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LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2014 AND APPOINTMENT OF INTERIM CHIEF EXECUTIVE OFFICER

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- The Group has seen some favourable results in 2014, including (i) stronger revenue and growth momentum in direct-retail revenue and new products sell through mix continuing to improve; (ii) channels having seen significant reduction of old inventory and improvement to a healthier level with higher mix of new products; and (iii) channel network having been stabilized, with distributors business starting to grow
- The Group's revenue increased 16% year-on-year to RMB6,728 million. Revenue growth accelerated in the second half of 2014, up 23% year-on-year
- EBITDA in 2014 was negative RMB323 million; while the second half EBITDA recorded a profit of RMB28 million; loss attributable to equity holders in the year was RMB781 million, RMB196 million of which occurred in the second half of 2014
- EBITDA excluding provision for doubtful debts and one-time cost was at a loss, but improved meaningfully year-on-year with the loss narrowed by 82% for the second half and 48% for full year
- Working capital stabilized while inventory level increased mainly as a result of direct-retail expansion

2015 OUTLOOK

- The initiatives implemented in the past three years have built a solid foundation and 2015 will mark a step up in its growth phase. The three pillars to support operation, namely product, channel and retail capability, are the core competitiveness that the Group will focus on building in the future
- Digitalized operation will be the driving force for future growth in the next three years. We have in-depth collaboration with Marvel, Mi band (小米手環), JD.com and others to build a new digitalized business status of LI-NING. In March this year, we reached a strategic agreement with Mi band (小米手環) to jointly launch the “Smart” running shoes, while the products collaborated with Marvel will be launched in early April
- Operating cost and expense, working capital management and channel profitability are areas which still have significant room to be improved and strengthened
- With the proceeds raised from the equity financing, the Group will invest with clear objectives to support its business growth

APPOINTMENT OF INTERIM CHIEF EXECUTIVE OFFICER

- The Board appointed the Executive Chairman, Mr. Li Ning, as the Interim CEO with effect from 18 March 2015, and believes that the present arrangement facilitates business planning and execution of strategies, which is beneficial to the Company and shareholders

ANNUAL RESULTS

The board of directors (the “Board”) of Li Ning Company Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2014, together with comparative figures of 2013, as follows:

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 31 December	
		2014	2013
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		861,173	791,071
Land use rights		372,113	351,352
Intangible assets		446,399	380,935
Deferred income tax assets		311,081	345,610
Available-for-sale financial assets		26,000	46,930
Investments accounted for using the equity method		20,848	13,496
Other receivables and prepayments		39,473	125,807
		<hr/>	<hr/>
Total non-current assets		2,077,087	2,055,201
Current assets			
Inventories	4	1,289,332	942,368
Trade receivables	5	1,260,131	1,371,240
Other receivables and prepayments – current portion		379,277	362,643
Current income tax recoverable		–	2,566
Restricted bank deposits		2,593	2,149
Cash and cash equivalents		1,031,386	1,280,684
		<hr/>	<hr/>

	<i>Note</i>	As at 31 December	
		2014	2013
		RMB'000	RMB'000
Total current assets		<u>3,962,719</u>	3,961,650
Total assets		<u><u>6,039,806</u></u>	<u><u>6,016,851</u></u>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		141,698	136,613
Share premium		1,298,537	1,146,845
Shares held for Restricted Share Award Scheme		(3,719)	(31,509)
Other reserves		984,398	1,101,347
(Accumulated deficit)/Retained earnings		<u>(469,056)</u>	<u>330,934</u>
		1,951,858	2,684,230
Non-controlling interests in equity		<u>217,583</u>	<u>207,534</u>
Total equity		<u><u>2,169,441</u></u>	<u><u>2,891,764</u></u>
LIABILITIES			
Non-current liabilities			
License fees payable		77,434	122,309
Borrowings		298,241	200,000
Convertible bonds		676,421	645,727
Deferred income tax liabilities		76,410	75,316
Deferred income		<u>62,718</u>	<u>64,012</u>
Total non-current liabilities		<u><u>1,191,224</u></u>	<u><u>1,107,364</u></u>
Current liabilities			
Trade payables	6	953,429	913,988
Other payables and accruals		1,104,541	836,611
License fees payable-current portion		57,880	54,624
Current income tax liabilities		9	-
Borrowings		550,782	200,000
Convertible bonds-interest payable		<u>12,500</u>	<u>12,500</u>
Total current liabilities		<u><u>2,679,141</u></u>	<u><u>2,017,723</u></u>
Total liabilities		<u><u>3,870,365</u></u>	<u><u>3,125,087</u></u>
Total equity and liabilities		<u><u>6,039,806</u></u>	<u><u>6,016,851</u></u>
Net current assets		<u><u>1,283,578</u></u>	<u><u>1,943,927</u></u>
Total assets less current liabilities		<u><u>3,360,665</u></u>	<u><u>3,999,128</u></u>

