accounted for over 30% of the store revenues in some of the markets. We will continue to expand the program to our distributors and integrate it with our “e-Commerce” program. We built a few “WeChat” platforms to connect with store managers to communicate and share seasonal initiatives, retail knowledge and trends, etc., while giving store managers a platform to report directly on what is happening in the store, issues and product demands. An internet platform has also been created for photo uploading to keep track of the store visual display.

All the above processes and systems aim to enhance our retail operations. As regards channels, we have added over 200 new stores in the first half of the year, and have established a team to standardise store opening and operations to ensure that they can become profitable within 6 to 9 months. We will continue to add new stores in the second half of the year, and will review some of the significant markets we lost in the last three years. One of the challenges and risks we are still facing today is that many of our sub-distributors are single-store operators with low productivity and poor retail operations and they face high risk of store closure. Many sub-distributors’ stores have a high proportion of outdated products which make the store look stale and affect its revenue-generating capability. We have identified multiple approaches to address sub-distributor revival. To ensure that their stores look fresh and inviting, it is crucial to add new products and improve the visual display. With some positive results, we will expand such measures to cover more sub-distributors. Meanwhile, we will encourage distributors to open more directly owned stores as we continue to expand our channels.

We have also started our efforts in making further market segmentation and differentiation by grouping up stores by city tier, commercial zone, consumer segments, sports/sports life relativity, etc. based on our product category strategy. Beyond flagship stores which have a complete categories of products, we have set up basketball and running-focused stores in order to drive both directive and all-encompassing product category assortments and product category brand-storytelling. We piloted new visual/fixture designs in basketball-focused stores, and will continue to develop and build product category stores in the future. We are also looking into opportunities to build unique LNC (Li-Ning Collection) store to present cross-category product assortment which attracts fashion-minded consumers.

On retail and visual display, we have worked with ESPEC, a Korean VMD company, not just to elevate our seasonal retail marketing initiatives, but also to revamp our store look by a new design – the 7th generation, whereby the very first store will soon be up running in Tianjin.

### ***e-Commerce***

The Company’s e-commerce business has seen tremendous growth in the first half of 2014, with the total revenue up by 40% and direct stores’ retail revenue up by 63%. E-lining.com, the online flagship store of the Company, has seen a 24% growth through improved merchandising. Sales of new products has exceeded 60% of the total revenue from e-commerce.

Moving forward, business model innovations and further improvement in profitability will be the focus of the second half of 2014. The Company will further expand its presence in mobile channel, optimise its operational processes, build up “O2O” eco-system, develop individualised services and provide a world-class Omni-channel shopping experience for customers of LI-NING brand.

### **Product Design, Research and Development**

As a professional sporting goods brand, the Group continues to advance its product design and innovation. The Group continues to invest in functional technologies to meet the requirements of high performing athletes while reflecting commercial trends for the style savvy.

## ***New Products Adopt a New Merchandising Model***

The Group continues to develop and expand its merchandising model, established in 2013 which combines prescriptive trade fair orders and optimised product assortments. The size of prescriptive “A+” product range for both footwear and apparel has been expanded, yielding exceptional sell-through performance. Region-specific A+ products are tailored to fit each region’s unique market trends and climate attributes.

The Group has further strengthened its fast response capabilities. The first half of 2014 saw the integration of fast design with large-scale promotional campaigns. The Group collaborated with Korean pop star Jessica to build several head to toe outfits on a fast response timeline, capitalising on the singer’s current success. The outfits combine Li-Ning’s authenticity with Jessica’s iconic styling, and will be launched through events and e-commerce channels starting from September 2014.

The Group’s shift to retail focus continues as it leverages fast response capabilities to shorten the traditional long-cycle of product creation and respond to proven, best-selling segments. The capability to react quickly and efficiently (demand pursuit) are complementing the Group’s commitment to developing innovative performance technologies (demand creation). Fast response processes are also leveraged to test new concepts in limited distribution. Once a new concept proves to be successful, product designs will be streamlined with the traditional sell-in model for maximum gain.

## ***Footwear Products***

### ***Footwear Technology Platform Highlights***

- Li-Ning Cloud launch – natural fit, pure and smooth motion;
- Li-Ning Cool Shell – breathable shoe construction to maximise ventilation and comfort for both professional athletes and casual consumers;
- Li-Ning Bow expansion is the high-end running shoes with its high level cushioning technique – Li-Ning ring arch, in future we will continue improving the arch structure and use Gel technique to realize a best cushioning effect and bring consumer a smooth and stable experience;
- Li-Ning Arc revamp is Li-Ning Hero product, full-length buckling groove and big arc design can provide a fantastic cushioning experience to consumers.

