Leading the way
with Innovation

LI-NING

**LI NING COMPANY LIMITED**
李寧有限公司
*(Incorporated in the Cayman Islands with limited liability)*
(Stock Code: 2331)

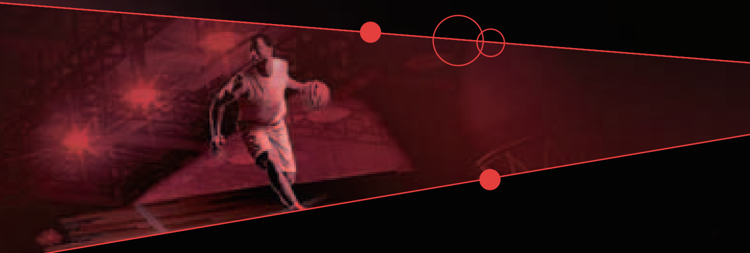
# Annual Report 2013

## MISSION

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


## VISION

A world's leading brand in the sports goods industry



## CORE VALUES

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

# Contents

# Leading the way with Innovation

## About Li Ning Group

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

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

# Highlights Of The Year 2013

## FEBRUARY 2013

LI-NING's Pro Competition, a top-notch tennis shoes product, received professional acclaim from Tennis Warehouse, the biggest website of tennis products in the USA.

## MARCH 2013

### •Way of Wade (WOW) Shoes Launch•

WOW Shoes Launch sparked excitement among consumers. The shoes were quickly sold out both online and in stores, becoming a new member in the high-end basketball shoes market.

## APRIL 2013

### •LN super light generation 10th running• shoes launch---"Just Run"

"Super Light", Li-Ning's core asset running shoes brand established over the years, launched its 10th generation Super Light running shoes. The "Just Run" branding campaign made its debut on the same occasion, vividly demonstrating the unique concept of "light-running" by means of figures, publicity activities, sporting events, end-user experience, and encouraging more consumers to participate in the sport of running and join Li Ning for light-running.


## APRIL 2013

### •2013 LI-NING China 10K Running League• Started in Tian'anmen Square

The 2013 LI-NING China 10K Running League kicked off on Tian'anmen Square, with 10,000 runners in Beijing gathering on the square, communicating and expressing their positive attitudes for a healthy, green and environmentally-friendly life by running.

## MAY 2013

### •LI-NING FunRun Carnival•

LI-NING FunRun Carnival unveiled joyfully in Chaoyang Park of Beijing, with more than 1,500 runners under Li-Ning's call of "Just Run" enjoying the relaxation and charm of exercise by running joyously together with special guests. "FunRun" created a joyful and healthy way of exercising for the public, hoping that they could fully enjoy the fun from simple and pure running.

### •The Title and Equipment Sponsor of BWF• Sudirman Cup

LI-NING brand became a top-notch partner of BWF for the first time as the title sponsor for 2013-2016 BWF events and Sudirman Cup in 2013, respectively.

JAN FEB MAR APR MAY JUN

## JULY 2013

### • Hiking the Great Wall with Li-Ning •

LI-NING brand cooperated with www.people.com.cn in organising "Hiking the Great Wall with Li-Ning" at the Juyongguan section of the Great Wall, during which 10 sports enthusiasts recruited online nationwide experienced with Olympic champions Gao Min and Yang Ling the spirit of daring to pursue breakthroughs by going through various challenges like trekking, field survival and teamwork during the three-day event.

### • 2013 Wade China Trip •

Wade's arrival in Beijing marked the beginning of his trip to China, including visits to Beijing, Guangzhou and Shanghai, during which the "Way of Wade" series of products were formally launched. These range of events met with great success, making this NBA star China trip the most influential one in the summer of 2013.


### • LI-NING Arc III Launch---"Flexibility And Cushioning For Full Running Freedom" •

The 3rd generation LI-NING Arc running shoes, an upgrade product launched by the LI-NING Arc technology platform became the core driving force for business during the season. The product broke the traditions in dissemination by extending beyond product functions to sporstmanship, so as to intensify target consumers' attitudes towards sports. Based on the core publicity concept of "daring to pursue breakthroughs", the product's publicity promoted in a telling manner the spirits of running, including self-liberation and a willingness to accept challenges, attracting attention and receiving recognition from runners.

## AUGUST 2013

### • Li Ning Opens The New Era of Campus Basketball •

Since the 2013-2014 season, Li Ning (China) Sports Goods Co., Ltd. has become the sponsor and partner of Chinese University Basketball Association and Chinese University Basketball Super League, heralding "The New Era of Li Ning Campus Basketball" and enshrining the determination of the Company in defending its dominant position among basketball brands.

## SEPTEMBER 2013

### • Li-Ning Sports Exhibition Centre Opened in Jingmen, Hubei Province •

The grand opening of Li-Ning Sports Exhibition Centre marked the establishment of a sports platform for public interests. With the backing from Li-Ning (Jingmen) Industrial Park, a leader in the industry, and the strong support of the Jingmen Municipal Government, Li-Ning Sports Exhibition Centre will become an important window for receiving community organisations and individuals, and demonstrating and publicising sports culture and Olympic spirit to external parties.

## NOVEMBER-DECEMBER 2013

### • LET'S SHINE! Seek The Best Shining Campus Celebrity •

"Let's Shine!", was a large-scale interactive experience activity aimed at "Selecting Talents and Creating Stars" for the sports life category of LI-NING brand launched for young consumers in colleges with a view to disseminating the young, vibrant and trendy positioning of the sports life category and bringing young consumers closer. Finally, six candidates stood out for their attributes of being "vibrant, courageous and daring to take up challenges", and joined hands with Ryan Cheng, a popular artist, to start the journey of endorsing products in the sports life category.

JUL AUG SEP OCT NOV DEC

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. LI Ning *(Executive Chairman)*
Mr. Jin-Goon KIM *(Executive Vice Chairman and Interim Chief Executive Officer)*
Mr. ZHANG Zhi Yong

### Non-executive Directors

Mr. CHEN Yue, Scott

### Independent non-executive Directors

Mr. KOO Fook Sun, Louis
Ms. WANG Ya Fei
Dr. CHAN Chung Bun, Bunny
Mr. SU Jing Shyh, Samuel

## EXECUTIVE COMMITTEE

Mr. LI Ning *(Committee Chairman)*
Mr. Jin-Goon KIM
Mr. CHEN Yue, Scott

## AUDIT COMMITTEE

Mr. KOO Fook Sun, Louis *(Committee Chairman)*
Ms. WANG Ya Fei
Dr. CHAN Chung Bun, Bunny

## REMUNERATION COMMITTEE

Ms. WANG Ya Fei *(Committee Chairperson)*
Mr. CHEN Yue, Scott
Dr. CHAN Chung Bun, Bunny

## NOMINATION COMMITTEE

Mr. SU Jing Shyh, Samuel *(Committee Chairman)*
Mr. LI Ning
Mr. Jin-Goon KIM
Dr. CHAN Chung Bun, Bunny

## AUTHORISED REPRESENTATIVES

Mr. LI Ning
Mr. CHEN Yue, Scott

## COMPANY SECRETARY

Ms.TAI Kar Lei

## REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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8 Argyle Street
Mongkok, Kowloon
Hong Kong
Telephone: +852 3541 6000
Fax: +852 3102 0927

## OPERATIONAL HEADQUARTERS

No. 8 Xing Guang 5th Street
Opto-Mechatronics Industrial Park
Zhongguancun Science & Technology Area
Tongzhou District
Beijing, PRC
Postal Code: 101111
Telephone: +8610 8080 0808
Fax: +8610 8080 0000