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2014 RMB'000	2013 RMB'000
Revenue	3	6,727,601	5,824,110
Cost of sales	7	<u>(3,724,092)</u>	<u>(3,230,134)</u>
Gross profit		3,003,509	2,593,976
Distribution expenses	7	(2,863,516)	(2,674,235)
Administrative expenses	7	(703,145)	(235,860)
Other income and other gains-net	8	<u>34,279</u>	<u>146,702</u>
Operating loss		(528,873)	(169,417)
Finance income	9	10,246	8,699
Finance expenses	9	<u>(153,352)</u>	<u>(158,696)</u>
Finance expenses-net	9	(143,106)	(149,997)
Share of profit of investments accounted for using the equity method		<u>7,352</u>	<u>2,242</u>
Loss before income tax		(664,627)	(317,172)
Income tax expense	10	<u>(78,877)</u>	<u>(42,219)</u>
Loss for the year		<u>(743,504)</u>	<u>(359,391)</u>
Attributable to:			
Equity holders of the Company		(781,481)	(391,540)
Non-controlling interests		<u>37,977</u>	<u>32,149</u>
		<u>(743,504)</u>	<u>(359,391)</u>
Losses per share for loss attributable to equity holders of the Company (RMB cents)			
– basic	11	<u>(49.97)</u>	<u>(26.91)</u>
– diluted	11	<u>(49.97)</u>	<u>(26.91)</u>
Dividends	12	<u>–</u>	<u>–</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

NOTES:

1. General information

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

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

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

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

2. Basis of preparation

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

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

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

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

2.1 Going concern

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

2.2 Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Group

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

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

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

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

(b) New standards and interpretations not yet adopted

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

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

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

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

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

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

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

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

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

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 the financial information.

Revenue consists of sales from LI-NING brand, Double Happiness brand and all other brands, which are RMB5,932,090,000, RMB681,708,000 and RMB113,803,000 for the year ended 31 December 2014 and RMB5,082,786,000, RMB612,409,000 and RMB128,915,000 for the year ended 31 December 2013, respectively.

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

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

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

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

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

Geographical information of revenue

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

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

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

4. Inventories

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

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB3,520,187,000 for the year ended 31 December 2014 (2013: RMB3,027,645,000).

Inventory provision and the amount of reversal have been included in cost of sales in the consolidated income statement for the years ended 31 December 2014 and 2013.

5. Trade receivables

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

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

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

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

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

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
As at 1 January	590,928	937,535
Provision/(reversal of provision) for impairment of trade receivables	8,942	(337,053)
Trade receivables written off during the year as uncollectible	(3,104)	(9,554)
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As at 31 December	596,766	590,928
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The creation and release of provision for impaired trade receivables have been included in administrative expenses in the consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

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

6. Trade payables

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

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

7. Expenses by nature

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Cost of inventories recognised as expenses and included in cost of sales	3,520,187	3,027,645
Depreciation on property, plant and equipment (<i>Note a</i>)	145,795	127,318
Amortisation of land use rights and intangible assets	52,665	65,877
Advertising and marketing expenses	1,297,881	1,407,041
Staff costs, including directors' emoluments	819,699	670,298
Operating lease rentals in respect of land and buildings and related expenses	746,661	582,736
Research and product development expenses (<i>Note a</i>)	173,795	172,571
Transportation and logistics expenses	277,099	237,466
Provision/(reversal of provision) for impairment of trade receivables	8,942	(337,053)
Impairment of available-for-sale financial assets	34,930	-
Auditor's remuneration	4,350	4,200
Management consulting expenses	93,638	94,596
Travelling and entertainment expenses	59,223	56,715

Note:

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

8. Other income and other gains-net

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Government grants	25,412	101,551
License fee income	8,867	11,522
Gain on modification of convertible bonds	–	33,629
	<u>34,279</u>	<u>146,702</u>

9. Finance income and expenses

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Finance income		
Interest income on bank balances and deposits	5,664	8,699
Net foreign currency exchange gains	4,582	–
	<u>10,246</u>	<u>8,699</u>
Finance expenses		
Amortisation of discount-license fees payable	(18,044)	(21,270)
Interest expense on bank and other borrowings	(37,873)	(51,794)
Interest expense on convertible bonds	(60,694)	(57,724)
Net foreign currency exchange loss	–	(15,861)
Others	(36,741)	(12,047)
	<u>(153,352)</u>	<u>(158,696)</u>
Finance expenses-net	<u>(143,106)</u>	<u>(149,997)</u>