### ***Footwear Product Highlights***

- Basketball cool shell – breathable shoe tongue and lightweight construction using air-mesh fabric and thermal bonding, resulting in a highly breathable, lightweight basketball shoe. The outsole construction has additional ventilation for discharging heat with extra TPU protection against dirt and water;
- Training cloud technology – maximised energy rebound for ultimate performance and comfort. Cushioning effects and resilient construction are built to disperse pressure and protect the wearer’s Achilles tendon, effectively reducing fatigue. The metallic paint finish brings an elegant aesthetic touch for stylists and performers alike;
- Running cool shell – cooling tongue, midsole and outsole are leveraged across the category. The running cool shell takes aesthetic resemblance to the Superlight 11, Li-Ning’s largest running shoes launch to date;
- Running Superlight 11 – design inspiration is from Chinese traditional windowpane, using ice crack pattern to realize a light-weight support and enlarged breathability surface at important part. Superlight 11 is one of Li-Ning star products with its cool shell technique (light, breathable and comfortable);

- Medalist 92 – hemp sock liners feature anti-bacterial treatment to absorb odor and sweat. Enhanced TPU heel construction and midsole tuning increases the comfort for the wearer, while feather upper construction and rubber outsole improvements give the iconic sneaker a performance improvement.

## *Apparel Products*

### *Apparel Technology Platform Highlights*

- AT Dry, AT Dry Smart, AT Dry Freeze, AT Dry Fast, AT Venting – AT Dry technique platform. The fabric is very special with its hygroscopic and sweat releasing features, it can take sweat away from body and low down body temperature quickly, and make users feel dry and comfortable;
- LITE AT, LITE Feather – LITE AT technique platform. New light-weight technique can reduce physical load and bring consumers better sport experience. Meanwhile it is easy to carry;
- Warm AT, Warm AT ECO – Warm AT technique platform, the fabric is good at thermal storage & insulation, which can keep body warm;
- AT PROOF Wind, AT PROOF Rain, AT PROOF Storm – AT PROOF technique platform, the feature of this fabric is waterproof, windproof and breathable, which can keep body dry and comfortable in the wind and rain;
- AT Anti-UV, AT Anti-static, AT Anti-bacteria – AT Anti technique platform – UV techniques can be anti-UV, protect skin from UV hurt, – static can protect user from static, – bacteria can stop reproduction of bacteria and micro-organisms, and keep cloths clean and refreshing;
- 2013-2014 CBA season team uniforms and playoff/championship graphic tee – CBA Team Uniforms are the simpler version of the player edition which commercially available for the fans from each city involved. Champion Graphic TEE are designed for 2015 CBA champion team with team logo and related city elements for championship celebration;
- 3D fitting – to strengthen Li-Ning apparel’s sportive property, we successfully developed 3D Fitting, which can make clothing slim and more comfortable.

### *Apparel Product Highlights*

- Li-Ning Premium (LNP) – Products from Li-Ning Korea creative center, we add more fashion icons and innovation techniques to design process, using new materials to create fashionable pattern, and well combine the sportive function with fashion style. LNP belongs to Li-Ning high-end sports product;
- Jessica (Footwear, Apparel, Accessories) – K-pop star Jessica joins in the design and cooperate with Li-Ning Seoul studio, these series product combine well sports with fashion, and perfectly meet the concept of Li-Ning sports life category – Sports & fashion. This crossover cooperation with K-pop star Jessica is a very successful case;
- Li-Ning Campus Basketball – Campus Basketball products are targeted for the young consumers that are basketball fans or players and also/or sensitive to sports fashion elements;
- Training base layer – Training base layer belongs to Li-Ning POWERSHELL training apparels which aims to increase consumer demand for fitness. It uses compacting fabric and Li-Ning’s unique sportive pattern; the product will open a larger market with its competitive price in China;



- Badminton uniforms – Sponsoring National Badminton Team in 2014 Asian Games; Initial application of SD seamless sleeves in professional badminton suits, perfectly fitting shoulders, which make sure of the flexibility of swinging; Laser cut technology and the whole body premium fabrics make sure of fresh and cool during games.

## **Supply Chain Management**

### ***Retail Business Model***

Li-Ning has been seeking a strategic transformation from wholesale to 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 of the Company and its business partners.

Significant achievements have been made in the first half of 2014 to strengthen our management capabilities with an aim of providing appropriate amount of products to consumers at the right place and the right time:

- A comprehensive IT integrated retail platform has been rolled out in all self-operated stores and selected distributors, which is expected to expand to cover all stores within this year;
- Standardised and automated “E2E” process (including demand forecasting, merchandising, product assortment planning, supply chain collaboration and retail operation) is being adopted by the Company by stages;
- Decisions on sales operation are being made on a weekly basis with the support of real time POS data collection, daily sales trend analysis and weekly demand/supply review and adjustment.