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## AUDITOR

PricewaterhouseCoopers
*Certified Public Accountants*

## LEGAL ADVISORS

*Hong Kong law*
Troutman Sanders

*PRC law*
All Bright Law Offices

## PRINCIPAL BANKERS

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

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


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PLAY

# Five-Year Financial Highlights

*Unit: RMB'000*

| | 2013 | 2012 (Restated*) | 2011 (Restated*) | 2010 (Restated*) | 2009 (Restated*) |
|---|---|---|---|---|---|
| **Operation results:** | | | | | |
| Turnover | 5,824,110 | 6,676,441 | 8,887,453 | 9,455,364 | 8,370,349 |
| Operating (loss)/profit | (169,417) | (1,598,934) | 627,826 | 1,546,957 | 1,343,318 |
| (Loss)/profit before taxation | (317,172) | (1,805,919) | 548,753 | 1,509,515 | 1,285,533 |
| (Loss)/profit attributable to equity holders | (391,540) | (1,979,114) | 385,813 | 1,108,487 | 944,524 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | 26,020 | (1,377,598) | 893,041 | 1,759,285 | 1,526,250 |
| **Assets and liabilities:** | | | | | |
| Total non-current assets | 2,055,201 | 2,114,048 | 2,549,598 | 2,365,166 | 2,216,571 |
| Total current assets | 3,961,650 | 3,905,524 | 4,769,139 | 4,193,325 | 3,158,907 |
| Total current liabilities | 2,017,723 | 3,264,127 | 3,052,985 | 2,368,341 | 1,862,535 |
| Net current assets | 1,943,927 | 641,397 | 1,716,153 | 1,824,984 | 1,296,372 |
| Total assets | 6,016,851 | 6,019,572 | 7,318,736 | 6,558,491 | 5,375,478 |
| Total assets less current liabilities | 3,999,128 | 2,755,445 | 4,265,751 | 4,190,150 | 3,512,943 |
| Capital and reserves attributable to equity holders | 2,684,230 | 1,613,597 | 3,471,843 | 3,369,302 | 2,674,508 |
| **Key financial indicators:** | | | | | |
| Gross profit margin | 44.5% | 37.7% | 46.0% | 46.8% | 47.3% |
| Margin of (loss)/profit attributable to equity holders | (6.7%) | (29.6%) | 4.3% | 11.7% | 11.3% |
| EBITDA ratio | 0.4% | (20.6%) | 10.0% | 18.6% | 18.2% |
| (Losses)/earnings per share | | | | | |
| – basic (RMB cents) | (29.91) | (172.63) | 33.71 | 97.16 | 83.27 |
| – diluted (RMB cents) | (29.91) | (172.63) | 33.59 | 95.94 | 82.31 |
| Dividend per share (RMB cents) | – | – | 11.07 | 42.23 | 36.13 |
| Return on equity attributable to equity holders | (18.2%) | (77.8%) | 11.3% | 36.7% | 41.3% |
| Net tangible assets per share (RMB cents) | 157.86 | 97.40 | 241.46 | 225.25 | 153.65 |
| Debt-to-equity ratio | 116.4% | 260.7% | 105.2% | 89.0% | 94.0% |

* Upon adoption of IFRS 11, proportional consolidation of joint ventures is no longer allowed. Hence, the Group accounted for its investment in Li-Ning Aigle Ventures Company Limited using the equity method of accounting at the beginning of the earliest period presented. The figures for the years ended 31 December 2012, 2011, 2010 and 2009 have been restated in accordance with IFRS 11.

# Dominate This Second

# Sportsmanship


GuangDong
9
SHANDONG
3
XINJIANG
20

**Mr. LI Ning**

*Executive Chairman*

# Chairman's Statement

## DEAR SHAREHOLDERS,

### Foreword

Against the backdrop of a slow recovery in the global economy last year, China maintained steady growth and continued to implement structural reforms in its transition towards a domestic consumption-driven economy. Consumer industries, including sportswear, continued to face headwinds due to macroeconomic uncertainties and the remaining overhang from industry over-expansion. However, demand in core sportswear remained strong as Chinese consumer preferences have been changing quickly, becoming more sophisticated and increasingly focused on value, quality and functionality. These shifts posed significant challenges to the existing model of commoditization by brands lacking innovation capabilities.

Firmly embedded in the China market, Li Ning Company is committed to strengthening and enriching our brand profile in the five core sports categories of basketball, running, badminton, training and sports life. However, shifting market dynamics such as new casual wear entrants, fast moving fashion trends and thriving e-commerce have put further pressure on existing business models in the domestic market. As a result, the bar has been raised significantly where only brands which innovate and transform will be best positioned for future growth in market share. Li Ning Company is determined to invest boldly, but wisely, to successfully transform ourselves into a leading sportswear retailer and China's champion brand.

In 2013, TPG, a private investment firm, continued to be a core investor of the Company. TPG drew upon its network to introduce resources and expertise required for our Transformation Plan, and contributed valuable insights to our business and development strategies to ensure efficient execution.

### Building LI-NING into a Leading Brand through the Transformation Plan

The past year marked a milestone for our group-wide transformation efforts. The Transformation Plan, initiated in 2012 when strategic investors with expertise in retail turnaround were brought in, was designed to transform LI-NING into a leading sportswear brand in China. Since then, the Group has made significant progress in creating an ecosystem of global and local talents to facilitate the industry's first and most comprehensive transformation. We engaged best-in-class partners and advisors with deep expertise in restructuring channels and building direct-retail infrastructure, as well as a world-class management team. We established partnerships with industry leaders in materials


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and manufacturing technologies critical for premium sportswear, and hired creative talents locally and internationally in product design and development.

The solid progress that the Group made over the last year in our transformation has laid a strong foundation for the next phase of growth. We streamlined various aspects of our operations, repositioned the LI-NING brand and rationalized our sales channels and store network. At the end of our transformation efforts, we aim to build a healthy and sustainable business model based on strong engagement and cooperation with our key partners and distributors. Despite the inevitable pain on our business in the short term, we believe the Transformation Plan will stand us in good stead for a sustainable future.

## Brand

The Group adhered to our vision of building a core LI-NING brand and repositioned our brand value proposition with authenticity and unique marketing assets, in order to achieve the best value-price equilibrium and capture the growing middle-class market. We focused on the integration of sports functionality and design in our products, while enhancing the overall retail experience for LI-NING consumers. We also leveraged the increasing rate of sports participation in China and moved up the value chain by focusing on the five fastest growing sports categories, namely, basketball, running, badminton, training and sports life.

The Group continued to invest aggressively in our basketball business, covering a comprehensive spectrum of events and sponsorships. To bridge the gap with student groups, the Group sponsored all student basketball events across the country, and helped create a campus basketball era sponsored by LI-NING brand. Through active communications with student groups and integrating campus elements with product, the Group paved a clear path for future basketball marketing. At the same time, the "Way of Wade" series received enthusiastic feedback from basketball fans and an overall positive response from the market. Integrating promotional campaigns in the Chinese and American markets, the products featured quality workmanship and fashion elements which spearheaded the creation of new trends in China and abroad, and enhanced the value of the LI-NING brand.

We also focused on developing professional running products with superior performance, through product and function innovations based on in-depth understanding of consumer needs. We stayed close to targeted consumers through the organization of "LI-NING China 10K Running League", LI-NING "FunRun" and the Shenzhen Marathon which all promoted the understanding of and participation in running.

In 2013, Double Happiness continued to adopt "sponsorship of sports stars and sports events" as its core marketing and promotion strategy, and maintained its endorsement of outstanding table tennis players in China including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞) as spokespersons for its table tennis equipment. Under the 2013-2016 ITTF cooperation agreement, Double Happiness successfully completed the sponsorship and promotion of a series of professional sports events in 2013, including table tennis in the second session of the Youth Olympic Games.

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

## Outlook

By the end of 2013, we were near to completion of the first phase of our Transformation Plan in fixing the business with encouraging core trends. However, time is still needed to resolve issues with the last group of weak channel partners and the final batch of old inventory. We witnessed positive signs of success and potential of the new business model through the performance of our new products and revamped stores. We expect the final phase of transformation to require 18 to 24 more months of investment so as to complete the build out of the new operational platform and the shift towards more direct retail and self-owned stores.

Financially, while our cost structure and operating cash flow have improved significantly, this was balanced by bold investments in transforming the brand and operations. This could mean more time before the benefits of our actions today become fully reflected in our financial results.

Nevertheless, we have strong confidence in the current direction of our transformation, and our goal of building a leading brand in China that will provide stakeholders the highest value in the mid to long term. And as you can see, we have made significant progress towards achieving this goal over the past 18 months.

As the founder and Executive Chairman of Li Ning Company, I would like to express my appreciation for the continued support and trust from all our shareholders. Even though the complete transformation of our business model will take time, I am confident that through the concerted efforts of our talented staff and an experienced and professional management team, Li Ning Company will provide long-term and sustainable returns to all shareholders.

**Li Ning**
*Executive Chairman*

Hong Kong, 21 March 2014


Passion

**Mr. Jin-Goon KIM**

*Executive Vice Chairman and*
*Interim Chief Executive Officer*

# CEO Perspectives

Now that we have reached what I believe the halfway point of the Transformation Plan, I would like to take this opportunity to reflect on where we are and share with investors my perspectives on how we can create a great brand for China. My previous journeys took me through transformations of market leaders in big industries across China and Asia, from cars to women's shoes, and from saturated, declining markets to markets at the cusp of rapid growth. Nevertheless, the Li Ning transformation has been special in that it faces the most challenging macroeconomic and competitive dynamics that I have had to deal with, at a time when the sportswear - and retail industry in China as a whole - is experiencing massive change. It took the USA over 50 years to evolve from standard merchandising in undifferentiated retail channels to today's consumer-oriented specialized retail, spearheaded by various forms of vertical retail business models; yet, China is rushing through the entire cycle in less than two decades, and in a very uneven manner.

When we launched our bold Transformation Plan in July of 2012, most in the industry were still in denial of the flaws of its growth model; less than a year later, many have jumped on the bandwagon and some have even claimed quick victory already. I cannot help but scratch my head as I have learned over the years that transformations are tough; a comprehensive revamping of a business model and operations takes years to complete – and even then, only a few succeed in transforming into a great brand. At Li Ning, even after having successfully led three major transformations in retail before, I humbly consulted experts in various areas of the business far and wide, spent months studying markets that have already undergone what China is experiencing today. Even then, I am continuously tweaking our plan as we track progress and learn from our mistakes.