10. Income tax expense

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Current income tax		
– Hong Kong profits tax (<i>Note b</i>)	3,361	1,823
– The PRC corporate income tax (<i>Note c</i>)	41,059	24,002
– Withholding income tax on interest income from subsidiaries in PRC (<i>Note d</i>)	3,819	3,939
	<u>48,239</u>	<u>29,764</u>
Deferred income tax	<u>30,638</u>	<u>12,455</u>
Income tax expense	<u>78,877</u>	<u>42,219</u>

Notes:

- (a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.
- (b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2014 (2013: 16.5%).

- (c) Provision for the PRC enterprise income tax is calculated based on the statutory tax rate of 25% (2013: 25%) on the assessable income of each of the group companies.
- (d) This mainly arose from the interests due by the Company's subsidiaries in the PRC to other group companies in Hong Kong during the years ended 31 December 2014 and 2013, which are subject to withholding tax at the rate of 7%.

11. Losses per share

Basic

Basic losses per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme during the year. Such weighted average number of ordinary shares outstanding shall be adjusted for events such as bonus issue and stock dividend.

In April 2013, the Company has completed the issuance of the convertible securities. The below market subscription price has effectively resulted in 35,717,000 ordinary shares (2013: 58,768,000 ordinary shares) to be issued upon conversion for nil consideration (ie. the bonus element), and such impact has been taken into account in calculating the weighted average number of ordinary shares for the purpose of basic losses per share calculation. Such shares issued for nil consideration have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2013.

In January 2015, the Company has completed the open offer transaction. The below market subscription price has effectively resulted in 145,904,000 ordinary shares (2013: 145,904,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of ordinary shares for the purpose of basic losses per share calculation. Such shares issued for nil consideration have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2013.

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i> (Restated)
Loss attributable to equity holders of the Company	<u>(781,481)</u>	<u>(391,540)</u>
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (<i>in thousands</i>)	1,382,244	1,250,126
Adjustment for bonus element arising from the issuance of convertible securities and offer securities (<i>in thousands</i>)	<u>181,621</u>	<u>204,672</u>
Deemed weighted average number of ordinary shares for basic losses per share (<i>in thousands</i>)	<u>1,563,865</u>	<u>1,454,798</u>
Basic losses per share (<i>RMB cents</i>)	<u>(49.97)</u>	<u>(26.91)</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 Restricted Share Award Scheme. In relation to share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2014 RMB'000	2013 RMB'000 (Restated)
Loss attributable to equity holders of the Company, used to determine diluted losses per share	<u>(781,481)</u>	<u>(391,540)</u>
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme (<i>in thousands</i>)	1,382,244	1,250,126
Adjustment for bonus element arising from the issuance of convertible securities and offer securities (<i>in thousands</i>)	<u>181,621</u>	<u>204,672</u>
Deemed weighted average number of ordinary shares for diluted losses per share (<i>in thousands</i>)	<u>1,563,865</u>	<u>1,454,798</u>
Diluted losses per share (<i>RMB cents</i>)	<u>(49.97)</u>	<u>(26.91)</u>

Note:

- (a) For the year ended 31 December 2014, the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive. As at 31 December 2014, there were 55 million share options, 1.8 million restricted shares, 205 million ordinary shares assuming conversion of convertible bonds and 124 million ordinary shares assuming conversion of convertible securities that could potentially have a dilutive impact in the future but were anti-dilutive in 2014 (2013: 41 million, 0.8 million, 205 million and 177 million respectively).

12. Dividends

The Board did not propose final dividend for the years ended 31 December 2014 and 2013.

13. Business combinations

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

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

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

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

As result of these acquisitions, a goodwill of RMB67,087,000 was generated mainly from the retail network of the distributors' stores which did not meet the criteria for recognition as an intangible asset and unrecognised assets such as the workforce.

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

	Harbin Sego 11 February 2014 <i>RMB'000</i>	Shenyang Yangguang 22 February 2014 <i>RMB'000</i>	Zhejiang Jinguan 28 March 2014 <i>RMB'000</i>
Purchase considerations	33,612	30,542	32,323
Identifiable assets acquired and liabilities assumed			
Fair value			
Other receivables and prepayments	506	2,827	5,539
Property, plant and equipment	1,997	562	3,004
Intangibles:			
– Customer relationships	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
	33,612	30,542	32,323

Acquisition-related costs amounting to RMB170,000 have been included in administrative expenses in the consolidated income statement for the year ended 31 December 2014.