### ***Supply Chain***

Li-Ning continued to strengthen its capabilities in establishing a demand-driven and market-responsive supply chain system to support its retail-oriented model and business growth. In the first half of 2014, the flexibility and stability of the supply chain were enhanced by the following major measures to support both the trade fair orders and fast response models:

- A common planning tool is applied to all first-tier/second-tier suppliers to ensure quick response to demand changes;
- VMI and production/delivery by batches have successfully assisted the Company in mitigating inventory risks and making quick response to real time sales demand;
- Streamlining the production line to cater for retail needs of small order/high frequency/short-cycle products and adopting a green passage for fast response and quick replenishment orders;
- Centralising warehouses in the proximity of factories to reduce lead-time; while shipments are sent to regional distribution centers which are located closely to stores to ensure fast replenishment (based on data analysis and demand forecasting);
- Optimising supply bases by investing in key suppliers, moving production bases to Central China and purchasing from Southeast Asia to control supply of resources, thereby easing the issue of labor shortages, saving costs and obtaining additional production capacity.

### **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 equipment and other sports equipment.

Double Happiness continued to adopt “sponsorship of sports stars and sports events” as its core marketing and promotion strategy. In 2014, Double Happiness continued to endorse outstanding table tennis players in China as spokespersons for the brand’s table tennis equipment, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞), and entered into new endorsement with outstanding players such as Fan Zhendong (樊振東), Yan An (閔安), Zhu Yuling (朱雨玲) and Chen Meng (陳夢). Double Happiness also actively sponsored various professional domestic and international tournaments. During 2014, it delivered the sponsorship and marketing promotion for the World Table Tennis Championships in Tokyo, and continued to provide professional equipment for events such as the International Table Tennis Federation (ITTF) Professional Tour and the Chinese Table Tennis Club Super League.

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 100 new products in 2014, including equipment specifically catered for supermarkets and e-commerce, professional blades, covering and badminton rackets designed with new concept. These new products expanded the product line of the Double Happiness brand, demonstrating the strong product development and design capabilities of Double Happiness.

Double Happiness launched seamed table tennis balls made with a new material in the first half of 2014 to gradually phase out celluloid material which has been used for more than 120 years. Table tennis balls made with this new material under the Double Happiness Brand will be used in major top events from 2014 to 2016. New models of blade and covering which fits the new table tennis balls were also rolled out and received recognition from the professional athletes of the China National Team.

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. Double Happiness continued to refine and regulate the management of customer behaviors and sales policies in 2014 by implementing a specific policy for providing “supply specially catered for supermarkets”, under which access was made to dozens of domestic supermarket systems through specific product and sales policies that suit the supermarket channels. It also continued to carry out the “specific e-commerce development” project by developing unique products to support the implementation and promotion of the specific e-commerce policy.

## **Other Brands**

### **Kason Brand**

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

The recognition of Kason brand remained stable in 2014. During the period, Kason brand continued to strengthen its “classic” brand positioning perceived by consumers through optimisation in product mix, production costs and value proposition of products as well as replicas of classic racket models. The newly developed apparel and shoe products remained competitive in terms of product design and pricing.

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

### **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 unfavorable market environment, AIGLE brand continued to gain higher brand recognition among consumers, largely due to the brand’s unique market positioning and competitive edge.



During the period, AIGLE brand continued its effective retail management and well-paced shop opening strategy. As a result, stable progress in the business development of the brand was achieved, including double-digit sales growth in the existing stores and positive business momentum for newly opened stores. AIGLE brand continued to be one of the leading brands in outdoor and leisure goods.

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

- Continue to penetrate into provincial capitals and other first-tier cities by gradually opening brand image stores with a globally common identity, increasing retail store coverage in cities above the provincial level, and diversifying the development and composition of different types of channels to ensure stable financial returns in the long run;
- Further strengthen retail management to enhance consumer-oriented customer relations management and effective inventory management;
- Collaborate with the Asian Division's product development team to enhance the development of the Asian product lines, optimise these product lines and expand consumer groups;
- Expand into the e-commerce sector in the second half of the year by developing an online shopping market.

### **Lotto Brand**

In 2013, the Company authorised Li-Ning Shanghai E-commerce to manage Lotto production as well as research and development. During the first half of 2014, online sales of Lotto increased by 76% year-on-year through a combination of direct retail, authorised distribution and TV channel, boosting the brand recognition of Lotto substantially. In the future, we will put more emphasis on positioning Lotto differently from LI-NING brand while maintaining a stable growth in sales, and leverage Lotto's "fashion sports" heritage while aligning with the trends to target a group of customers who are eager to explore, discover, try and experience new things.