The sportswear industry in China is much more complicated and troubled than many outside of the industry are aware of. Most sportswear companies in China were founded by those without the experience of having built retailers or brands before; they often started as wholesalers, working with equally inexperienced mom-and-pop retailers, in stark contrast to the capable retail giants in the USA. The focus then was on growth through store openings instead of understanding consumers, developing efficient merchandising platform and retail operations, or developing brands with distinct and compelling DNA. Moving fast and copying industry leaders on everything from brand logo, to store decoration and marketing, to products allowed many of these new comers to grow fast, by virtue of strong economic tailwinds and optimistic capital markets. Of course, China back then offered plenty of white space to open new stores. Cheap products sold well without innovative functionality and unique design because there were many consumers who could not afford expensive top brands and did not have many good options at lower price points. However, the old business model has broken down as consumers have acquired more sophisticated tastes and have more specific needs in terms of sports functionality. Consumers also have more money and access a rapidly expanding universe of choices, not only from a bloated sportswear market but also from new, highly competitive entrants in casual wear.

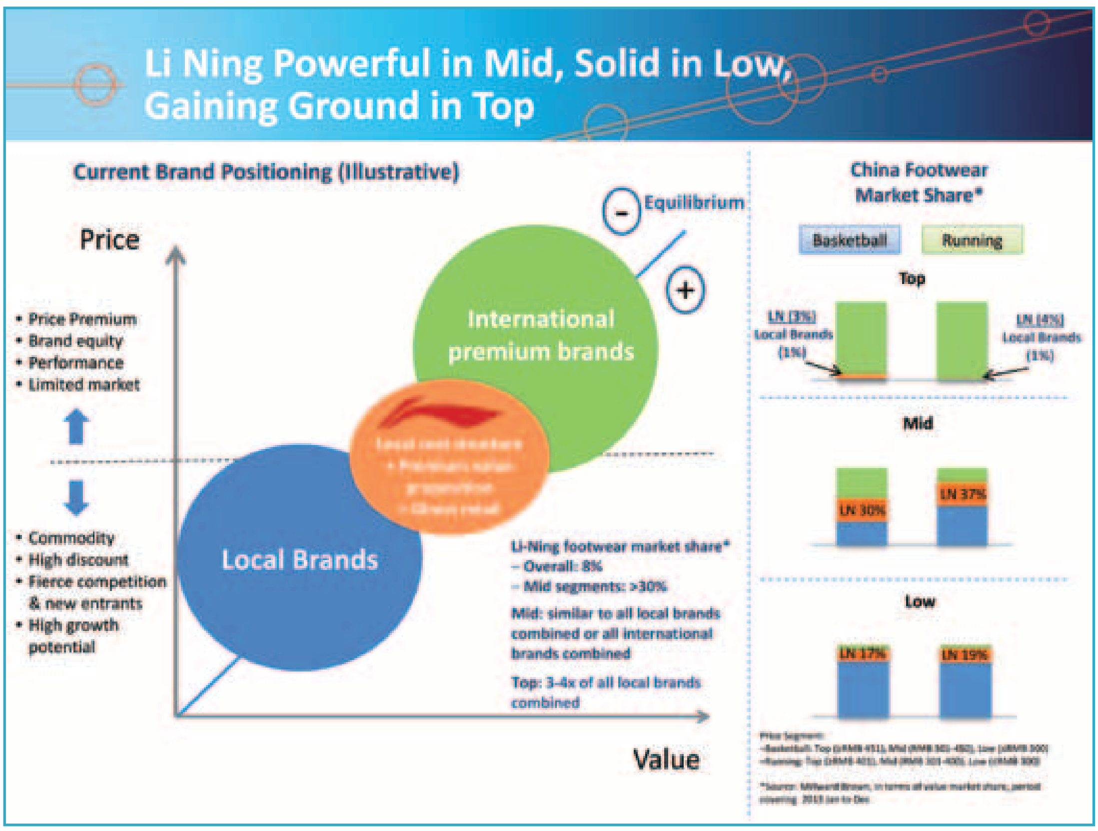
While Li Ning was among the better companies in attempting to create a unique brand and innovative products, its wholesale model had caused it to become detached from rapidly changing consumer trends as it operated at arms' length from its customers. Eventually, its channels were saddled with aging inventory and unprofitable stores. It is my strong belief that commoditization and a copy-cat approach will no longer work in the "new normal" Chinese market, in the same way that it does not work in all other major global sportswear markets. Our path forward must be to innovate, in everything from our brand value proposition and product creation, to our retail business model, and invest more in resources and infrastructure to build a great brand for Chinese sports enthusiasts. We are confident that not far in the future, investors will see the fruits of our work in the value that we create in the Company, and eventually through its financial performance.

While we are not out of the woods yet, we feel that we have made great strides forward. We are tracking nicely in our turnaround initiatives, in everything from restoring profitability and cash flow to enhancing strength and productivity of our retail operations. Our remaining task here is fixing the weakest of our channel partners who still hold too much aged inventory. The next phase of building our brand is harder; but the plan we developed is working.

My belief is that great consumer brands are as much about what they are not, as what they are. We started to exit undifferentiated businesses that overlap with casualwear or are not a good match with our core brand value proposition, even if they are still generating acceptable sales performance. We have put a stake in the ground that we will unwaveringly focus on serving the needs of Chinese consumers in five core sports categories, which require very different consumer profiling, product and brand value proposition, and go-to-market approach. In this spirit, we have introduced a basketball signature shoe for the Year of Horse and are offering running shoes designed for the unique fit required in China. Even though we are already widely recognized as a leading sportswear company in China (see below table), we are building on this foundation by investing in key sports assets most relevant to the five categories and adopting key elements of direct-retail and fast-fashion. This is how we will stay very close to consumers' changing needs, offer them the best brand experience, and win their mind-share over time.

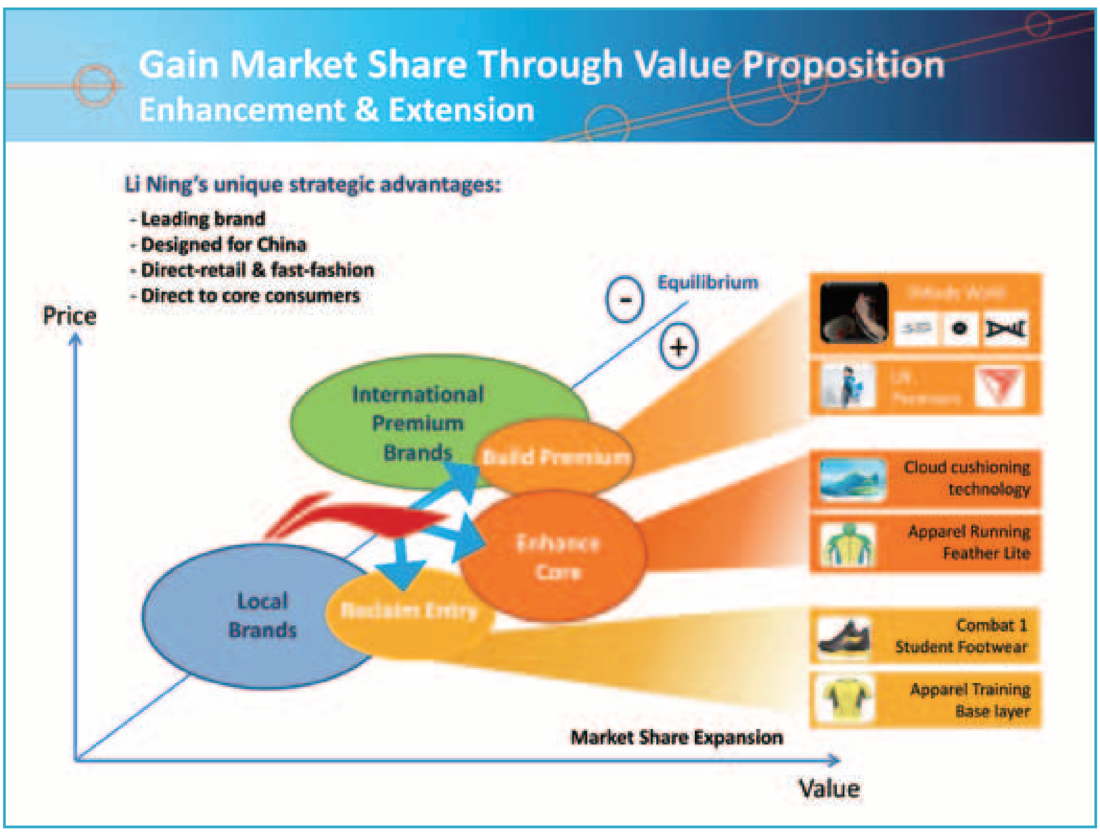
Li Ning's market share in the mid-price point of the most important sports categories, such as basketball and running, is the highest in the industry (see chart below). The brand has demonstrated its unique ability to extend into both low and top price points, by offering a compelling and differentiated value proposition for each segment. While we have a local cost structure to deliver high value for money, we also have the ability to attract premium consumers into our shops and sell up. This is critical because core sportswear is becoming more functional, technical, and stylish, and you can only deliver these high-end products when you can sell up into these price points. If you cannot move up in price point, it is difficult to differentiate yourself from fast-retail casualwear giants who are also offering commoditized sportswear, but very cheaply. Our plan is to gain market share by leveraging our unique advantages, as we have already done in basketball footwear over last year. We rapidly scaled up our premium Wade business in multiple product lines, commercialized for the first time in large volume the professional CBA footwear worn during the games by offering it at an attractive mid-price point, and started to claim back student basketball outdoor court footwear, where we offer simple but essential on-court functionality with trendy design at entry price points. In effect, we have succeeded in launching three new best sellers with three distinct sets of value proposition for the three different price points.