The above acquisitions are non-cash transactions and the purchase considerations were settled by the Group's trade receivables due from the related distributors. As a result, there was no impact on the consolidated statement of cash flows for the year ended 31 December 2014.

Revenue and profit contribution

The acquired businesses contributed revenues of RMB244,909,000 and net profit of RMB31,564,000 (after intra-group eliminations) to the Group for the period from acquisition date to 31 December 2014. If the acquisitions had occurred on 1 January 2014, the Group's pro-forma consolidated revenue and consolidated loss for the year ended 31 December 2014 would have been RMB6,744 million and RMB741 million respectively, which are calculated by aggregating the financial information of the acquired businesses and the Group and after intra-group eliminations.

14. Events after the balance sheet date

Equity Funding Raising Plan

On 17 December 2014, the Company announced its equity fund raising plan in order to support its sales growth and optimise its capital structure. The fund raising is conducted by way of open offer to qualifying shareholders, on the basis of five offer securities for every twelve existing ordinary shares held by the qualifying shareholders on the record date. The offer securities are offered at the subscription price of HK\$2.60 each.

On 30 January 2015, the Company completed the open offer transaction and successfully raised a net proceeds of RMB1.2 billion. On the same day, the Company announced the adjustment to the exercise price of outstanding share options pursuant to the anti-dilution clauses in the 2004 Share Option Scheme, as a result of the open offer.

DIVIDEND

The Company recorded a loss for the year 2014. The Board resolved not to distribute any final dividend for the year ended 31 December 2014 (2013: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

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

	Year ended 31 December		Change
	2014	2013	(%)
Income statement items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue (Note 1)	6,727,601	5,824,110	15.5
Gross profit	3,003,509	2,593,976	15.8
Operating loss	(528,873)	(169,417)	212.2
Earnings before interests, tax, depreciation and amortisation (EBITDA) (Note 2)	(323,061)	26,020	(1,341.6)
Loss attributable to equity holders (Note 3)	(781,481)	(391,540)	99.6
Basic losses per share (RMB cents) (Note 4)	(49.97)	(26.91)	85.7
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	44.6	44.5	
Operating loss margin (%)	(7.9)	(2.9)	
Effective tax rate (%)	(11.9)	(13.3)	
Margin of loss attributable to equity holders (%)	(11.6)	(6.7)	
Return on equity attributable to equity holders (%)	(33.7)	(18.2)	
Expenses to revenue ratios			
Staff costs (%)	12.2	11.5	
Advertising and marketing expenses (%)	19.3	24.2	
Research and product development expenses (%)	2.6	3.0	
	31 December	31 December	
	2014	2013	
Balance sheet items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Total assets (Note 5)	6,039,806	6,016,851	
Capital and reserves attributable to equity holders (Note 6)	1,951,858	2,684,230	
Key financial ratios			
Asset efficiency			
Average inventory turnover (days) (Note 7)	109	104	
Average trade receivables turnover (days) (Note 8)	71	89	
Average trade payables turnover (days) (Note 9)	84	104	
Asset ratios			
Debt-to-equity ratio (%) (Note 10)	198.3	116.4	
Interest-bearing debt-to-equity ratio (%) (Note 11)	86.4	39.4	
Net asset value per share (RMB cents)	151.34	211.40	

Notes:

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

Revenue

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

Revenue breakdown by brand and product category

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

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

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

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

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

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

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

Revenue breakdown of LI-NING brand by geographical location

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

Notes:

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

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

Cost of Sales and Gross Profit

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

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

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

Distribution Expenses

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

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

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

Administrative Expenses

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

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

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

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

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

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

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

Finance Expenses

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

Income Tax Expense

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

Overall Profitability Indicators

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

Provision for Inventories

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

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

Provision for Doubtful Debts

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

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

Liquidity and Financial Resource

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

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

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

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

As stated in the announcement dated 17 December 2014, the Company has executed the Equity Fund Raising Plan. The fund raising was completed on 30 January 2015. The net proceeds from the Open Offer amounted to HK\$1,515.03 million which were equivalent to the net price of HK\$2.54 per Offer Security. The Company intends to apply such net proceeds as to (i) approximately 40% for paying down the Group's debt; (ii) approximately 25% for investing in store network expansion and retail capabilities optimization; and (iii) the remaining balance for general working capital.