### **HUMAN RESOURCES**

The transformation of the Group's business continued in 2014. Under the vision of striving to become the most admired employer brand in the PRC, our human resources play a key part in value creation. During the period, a "win" culture was created within the Company by supporting business needs while controlling labour costs, collaborating with business departments to push forward organisational development as well as enhancing standardisation, efficiency and quality of services. Other major tasks during the period include the following:

- The Company continued to carry out the Organisational and Talent Review ("OTR") policy. Performance review of employee was completed in various core business departments such as sales, marketing and product. Capability assessment was conducted for critical positions and promising talents. While seeking experienced hires externally, focus was placed on effective identification, assessment, promotion and appointment of internal talents.
- The Company has always placed emphasis on building a performance-oriented culture. During the period, Short Term Incentive ("STI") was implemented in full swing by revising the performance management policy to effectively strengthen the matching of position, capability and performance. Targeted incentives and promotion were offered to outperformers, while underperformers were given timely performance counseling and feedback.

- To support its business development, the Company has introduced a brand-new leadership development programme to accelerate the training of high calibre employees within the Group through various projects such as catalyst workshops and performance leadership enhancement.
- As regards employer brand-building, an official LI-NING recruitment WeChat account was set up as a window to vividly showcase the Company's activities and achievements. Design contests were organized to attract designers of high calibre and raise their awareness of the Company. Industry elites were recruited by stepping up internal referrals. A set of new staff training mechanisms was designed for new staff stationing in stores to assist them in rapidly adapting to the Group's culture. CEO open days and all-staff communication sessions were held regularly to enhance communication with staff. Annual dinner, club and other activities were hosted on an ongoing basis to enhance the bonding within the enterprise.

As at 30 June 2014, the Group had in total 3,834 employees (3,592 employees as at 31 December 2013), including 2,233 employees at the Group's headquarters and retail subsidiaries (1,991 employees as at 31 December 2013), and 1,601 employees at the Group's other subsidiaries (1,601 employees as at 31 December 2013).

## **OUTLOOK AND CORRESPONDING STRATEGIES**

While the overall macro-economy is not going to record a significant recovery in the near term, the Company believes the core sportswear market with differentiated products will remain competitive and achieve strong growth in the future. The Company is currently in a new starting point and all the past efforts will be paid off and gradually be reflected in its financial performance.

Going forward, the Company's focuses will be:

- Continuing to focus on the five core categories as well as related sports market;
- Improving marketing or branding approaches to re-shape and regenerate the brand;
- Continuing to improve channel efficiency;
- Improving POS appeal and consumer store experience;
- Continuing to enhance the merchandising model and value proposition for products;
- Optimising the cost structure and improving efficiency;
- Re-positioning e-commerce towards the direction of high profitability and business innovation.

With the successful implementation and smooth progress of Transformation Plan during the past 24 months, the Company firmly believes in the current transformation direction and the vision of building the leading brand in China, and it is confident that this is the best way to deliver the highest value for stakeholders in the medium to long term.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company did not redeem any of its shares during the six months ended 30 June 2014. Neither the Company nor any of its subsidiaries had purchased or sold any of Company's shares during the period.

## **CORPORATE GOVERNANCE**

For the period from 1 January 2014 to 30 June 2014, the Company has complied with all the code provisions of the Corporate Governance Code ("code provision") contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") with the exception of code provisions A.2.1 and A.5.1.

According to code provision A.2.1, the role of the chairman and chief executive of the Company should be separate and should not be performed by the same individual. As the Company has not yet identified a suitable candidate to be the chief executive officer ("CEO"), the day-to-day responsibilities of the CEO has 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 and Interim CEO (with effect from 21 March 2014), who manages the internal affairs and the operations of the Group, from 1 January 2014 to 30 June 2014. 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 the Executive Vice Chairman and Interim CEO of the Board. Notwithstanding the above, the Board is of the view that the current management structure is effective for the Group's operations and sufficient checks and balances are in place. The operations and management of the Company is constantly subject to the scrutiny and valuable contributions of the independent non-executive directors. The Board will continue to review the management structure regularly to ensure that it continues to meet these objectives and is in line with industry practices. The Board will also continue to identify suitable candidates to become the CEO.

According to code provision A.5.1, 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") currently consists of Mr. Su Jing Shyh, Samuel (independent non-executive director) as the chairman with effect from 21 March 2014, Mr. Li Ning (Executive Chairman), Mr. Jin-Goon Kim (Executive Vice Chairman and Interim CEO) and Dr. Chan Chung Bun, Bunny (independent non-executive director) as the members. From 1 January 2014 to 20 March 2014, the chairman of the nomination committee was Mr. Jin-Goon Kim (Executive Vice Chairman). With the appointment of Mr. Su Jing Shyh, Samuel as the chairman on 21 March 2014, the Company has complied with the requirement under code provision A.5.1.

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules regarding securities transactions by its directors. Following specific enquiry by the Company, all the directors of the Company confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2014.

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 interim results for the six months ended 30 June 2014.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2014 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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

Hong Kong, 13 August 2014

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