Last year was a very busy year for us. We worked hard to shed all non-core marketing and streamline the organization to internally fund big investments in the brand and infrastructure. To offer compelling products to our core sports consumers, we have built an ecosystem of world-class resources and talents. For example, with new partners and/or design teams in Portland, Seoul, and Taiwan, we are now set up for the first time to deliver a wide range of products with the right technology, functionality, style, materials, and fit for the specific needs of each core segment. Our two-year effort to build a sophisticated, end-to-end direct-retail platform - working closely with global leaders in retail IT solutions - will soon enable us to deliver the right products to the right stores at the right time based on big data analysis of past trends and current sales information. Our unique A+ merchandising model, supplemented by quick replenishment and quick strike products, now represents about half of our retail sales and has been driving high sell-through performance in both indirect and direct channels. Finally, the self-owned stores and sub-distributors controlled by our subsidiary



has increased from 21% to 35% of retail sales in two years, strengthening our ability to provide a better retail experience to consumers. Over time, we aim to put together a balanced portfolio of direct stores and our most capable channel partners who can execute our direct retail model.

The last 18 months have been quite a journey personally, and it has been my honour as the Executive Vice Chairman and Interim CEO of the Group, to work with Mr. Li Ning, whose unyielding and courageous spirit is truly that of an Olympian. While we still have a way to go, we are pulling all stops, and we will have done many "firsts" in the industry, not just in China, but some also in the world, by the time we are done with the transformation. I remain confident and hopeful, and I thank investors for their patience and support.

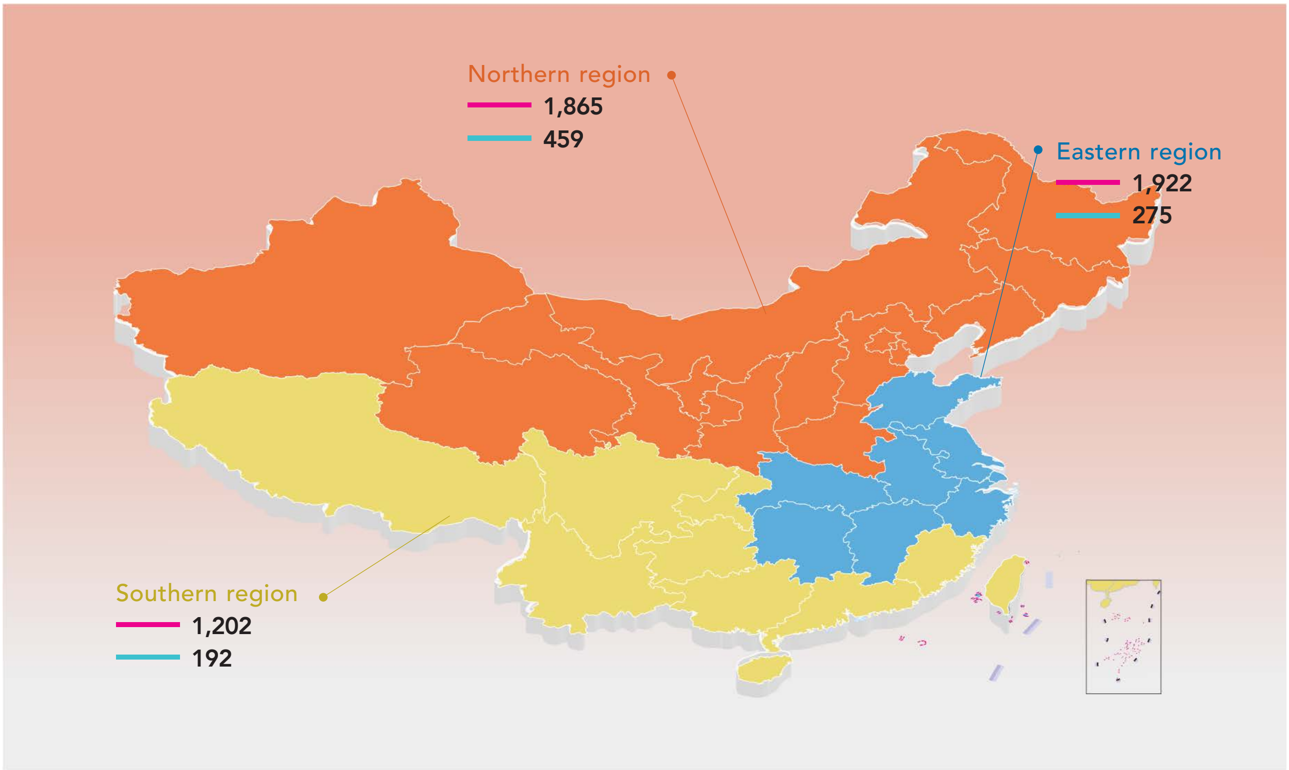


# Management Discussion And Analysis

## NATIONWIDE DISTRIBUTION AND RETAIL NETWORK

(As at 31 December 2013)

| LI-NING brand stores | Franchised retail stores | Directly-operated retail stores | Total number of stores |
|---|---|---|---|
| Eastern region *(Note 1)* | 1,922 | 275 | 2,197 |
| Northern region *(Note 2)* | 1,865 | 459 | 2,324 |
| Southern region *(Note 3)* | 1,202 | 192 | 1,394 |
| Total | **4,989** | **926** | **5,915** |




*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.

## OVERVIEW

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

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

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

## FINANCIAL REVIEW

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

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

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

*Notes:*

1. Including revenue for the period from 1 January to 30 September 2013: RMB4,367,248,000.
2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of loss for the year, income tax expense, finance expenses – net, depreciation on property, plant and equipment, and amortisation of land use rights and intangible assets.
3. Including loss attributable to equity holders for the period from 1 January to 30 September 2013: RMB303,405,000.
4. The calculation of basic losses per share is based on the loss attributable to equity holders of the Company for the year, divided by the weighted average number of ordinary shares in issue less ordinary shares held for Restricted Share Award Scheme.
5. Including total assets at 30 September 2013: RMB5,861,324,000.
6. Including capital and reserves attributable to equity holders at 30 September 2013: RMB2,764,575,000.
7. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year, divided by cost of sales and multiplied by 365 days.
8. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, divided by revenue and multiplied by 365 days.
9. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, divided by total purchases and multiplied by 365 days.
10. The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.
11. The calculation of interest-bearing debt-to-equity ratio is based on total interest-bearing bank borrowings and convertible bonds divided by capital and reserves attributable to equity holders of the Company at the end of the year.

* *The aforesaid indicators provided by the Group may not necessarily be the same in terms of calculation methods as those provided by other issuers.*

## Revenue

The Group's revenue for the year ended 31 December 2013 amounted to RMB5,824,110,000, representing a decrease of 12.8% as compared to that of 2012.

### *Revenue breakdown by brand and product category*

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

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

The Group's core brand, LI-NING brand, recorded revenue of RMB5,082,786,000, which accounted for 87.3% of the Group's total revenue, representing a decrease of 14.2% as compared to that of last year. Pressing forward the Channel Revival Plan through the year, the Group adopted a business model of 'prescriptive order + quick replenishment + fast response' for its trade fair orders, aiming to achieve shorter replenishment cycle of the new products that better meet the newest market demand. However, the initiative also led to lower volume of trade fair orders temporarily. Meanwhile, the Group provided higher discounts for obsolete inventory during the year to accelerate the clearance of channel inventory, which posed a challenge to its revenue. As at the end of

2013, the Group witnessed further rationalised inventory mix and better store network, while trade fair orders began to pick up its momentum. Along with the improving financial position of certain distributors, the Group's cash flows made a significant turnaround and the effect of the Channel Revival Plan has emerged. The Management believes that the improvements in distribution channels and the ramp-up of the weight of self-operated stores and hence the profitability at the retail end under the Channel Revival Plan have yielded visible and favourable results, which is laying a foundation for future development and benefiting the Group's future financial performance.

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

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

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

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

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

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

*Notes:*

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Jiangxi, Hunan, Hubei, Anhui and Shandong.
2. Northern region includes Beijing, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Gansu, Ningxia, Qinghai, Shaanxi, Xinjiang, Jilin and Heilongjiang.
3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Yunnan, Sichuan, Chongqing, Tibet and Guizhou.
4. The Group adjusted the organisation structure and geographical delineation of the sales regions for LI-NING brand during the year (see notes 1, 2 and 3 above for details). As a result, the sales revenue for the year ended 31 December 2012 is restated according to the adjusted geographical delineation.