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

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

Foreign Exchange Risk

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

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

Pledge of Assets

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

Contingent Liabilities

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

BUSINESS REVIEW

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

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

LI-NING BRAND

Brand Vision

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

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

Building brand loyalty and boosting favour and referrals among young consumers

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

- Social media innovation: “Super Light 11 #Lightness knows no bound”
 - Embedded with the concept of #Lightness knows no bound#, LI-NING Super Light 11 running shoes benefited from interactive online marketing through @LI-NING Running and @LI-NING accounts at Weibo. In terms of sports elements, key opinion leaders were invited to facilitate online communication, including product reviews posted on Renren.com, runner forums and LI-NING interactive community. In terms of fashion elements, “floating” creative visions were applied widely, joining the efforts of fashion and sports celebrities in online communication. Meanwhile, the interaction of “Superlight 11 lightness campaign” received positive response with nearly 150,000 posts of high-quality user generated content. During the promotion period, the topic #Lightness knows no bound# ranked first for 13 times in the sports headlines category.
- Innovative mobile game at WeChat: “ LI-NING Arc – Social Run is Fun”
 - Catering to socializing, participating and sharing appeals of young users, the innovative campaign “FunRun” with LI-NING Arc IV on WeChat is a perfect combination of running and socializing to maximise the coverage of our FunRun concept. The Cool & FUN running experience from interactive games underscored the importance of running shoes to support product promotion. The campaign recorded 226,122 independent participants, 1,695,915 participations and 261,614 times of sharing in total.
- Basketball customised online marketing
 - CBA apparel ID customisation
 - CBA 20th anniversary LI-NING retro gift box ID customisation
 - CBA 20th anniversary LI-NING retro gift box apparel ID customisation
- Fans marketing: Crossover partnership with Jessica Jung
 - In-depth communication with fans was achieved through star demonstration, exhaustive digging up of product story and fan meeting to tap into young consumers’ needs and communication pattern and allow our brand and products to become common symbols among fans.

– Bringing our brand closer to the youth through the campus platform

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

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

– *China National Table Tennis Team*

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

– *China National Shooting Team*

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

– *China National Diving Team*

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

Five Core Sports Categories

Basketball

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

– Chinese Basketball Association League (CBA)

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

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

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

Footwear

– Professional Basketball Footwear

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

– Combat Basketball Footwear

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

Apparel

– 2014Q2 Youth Pack

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

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

Running

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

- The first domestic road racing competition in the form of a league was named the “2013 World Best Running Tournament Award” by Runner’s World, where runners were offered dedicated running testing services, product experience and professional guide.
- A series of customised running events were staged in tune with the rising running trend in China. The experience platform targeting running enthusiasts, ranging from training camps and “Let’s Run” activities to title sponsoring of LI-NING China 10K Road Racing League and sponsoring of Shenzhen Marathon, helped to resonate with runner’s experience in LI-NING brand.
- LI-NING China 10K Road Racing League comprised 10 events which were successfully completed in Shenzhen, Chongqing, Xi’an, Changsha, Wuhan, Shanghai, Qingdao, Shenyang, Dalian and Beijing respectively throughout 2014. Among the total of 46,340 participants, 76% were aged 18 to 45. During the year, 9,700 runners took part in the virtual league on the running app-based digital platform.

Footwear

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

Apparel

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

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

Badminton

Focus on event marketing to promote professional functionality and brand loyalty

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

Adhering to R&D and innovations to enhance the professionalism

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

Footwear

- Premium price level products (RMB800+, focusing on stars and brand story)
 - Optimize product line
 - We divided footwear products into 3 product lines, namely stability, balance, and flexibility. Each product line has its own positioning and utilizes different technologies and appearances to present its characteristics, as well as 1 or 2 star players to represent the products of each product line.
 - The optimized product lines not only make our product merchandising and designing more effective but also give prominence to the selling points of each product line, bringing a distinct brand image to consumers.
 - Apply new technologies while keeping the classic models
 - In 2014, we added “multi-dimensional acceleration” technology to our premium products, which won a good reputation after launch and boosted sales volume of the whole premium product line.

- To raise the brand’s specialization and to advance the brand’s classic reputation, we renewed the appearance of our classic badminton footwear products which performed well in previous years with new colours and materials. “Flying shoe” and “HERO” products were re-launched with new appearance and they received impressive market feedbacks.
- Medium price level products (RMB450 to 800, focusing on functional experience)
 - Based on consumers’ demand for functionality, the product strategy for 2014 is “Experience of reputable functional technologies + Original fashionable appearance”.
 - We added “multi-dimensional acceleration” and “Cloud” technologies that have been verified by the end user market with good reputation to the medium price level, and combined the appearance of premium product to satisfy the consumers who have high expectation for functional experiences.
 - The star products in 2014 include “Flying shoe-TD” and “HERO2-TD”.