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

## Cost of Sales and Gross Profit

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

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

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

## Distribution Expenses

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

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

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

## Administrative Expenses

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

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

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

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

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

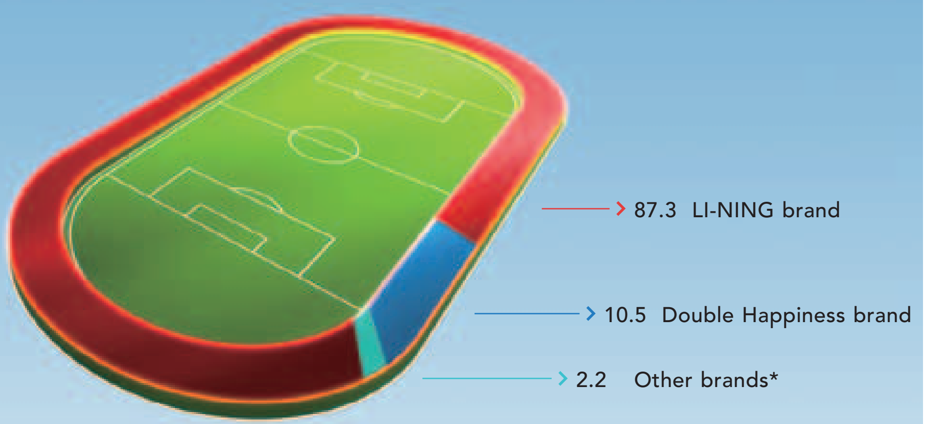
EBITDA of LI-NING brand recorded a loss of RMB114,090,000 (2012: loss of RMB1,290,486,000). This was due primarily to improved gross margin and lower expenses ratio.

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

## Finance Expenses

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

## Percentage of Total Revenue by Brand




* Including Lotto, Kason and Z-DO.

## Income Tax Expense

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

## Overall Profitability Indicators

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

## Provision for Inventories

The Group's policy in respect of provision for inventories for 2013 was the same as that in 2012. Inventories are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy sufficient in ensuring provision for inventories made by the Group.

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

## Provision for Doubtful Debts

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

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

## Liquidity and Financial Resource

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

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

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

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

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

## Foreign Exchange Risk

The Group's operations are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group's subsidiary in South Korea and the United States uses South Korean Won and United States

Dollars as their respective functional currency. A small portion of the Group's cash and bank deposits are denominated in Hong Kong Dollars, United States Dollars, Euros and South Korean Won. The Company also pays dividends in Hong Kong Dollars. In addition, the Group pays certain license fees and sponsorship fees in United States Dollars or Euros, and repays some bank borrowings in Hong Kong Dollars.

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

## Pledge of Assets

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

## Contingent Liabilities

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

## BUSINESS REVIEW

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

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

### Fixing the business and near-term turnaround

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

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

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

### Building China's leading brand

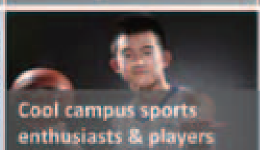
**Repositioning of LI-NING brand and enhancing its compelling product value proposition –** The Company leveraged Li Ning's unique strategic advantages to expand market share by targeting niche market based on its established existing core market and expanding to entry price and premium market. Before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

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

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

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

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

| | Core Target Consumers | Business Drivers and Go To Market Approach | Key Growth Initiatives |
|---|---|---|---|
| Basketball |  Cool campus sports enthusiasts & players | • **Association with top leagues and stars**<br>• On-court performance, style, brand, and value<br>• Word of mouth and credibility among sneakers and fans<br>• Grass-roots street and digital basketball events | • Wade signature line & CBA fan pack<br>• Campus apparels collection<br>• Entry price on-court student shoes<br>• Digital platform, fan clubs, & category shops |
| Running |  Working sports lovers & committed runners | • **Technical and targeted performance features (high-end); stylish design, comfort, and value (mid to entry)**<br>• Brand, media awareness, and KOL endorsement<br>• Running events, Grass-roots community activities | • Innovation in core platforms<br>• R&D partners for leading-edge products<br>• Entry price and specialized niche products<br>• Professional shoes and female collection |
| Training |  Disciplined practitioners | • **Functionality, fit, style, comfort, and brand power**<br>• Endorsement by coaches & athletes, celebrities & KOL, and upscale trend setters<br>• Location seeding (gym, sports park etc.) | • Innovation in new material technologies<br>• Female collection led by Seoul studio<br>• Local Chinese exercise categories (i.e. group dance, modern martial art) |
| Sports Life |  Trendy, stylish youths with sports inspiration | • **Asian fashion trends, fit, comfort, and value**<br>• POP stars, youth idols, entertainment PR<br>• Sports inspired design DNA and functional materials<br>• Youth events (i.e. music, movies, entertainment shows) | • Li-Ning Premium from Seoul studio<br>• Celebrity spokesperson<br>• Youth Sports Apparel<br>• Heritage collection |
| Badminton |  Committed amateur sports enthusiasts | • **On-court product performance and brand recognition**<br>• National team endorsement & sports events exposure<br>• Retail distribution, promotions, and service<br>• On-court media and coaches endorsement | • Best-in-class racket technology<br>• High performance professional shoes<br>• Retail & R&D extension into mid & entry |

## LI-NING Brand

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

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

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

## Forge the sports brand equity with a Chinese hallmark

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

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

### "Way of Wade"

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

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

### Chinese Basketball Association League (CBA)

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

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

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

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

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

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

## Sponsorship of Running Events

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

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

## Sponsorship of Badminton Events

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

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

## Sponsorship of Peng Shuai

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

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

## Sponsorship of Isinbayeva

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

### Sponsorship of Gold Medal Teams

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

### Hiking the Great Wall with LI-NING

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

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

### Let's Shine

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

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

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

### Innovations in digital platform

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

### Mobile platform

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

### Retail terminals connected to e-commerce

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

## LI-NING Brand Sponsorship Resources

| | BASKETBALL | TRACK & FIELD/RUNNING | BADMINTON | TENNIS | WOMEN'S FITNESS | OLYMPIC CHAMPION TEAMS | TABLE TENNIS | SHOOTING |
|---|---|---|---|---|---|---|---|---|
| TOP-NOTCH ATHLETES/SPORTS TEAMS/SPORTS CLUBS | Dwyane Wade | Asafa Powell | Chinese National Badminton Team | Peng Shuai | Lesmills China | China National Table Tennis Team | Ma Long | QingHua University Shooting Team |
| | Evan Turner | Yelena Isinbaeva | Lin Dan | Marin Cilic | | China National Gymnastics Team (Including China Artistic Gymnastics Team & China Trampoline Team) | Li Xiaoxia | |
| | Udonis Haslem | Christian Taylor | Chen Long | Tianjin Tennis Team | | China National Diving Team | Wang Liqin | |
| | Marcus Williams | Andreas Thorkildsen | Cai Yun/Fu Haifeng | The delegation of Shanghai for the National Game | | China National Shooting Team | Ding Ning | |
| | Pool Jeter | Ngonidzashe Makusha | Wang Yihan | | | | Liu Guoliang | |
| | Guo Ailun | Chinese National Junior T&F Team | Li Xuerui | | | | | |
| | Xiralijan Muhtar | | Xu Chen | | | | | |
| | Han Shuo | | Yu Yang | | | | | |
| | Zhou Qi | | Zhang Nan/Zhao Yunlei | | | | | |
| | Zhao Jiwei | | | | | | | |
| | He Tianju | | | | | | | |
| | Chinese Young Men's Basketball Team | | | | | | | |
| TOURNAMENTS | China Basketball Association | Li-Ning China 10K Running League | 2013-2016'MAJOR EVENTS' Partner of BWF | (ATP) The Official Partner of Association of Tennis Professionals | | | | |
| | China Junior & High School Basketball League | Beijing International Running Festival | BWF World Championships (Equipment sponsor) | | | | | |
| | Chinese University Basketball Association | China National track and high attitude endurance challenge | BWF Sudirman Cup (Title & Equipment sponsor) | | | | | |
| | National Basketball League | 2013 Guizhou Tour of Lei Gong Mountain International 100KM Ultra Trail Challenge | BWF Super Series China Open (Equipment sponsor) | | | | | |
| | CBA Junior League | DaLi 100 Ultra Endurance Race | BWF Super Series China Masters (Equipment sponsor) | | | | | |
| | | ShenZhen International Marathon 2013 | BWF Super Series Singapore Open (Title & Equipment sponsor) | | | | | |
| | | | China National Tournaments (Title & Equipment sponsor) | | | | | |
| | | | China Badminton League (Title & Equipment sponsor) | | | | | |
| | | | China's Badminton Serie (Title & Equipment sponsor) | | | | | |
| OTHER IMPORTANT SPONSORSHIP RESOURCES | Zhu Yanxi | Eritrea Tr&F National Team | Singapore National Badminton Team | Tsung-Hua Yang | | USA Dinving Team – David Boudia | | |
| | Zeng Lingxu | 4 Domestic contracted Athletes | Australia National Badminton Team | Saisai Zheng | | | | |
| | Xu Zhonghao | 9 Domestic Provincial Athletics Teams | Indonesian National Badminton Team | Karorina Pliskova/Kristyna Pliskova | | | | |
| | Yi Li | 1 Domestic Top Marathon Club | Provincial Team: Beijing/Shanghai/Liaoning/Sichuan/Zhejiang/Tianjin/Hunan/Dongguan Century City Club/Guangxi/Hubei/Bayi/Guangdong/Qingdao | The Official Partner of China Open Merchandise | | | | |
| | Zhao Tailong | | Jorgensen(Denmark), Kunchala/Duang (Thailand), Porntip (Thailand), Songphon (Thailand), Busanan (Thailand) | Lining International Junior Tennis Championships | | | | |
| | Chen Linjian | | | Shenzhen Hongjindi Tennis Club | | | | |
| | Heng Yifeng | | | | | | | |
| | Luo Kaiwen | | | | | | | |
| | Zhang Zuming | | | | | | | |
| | Fan Bin | | | | | | | |
| | Wu Qinglong | | | | | | | |
| | Qu Shaobin | | | | | | | |
| | Yang Maogong | | | | | | | |
| | A Dijiang | | | | | | | |
| | Dr.Chen Fangcan | | | | | | | |