Apparel

- Seamless sleeves
 - Taking full consideration of the nature of badminton, it was our first attempt to apply one piece knitting to sleeves according to shoulders shape to create full room for swinging and to avoid unnecessary rubbing. This design supported Chinese National Badminton Team to win the 410th gold medal at BWF Super Series China Open in 2014 since the partnership with our brand.
- Towel Pocket
 - It was our first attempt to apply towel fabric to the pockets of competition shorts. That allows players to dry their hands sweat during competition, enhancing the consumer experience.
- Innovative appearance
 - We applied classic striped pattern to professional competition suits, which brought fashion elements to badminton competition suits. This type of innovation will continue to be used in designs for further seasons.
- Premium Products TD
 - Since 2014Q3, in order to maximize the effectiveness of sponsorship resources, we launched more commercialized lower-priced products under RMB200 based on premium sponsorship products for National team. This initiative helps satisfy the needs of consumers of different spending levels.

Training

Launching products in lockstep with market trends for sports enthusiasts

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

Footwear

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

Apparel: Male

- Water-repellency
 - We launched a water-repellent collection in 2014Q4 with waterproof zippers and 3D fit to enhance the look and feel, targeting people who do training under all-weather conditions.
 - Water-repellent technology is also included in LI-NING AT technology platform, which enriches the variety of our technology platform.
- Training Essential VICTOR 001 Set
 - This collection has very concise design, 3D fit and fine details for both sports and leisure wearing, and provides a special zipper pocket to put iPhones and other valuable items.
 - In the future, we will keep on developing related models as well as upgrading fabric, technology and design, in order to promote this collection to become the ever-green model which could continuously generate high sell-out results.
- AT Dry Freeze
 - The target consumers of this collection are general basic sports enthusiasts. With high value proposition, this top could provide comfortable wearing experience in hot summer weather. The orders of RMB99 entry level products performed well, and the market share in 3rd and 4th tier cities was further enlarged.

Apparel: Female

- Bottom Bar
 - We have enriched different fits of women pants in 2014 to meet the needs of more consumers, including cuffed, regular, and straight and legging. The products have been merchandised under different launch dates, product levels and functionalities. An excellent sales result was achieved in 2014Q4.
- Suit
 - To meet the needs of the market and our consumers, we have targeted sweat set as the key product of 2014. We have provided various fits, colours and prices to meet the needs of consumers of different ages and used suitable fabrics to match the demands of different occasions and weather conditions.

Sports Life

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

- More than 80% of the consumers had positive feedback on the “Designed by Seoul Studio” (型自首爾) Series, which artfully integrate brand sports culture with fashion elements to enhance the appeal to the youth, especially the shopping desire of young white collars and female consumers
 - The signature series partnering with Jessica Jung, a versatile popular star, became an attraction to new young consumers and significantly stimulated sales of female apparel for sports life.
 - The innovative fan meeting marketing model contributed greatly to traffic and deals at online malls, and led to 20,000 newly registered users. The Sina Weibo topic #Shine with Jessica# recorded nearly 100 million views. In the 6-month promotion period, LI-NING Sports Life at Weibo recorded more than 200,000 additional followers.
 - In promoting the classic leisure series, we continued to enhance comfortableness in order to meet daily needs for multi-site versatility from a greater diversity of consumers. Moreover, by partnering with the potential star Zheng Kai, our product placement efforts in “Running Man (奔跑吧，兄弟)”, a hot TV entertainment programme in 2014, effectively facilitated content-based digital marketing and recorded numerous second spreads and positive comments.
 - With visual focus revamped for the sports life category, the “Designed by Seoul Studio” Series as well as LNC stores debuting in the second half of 2014 were designed to upgrade shopping experience with a boutique conception. Comfortable, convenient, trendy and stylish shopping experience was offered through clear and thoughtful zoning, with simplistic visual display helping customers to create their exclusive selections.

Footwear

- Glory
 - A new model launched in 2014 with 90s retro running shoe design, using complex lines and high-quality materials.
- Honour
 - A new model launched in 2014 with 80s retro running shoe design.
- Medalist
 - The creative workmanship of heather knitted upper has been commercialized in quick strike product to stay close to market trend.
- 3KM
 - Introduced 3KM II products into the market. We keep strengthening and upgrading 3KM product line and make a more reasonable annual planning of 3KM family.
 - Use different materials to meet the needs of consumers from different regions.

Apparel

- Use new product stories to make the product structure clearer
 - The 4 stories in 2013, X-Game/LNSU/Fresh, Basic/Graphic were replaced by Soft Tech/Heritage/Core/Graphic to make the whole product structure clearer. In particular, we launched a new concept of “fashion + function” for 2014Q1 Soft Tech collection to meet the needs of young consumers.
- Introduce sports elements with LI-NING characteristics to enhance our brand value
 - In the 30th anniversary of the 84 Los Angeles Olympic Games, We launched the first “8 in 1” product in 2014Q1 and obtained the patent, and also released “LN stripe” as classic sports element for LI-NING brand.

Sales Channel Expansion and Management

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

Number of franchised and directly-operated retail stores

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

Number of retail stores by geographical location

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

Notes:

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

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

At merchandising level, to drive order quality and fast response to market and consumer demands and trend, we continued to carry out Trade Fair Orders/Quick Replenishment (QR)/Quick Strike (QS) model in our “Go To Market” process. The traditional trade fair orders also made a progress, as witnessed by the continuously increased take-in of our prescriptive A+ products. Since the introduction of our A+ product portfolio from the 2nd quarter (Q2) of 2013, A+ orders have gradually taken up over 50% of the future orders. Meanwhile, our sales department worked closely with our product category department and distributors to classify our stores by attributes of consumer needs, in order to drive better store assortment planning. The differentiated product assortment planning specific to store group has greatly improved order accuracy and effectiveness. We also started our efforts in making further segmentation and differentiation of commercial districts to align store assortment planning with product categories. Stores were grouped for management by city tier, commercial zone, consumer segments, sports/sports life relativity, etc. based on our product category strategy.

Our “Resources Management Platform” in place to monitor and optimise inventory resources helped us to predict forward order matching and timely identify our warehouses, distributors and subsidiaries which have inventory excess/shortfall, enabling our decisions on order rebalancing, merchandise allocation, sales promotion and clearance. We have been able to catch the opportunity to replenish the bestsellers since 2014 Q2 to distributors and sub-distributors with out-of-stock situation. Throughout the year, we also intentionally offloaded the seasonal slow-moving products to discount stores, to clear up the space in regular stores for the bestsellers.

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

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

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

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

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

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

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

E-Commerce

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

Supply Chain Management

Retail Business Model

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

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

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

Supply Chain

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

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

Double Happiness Brand

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

Double Happiness continued to adopt “sponsorship of sports stars and sports events” as its core marketing and promotion strategy. It maintained its endorsement of outstanding table tennis players in China including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞), with newly endorsed Fan Zhendong (樊振東), Yan An (閔安), Zhu Yuling (朱雨玲) and Chen Meng (陳夢) as spokespersons for its table tennis equipment.

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

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

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

Double Happiness launched seamed table tennis balls made with a new material in May 2014 to gradually phase out celluloid material which has been used for 123 years. Table tennis balls made with this new material under the Double Happiness Brand will be used in major top events from 2014 to 2016, including the 2016 Rio de Janeiro Olympic Games and the World Table Tennis Championships in Kuala Lumpur. New models of blade and covering which fit the new table tennis balls were also rolled out, which received recognition from the professional athletes of the China National Team, as well as recommendations from users.

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

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

Other Brands

Kason Brand

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

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

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

Lotto Brand

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

AIGLE Brand

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

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

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

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

HUMAN RESOURCES

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

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

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

As regards employer brand-building, an official LI-NING recruitment WeChat account was set up as a window to vividly showcase the Company's activities and achievements in this area. Design contests were organised successfully to attract designers of high caliber while publicising our employer brand. The retail management trainee programme ensured the nurturing and supply of frontline retail talent, strongly fuelling the Group's retail-oriented strategy.

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

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

OUTLOOK AND CORRESPONDING STRATEGIES

Moving to the next development stage

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

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

Key Initiatives for future development

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

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

- Innovate in Product R&D
 - Focus on two platforms, namely sports functionality and sports life, based on brand positioning, and adopt product strategies focusing on professional functionality and mass market respectively for the two platforms
 - For products innovation, follow two roadmaps of professional functionality and mass market according to different products combinations
- Optimize Channel Structure
 - Adopt the strategy of integrating channel and product assortment
 - Strengthen collaboration with channel partners, and re-enter markets with low-penetration and growth potential
 - Implement the inventory optimization strategy
 - Launch the Omni Channel strategy to enhance interaction with consumers via online and offline channels to ensure sustainable development of the LI-NING Ecosystem
- Enhance Retail Capability
 - Implement corresponding initiatives at different stages of “Closed Loop” retail operation (including stages from product planning to cash recovery) with disciplined execution
 - Improve the overall retail capability among all channels, including self-owned retail, distributors, sub-distributors and E-commerce
 - The objective is to enhance consumers' shopping experience

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

APPOINTMENT OF INTERIM CHIEF EXECUTIVE OFFICER

Mr. Li Ning (“Mr. Li”), Executive Chairman and an executive director of the Company, has been appointed as Interim Chief Executive Officer (“CEO”) of the Company with effect from 18 March 2015.