## Product Design, Research and Development

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

### Li Ning 2014 Basketball Season Hero Products

| Categories | Target Consumers | Value Proposition | Sales Performance | Competitors |
|---|---|---|---|---|
| **Premium** (Enter New Business) | • DWade fans<br>• Semi-pro or serious amateur players<br>• Sneaker collectors | WoW2 (Wade Signature) – top professional shoes with industry-leading features<br>• Designed by and for Dwade, for NBA competition<br>• Unique full leather upper & carbon fibre foot plate<br>• 50+ unique upper designs<br>• Best mix of style with top notch Wade design and China elements<br>• 30% cheaper than Nike signature<br>RMB 999<br> | • Sold out within hours in every US launch<br>• Average sell-in rate in China is 2X higher for WoW2 | Signature collection of Top International Brands at much higher price points |
| **Core** (Enhance Existing Business) | • CBA fans<br>• Serious amateur players<br>• Basketball subculture enthusiasts | BB Cloud – Pro-quality on-court performance shoes<br>• Top-end shoe for CBA athletes in competitive games<br>• Unique patented tooling material for optimised cushioning & energy return<br>• Dynamic & stylish design with breathable ultra shell tpu upper<br>• 30%-40% cheaper than premium brands with similar value<br>RMB 499<br> | • Best selling large volume in-line product in Q1 2014<br>• Sell-out rates 45% in first 7 weeks | Minimum direct competition due to high value for money & lack of compelling offering at this price point |
| **Entry** (Claim Back Old Business) | • Students with frequent playing<br>• Basketball enthusiasts on budget | Combat – On & off court shoes for recreational players & young consumers<br>• Basic, but fully functional on-court basketball shoe for multi purpose (indoor & outdoor courts)<br>• Cushioning, comfort & design<br>• More functional and stylish at price point competitive to local brands<br>RMB 299<br> | • Best selling large volume in-line product in 2013 Q1<br>• Sell-out rates 70% in first 12 weeks | Local sportswear brands, but usually with minimum functionality and style DNA |

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

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

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

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

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

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

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

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

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

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

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

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

## Sales Channel Expansion and Management

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

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

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

### Number of retail stores by geographical location

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

*Notes:*

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

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

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

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

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

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

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

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

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

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

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

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

## Retail Business Model

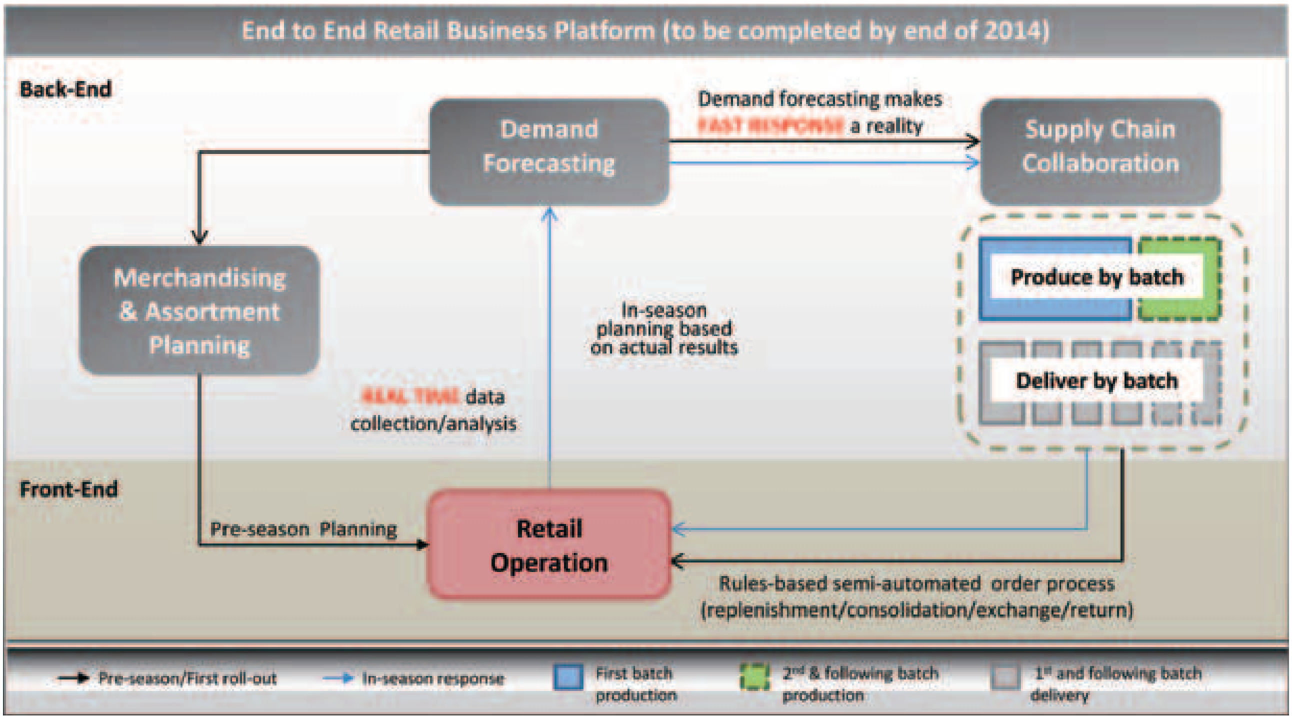
Li-Ning is seeking a strategic transformation from wholesale to market-driven retail-oriented business model, with the purpose of advancing its channel efficiency and operation effectiveness so as to expand the market share and elevate the profitability for the Company and its business partners.

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

Key features of the platform include:

- Real time sales data collection and analysis allows Product & Sales Team to capture and predict market demand trends.
- Centralized and integrated merchandising and assortment planning to market the right products at the right places.
- A common planning tool for multi-tier suppliers with push & pull supply chain model that makes fast response a reality. The much reduced cycle time supports batch production and delivery which improves inventory efficiency and minimizes risks.

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




## Double Happiness Brand

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

During the period, Double Happiness continued to adopt "sponsorship of sports stars and sports events" as its core marketing and promotion strategy. In 2013, Double Happiness continued with its endorsement with outstanding table tennis players in China, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞), who were all spokespersons for its table tennis equipment.

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

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

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

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

## Other Brands

### AIGLE Brand

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

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

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

- Continue to penetrate into provincial capitals and other first-tier cities in addition to Beijing and Shanghai. It will gradually open brand image stores with a globally common identity, increase retail store coverage in cities above the provincial level and diversify the channel portfolio.

- Strengthen the assessment and selection of agents in various places to build up a foundation for future development.

- Enhance the product mix and retail inventory management in accordance with the needs of different markets and customer sectors following the opening of various types of channels and shops.

- Continue to enhance customer relations management for consumers to raise their loyalty.