Mr. Li Ning, aged 52, is the founder of the LI-NING brand and the Group’s executive chairman and an executive Director. Mr. Li also serves as the chairman of the executive committee and a member of the nomination committee of the Company. Since the stepping down of Mr. Jin-Goon Kim from the position of the Interim CEO with effect from 14 November 2014, the CEO’s duties has been performed by Mr. Li and supported by the incumbent senior management of the Company. He is primarily responsible for formulating the Group’s overall corporate strategies and planning.

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

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

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

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

As at the date of this announcement, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), Mr. Li is interested in the following securities of the Company:-

- (a) personally interested in 1,940,933 shares of HK\$0.10 each in the share capital of the Company (“Shares”);
- (b) personally interested in share options to subscribe for an aggregate of 1,509,470 Shares;
- (c) personally interested in 1,370,073 unvested restricted Shares;
- (d) deemed to be interested in 2,561,120 Shares held by Alpha Talent Management Limited, a company wholly-owned by him; and
- (e) deemed to be interested in an aggregate of 549,201,543 Shares and underlying Shares held by Viva China Holdings Ltd (“Viva China”), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of Viva China Holdings. Viva China is interested in 299,374,000 Shares and 249,827,543 underlying Shares, which comprises (i) the outstanding 2013 convertible securities in an amount of HK\$398,156,304 entitling to conversion into 125,088,377 Shares and (ii) the outstanding 2015 convertible securities in an amount of HK\$324,321,831.60 entitling to conversion into 124,739,166 Shares. Viva China Holdings is owned as to approximately 15.06% by Victory Mind Assets Limited, approximately 25.09% by Lead Ahead Limited and approximately 28.24% by Dragon City Management (PTC) Limited. Lead Ahead Limited and Dragon City Management (PTC) Limited in turn are respectively 60% and 60% owned by Mr. Li, and Victory Mind Assets Limited is in turn owned as to 57% by Ace Leader Holdings Limited (which is 100% owned by a discretionary trust of which Mr. Li is a settlor).

Mr. Li has entered into a service contract with the Company with a term of three years. He will not receive any director fee but is entitled to participation in the Company’s share schemes and other benefits and allowances which are determined with reference to his duties and responsibilities with the Company, the Company’s performance and the prevailing market condition and are subject to review and revision by the Remuneration Committee and the Board from time to time. For the year ended 31 December 2014, Mr. Li received a salary of approximately RMB3,710,000 as the Executive Chairman of the Company.

Save as disclosed above, and other than Mr. Li Chun (brother of Mr. Li), a substantial shareholder within the meaning of Part XV of the Securities and Futures Ordinance who is deemed to be interested in the securities held by Viva China as mentioned in item (e) above, Mr. Li does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company.

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

CORPORATE GOVERNANCE

The Company is committed to upholding a high standard of corporate governance by continued review and enhancement of its corporate governance practices, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in an effective and efficient manner. During the year ended 31 December 2014, the Company has complied with the code provisions of the Corporate Governance Code (“Code Provisions”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for certain deviation specified with considered reason as explained below.

According to paragraph A.2.1 of the Code Provisions, the role of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. During the year of 2014, the Company was in the process of identifying CEO candidate and therefore the day-to-day responsibilities of the CEO had been assumed by Mr. Li Ning, the Executive Chairman, who managed the external affairs and relationships of the Group, and by Mr. Jin-Goon Kim, the Executive Vice Chairman (Mr. Kim acted as an Interim CEO from 21 March 2014 to 14 November 2014), who managed the internal affairs and the operations of the Group. Therefore, there was no separation of the roles of the chairman and the CEO as both roles were undertaken by the Executive Chairman and the Executive Vice Chairman of the Board. Notwithstanding the above, the Board is of the view that the current management structure is effective for the Group's operations and sufficient checks and balances are in place. The operations and management of the Company is constantly subject to the scrutiny and valuable contributions of the independent non-executive directors. The Board will continue to review the management structure regularly to ensure that it continues to meet these objectives and is in line with industry practices.

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

Details about the corporate governance practices of the Company will be set out in the Corporate Governance Report contained in the 2014 annual report of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company, consisting of three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2014.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at 11:00 am on Friday, 5 June 2015.

The notice of the AGM will be despatched to the shareholders together with the 2014 annual report of the Company on or around 10 April 2015 and published on the website of the Company (<http://ir.lining.com>) and the "HKExnews" website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

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

Hong Kong, 18 March 2015

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 director is 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.