### Kason Brand

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

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

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

### Lotto Brand

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

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

## HUMAN RESOURCES

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

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

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

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

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

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

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

## ISSUANCE OF CONVERTIBLE SECURITIES

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

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

## OUTLOOK AND CORRESPONDING STRATEGIES

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

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

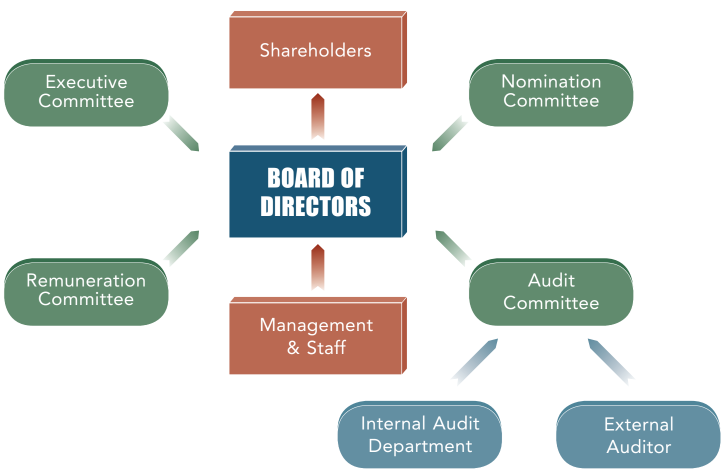
# Corporate Governance Report

Adapting and adhering to recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in an effective and efficient manner. The board of directors of the Company (the "Board") believes that good corporate governance safeguards the long-term interest of the shareholders of the Company (the "Shareholders") and enhance the Group's performance. The Board endeavours to uphold a high standard of corporate governance with focuses on internal control, fair disclosure and accountability to all Shareholders.

Throughout the year ended 31 December 2013, the Company has complied with the code provisions ("Code Provisions") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, except for certain deviations specified with considered reason as explained below.

## CORPORATE GOVERNANCE STRUCTURE

The corporate governance structure of the Company is as follows:




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

During the year of 2013, the Board has performed the following duties in respect of its corporate governance functions:

a. reviewing the Company's policies and practices on corporate governance;

b. reviewing and monitoring the training and continuous professional development of the Directors and the senior management of the Company (the "Senior Management");

c. reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory requirements;

d. reviewing and monitoring the code of conduct applicable to employees; and

e. reviewing the Company's compliance with the code of disclosure in the Corporate Governance Report.

## THE BOARD OF DIRECTORS

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

## COMPOSITION OF THE BOARD

The Board currently comprises eight Directors, with a majority of whom being non-executive Directors (including independent non-executive Directors), of which three are executive Directors, one is a non-executive Director, and four are independent non-executive Directors. During the year of 2013 and up to the date of this report, the composition of the Board had been changed as follows:

### Name of Director

***Executive Directors***

| | |
|---|---|
| Mr. Li Ning | *(Executive Chairman)* |
| Mr. Jin-Goon Kim | *(Executive Vice Chairman)* *(As Interim Chief Executive Officer with effect from 21 March 2014)* |
| Mr. Zhang Zhi Yong | |

***Non-executive Directors***

| | |
|---|---|
| Mr. Chen Yue, Scott | |
| Mr. Chu Wah Hui | *(resigned on 1 January 2013)* |
| Mr. James Chun-Hsien Wei | *(resigned on 1 September 2013)* |

***Independent non-executive Directors***

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

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

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

### Board Diversity Policy

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

The Nomination Committee made an annual review on the composition of the Board with reference to a number of factors, including but not limited to diversity. The Company has complied with paragraph A.5.6 of the Code Provisions, which became effective on 1 September 2013, with respect to the board diversity during the year. Further details on the review of the composition of the Board are set out in the section headed "Nomination Committee" below.

### Chairman and Chief Executive Officer

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

During 2013, the day-to-day responsibilities of the Chief Executive Officer ("CEO") have been assumed by Mr. Li Ning, the Executive Chairman, who manages the external affairs and relationships of the Group, and by Mr. Jin-Goon Kim, the Executive Vice Chairman, who manages the internal affairs and the operations of the Group respectively. Therefore, there was no separation of the roles of the chairman and the CEO as both of the roles are currently undertaken by the Executive Chairman and/or the Executive Vice Chairman of the Board. Notwithstanding the above, the Board was of the view that this management structure is effective for the Group's operations and sufficient checks and balances are in place.

As at the date of this report, Mr. Jin-Goon Kim, Executive Vice Chairman and an executive Director, has been appointed as Interim CEO of the Company with effect from 21 March 2014. The Board unanimously agreed to formalize the interim CEO role that Mr. Jin-Goon Kim has been playing, continuing an arrangement that has proven to be effective to take on unique challenges of the transformation, until suitable time for transition to permanent leadership. Mr. Kim has been sharing the CEO responsibilities with the Executive Chairman since the transformation plan was announced in July 2012. The Executive Chairman has primarily focused on external affairs while Mr. Kim has been in charge of internal operations and leading the transformation of the Group. The Board took this action to acknowledge the instrumental role that Mr. Kim continues to play in transforming the Group and believes this is the best arrangement for the Group as it pushes forward with the next phase of the transformation plan. At the same time, the Board will continue to evaluate the right timing for transition to permanent leadership as it continues the search for the right CEO candidate.

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

## Principal Responsibilities of the Board

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

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

## Directors' Induction and Continuous Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives a comprehensive, formal and tailored induction to ensure that he has a proper understanding of the business and operations of the Group and that he is fully aware of his duties and responsibilities as a director under the applicable rules and requirements. Directors are updated on any developments or changes affecting their obligations from time to time. Professional training and update programmes are provided to the Directors on a regular basis in order to enhance the Board members' knowledge on the professional and regulatory perspectives. In June 2013, the Company, together with its legal adviser, organized a training session to provide the Directors with an update on "Inside Information" under the Securities and Futures Ordinance.

According to the records maintained by the Company, the Directors received the following trainings and updates in 2013:

| | Attending seminars and/or conferences and/or forums relating to rules and regulations or duties of the directors | Reading newspapers, journals and updates relating to the economy and business management and duties of directors |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Li Ning *(Executive Chairman)* | ✓ | ✓ |
| Mr. Jin-Goon Kim *(Executive Vice Chairman)* | ✓ | ✓ |
| *(As Interim CEO with effect from 21 March 2014)* | | |
| Mr. Zhang Zhi Yong | ✓ | ✓ |
| ***Non-executive Directors*** | | |
| Mr. Chen Yue, Scott | ✓ | ✓ |
| Mr. Chiu Wah Hui *(resigned on 1 January 2013)* | N/A | N/A |
| Mr. James Chun-Hsien Wei *(resigned on 1 September 2013)* | ✓ | ✓ |
| ***Independent non-executive Directors*** | | |
| Mr. Koo Fook Sun, Louis | ✓ | ✓ |
| Ms. Wang Ya Fei | ✓ | ✓ |
| Dr. Chan Chung Bun, Bunny | ✓ | ✓ |
| Mr. Su Jing Shyh, Samuel | ✓ | ✓ |

## Non-executive Directors and Independent non-executive Directors

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

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

## Directors' Appointment and Re-election

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

## Directors' and Officers' Liability Insurance

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

## BOARD COMMITTEES

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

### Executive Committee

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

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

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

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

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

### Nomination Committee

The Nomination Committee has been established since June 2005. For the year ended 31 December 2013 and from 1 January 2014 to 20 March 2014, the Nomination Committee consisted of the following Directors:

| | |
|---|---|
| Mr. Jin-Goon Kim *(Chairman of the Committee)* | Executive Vice Chairman & Executive Director |
| Mr. Li Ning | Executive Chairman & Executive Director |
| Dr. Chan Chung Bun, Bunny | Independent non-executive Director |

On 21 March 2014, the composition of the Nomination Committee was changed as follows:

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

According to paragraph A.5.1 of the Code Provisions, the chairman of the nomination committee must either be held by the chairman of the board, or an independent non-executive director, and the majority of its members must be independent non-executive directors. In view of the Group being amidst a period of reform in 2013, the Board hopes to garner greater support from TPG-nominated Directors during this process of reform, and thus had appointed Mr. Jin-Goon Kim to act as the chairman of the Nomination Committee. The Board also needs the Executive Chairman, Mr. Li Ning, to become more involved with the work of the Nomination Committee. With the appointment of Mr. Su Jing Shyh, Samuel as the chairman of the Nomination Committee on 21 March 2014, the Company is now in compliance with the chairman requirement under paragraph A.5.1 of the Code Provisions.

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

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

The following is a summary of the major tasks carried out by the Nomination Committee in 2013:

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

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

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

The current terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

## Remuneration Committee

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

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

The Remuneration Committee currently consists of the following three Directors:

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

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

No Directors participated in decision making for his or her own remuneration. The emoluments of each Director for the year ended 31 December 2013 are set out in note 27 to the consolidated financial statements.

The following is a summary of the major tasks carried out by the Remuneration Committee in 2013:

- recommendation to the Board on the remuneration packages of all the Directors and Senior Management for the year 2013;
- review and approve the bonus plan for the year 2013;
- review and determine the bonus plan execution;
- review, monitor and approve the implementation of ESOP (employee share option program) for 2013; and
- approve the terms of executive Directors' service contracts.

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

## Audit Committee

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

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

The Audit Committee currently consists of the following three Directors:

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

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

During the year of 2013, the Audit Committee held four meetings with the external auditor of the Company to discuss issues they considered necessary.

The following is a summary of the work performed by the Audit Committee in 2013:

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

- review of and recommendation for the Board's approval of the annual results announcement and annual financial statements for the year ended 31 December 2012 and the interim results announcement and interim financial statements for the six months ended 30 June 2013 with focus particularly on changes in accounting policies and practices, compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;

- discussion with the external auditor and the management on possible accounting risks and major findings in the course of audit/review;

- review of independence of the external auditor and recommendation to the Board on the re-appointment of the external auditor;

- approval of the audit fees and terms of engagement of the external auditor;

- review of internal audit findings in 2013 and recommendations and approval of 2014 internal audit plan; and

- review of the effectiveness of the Company's risk management functions and internal control system, including the financial reporting and compliance functions.

## Whistleblowing Policy

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

## Board and Committee Meetings

The Board holds at least four regular Board meetings each year at approximately quarterly intervals and additional Board meetings are held as and when necessary. Regular Board meetings are scheduled a year ahead to facilitate maximum attendance by the Directors. The meeting agenda is set after consulting with members of the Board so that all Directors have the opportunity to include matters in the agenda. The agenda and accompanying papers are sent to the Directors in a timely manner and at least 3 days before the date of the meeting in compliance with the Code Provisions.

Directors can at any time access relevant information as requested. The management provides comprehensive reports on the Group's business progress, financial objectives, strategic and development plans to the Directors to enable them to make informed decisions on matters submitted for their approval at the Board meetings. The Board arranges, where appropriate, relevant members of the Senior Management to attend their meetings and report the latest situation about operations and respond to queries from the Directors. For the year ended 31 December 2013, the Executive Chairman of the Company had meetings with the non-executive Directors, including the independent non-executive Directors, without the presence of the Executive Directors.

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

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

| | Number of meetings attended/ number of meetings held during the respective tenure in the financial year ended 31 December 2013 | | | |
|---|---|---|---|---|
| **Name of Directors** | **Board** | **Nomination Committee** | **Remuneration Committee** | **Audit Committee** |
| ***Executive Directors*** | | | | |
| Mr. Li Ning *(Executive Chairman)* | 6/6 | 1/1 | N/A | N/A |
| Mr. Jin-Goon Kim *(Executive Vice Chairman and Interim CEO)* | 6/6 | 1/1 | N/A | N/A |
| Mr. Zhang Zhi Yong | 5/6 | N/A | N/A | N/A |
| ***Non-executive Director*** | | | | |
| Mr. Chen Yue, Scott | 6/6 | N/A | 2/2 | N/A |
| Mr. Chu Wah Hui *(resigned on 1 January 2013)* | N/A | N/A | N/A | N/A |
| Mr. James Chun-Hsien Wei *(resigned on 1 September 2013)* | 5/5 | N/A | N/A | N/A |
| ***Independent non-executive Directors*** | | | | |
| Mr. Koo Fook Sun, Louis | 6/6 | N/A | N/A | 5/5 |
| Ms. Wang Ya Fei | 6/6 | N/A | 2/2 | 5/5 |
| Dr. Chan Chung Bun, Bunny | 6/6 | 1/1 | 2/2 | 5/5 |
| Mr. Su Jing Shyh, Samuel | 6/6 | N/A | N/A | N/A |

*Note:*

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

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

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

Prior to commencement of the audit of the Company's accounts for year 2013, the Audit Committee had received a confirmation from the external auditor on their independence and objectivity. External audit partners are subject to periodic rotation.

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

During the year of 2013, the management had provided all members of the Board with monthly financial updates for giving a balanced and reasonable assessment of the Company's performance, position and prospects.

### Internal Control

The Board has the responsibility to review annually the effectiveness of the Group's internal control systems and ensure that the controls are sound and effective to safeguard the Shareholders' investments and the Group's assets. In 2013, the Board, with the support of the Audit Committee, had reviewed the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and the appropriateness of their training programmes and budgets.

### External Auditor's Remuneration

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

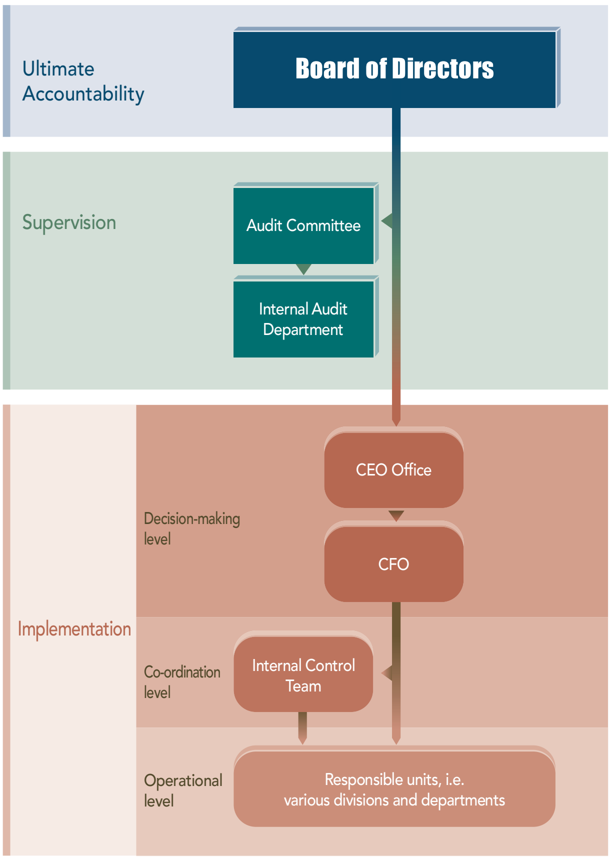
For the year ended 31 December 2013, the fees for the audit services and non-audit services provided by the external auditor are as follows:

| Type of Service | 2013 (RMB) | 2012 (RMB) |
|---|---|---|
| Audit fee for the Group | **4,200,000** | 3,338,000 |
| Tax compliance and other advisory services | **2,030,000** | 1,027,000 |
| Total | **6,230,000** | 4,365,000 |

## Internal Control System

Based on the experience in operation control over the years, the Company has put in place an integrated system of internal control. The system adopts the globally recognised framework outlined by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"), with the Group's business, operational and financial risks, corporate culture and management philosophy being taken into account. The system is designed to (i) achieve effectiveness and efficiency of operations; (ii) enhance the reliability of internal and external financial reporting; and (iii) ensure compliance with the applicable laws and regulations. The system serves to provide reasonable, but not absolute, assurance against material misstatement, fraud or loss. During the year, the Group continued to improve its internal control system aiming at providing effective control and forceful support, reflected mainly in the following aspects:

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




The Company has established a top-down organizational and management structure with clear-cut responsibilities and authorities for internal control purposes, embracing three levels which are responsible for ultimate accountability, supervision and implementation, respectively: (i) the Board bears the ultimate accountability and has the ultimate authority in internal control management. It is externally accountable to the Shareholders for corporate governance responsibility, whereas internally it acts as the highest authority to foster internal control; (ii) the Audit Committee is responsible for supervising the establishment and operation of the internal control system by the management, monitoring the Group's internal control procedures and advising the Board on the effectiveness thereof. Preliminary assessment on the effectiveness of internal control is conducted by the Internal Audit Department which reports directly to the Audit Committee; (iii) the implementation level comprises a decision-making group, a coordination body (namely, the Internal Control Team, which is responsible for supporting the planning and establishment of the Group's internal control system, coordinating the promotion and implementation of the internal control structures in different systems, and organising examination on the effectiveness of the internal control and assessment of risks) and operational and functional divisions.

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

(2) Possession of effective and forward-looking information on strategic management and operation management and financial and accounting management systems supports the supervision of implementation and performance of business strategies and plans. Timely and regular operational reports and monthly financial updates are submitted to and reviewed by the Senior Management, the Board or its designated Committees. This allows them to monitor and control situations against the established annual operating and financial targets and to consider necessary actions as well as to ensure such actions are being carried out promptly so as to remedy any significant failures or weaknesses.

(3) The Internal Control Manual of Li Ning Company Limited (the "Internal Control Manual"), which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system, is implemented on an ongoing basis. The Internal Control Manual currently covers areas comprising the management procedures in respect of sales and trade receivables, procurement and trade payables, inventories, capital, financial reporting, taxation, management functions of the Group, administration and human resources, intellectual property rights, export and fixed assets. Systematic changes to the Internal Control Manual have to be carried out at least once a year, depending on the needs for business changes and procedural refinement, so as to further improve and monitor the effectiveness of the internal control system on a continuing basis. With centralized arrangement and coordination of the Internal Control Team, key items of internal control and the specific control procedures set out in the Internal Control Manual were updated by the relevant departments during 2013. Such updated procedures have been implemented during the year.

(4) An effective annual self-assessment and evaluation mechanism under the internal control framework has been established, with satisfactory results and attained the following goals:

    (i) fostering middle and senior management to review and comment whether control targets on corporate level can be achieved, and to identify inadequacy and make improvement in a timely manner;

    (ii) prompting the persons in charge of business processes to actively conduct process review on procedural control, test the design and execution effectiveness, identify problems in a timely manner and formulate improvement measures; and

    (iii) assisting the Audit Committee and the Board in assessing the effectiveness of the Company's internal control system as a whole.

(5) Independent reviews of risks and internal control in relation to key operations and financial and compliance functions are performed by the Internal Audit Department. Significant issues, if any, together with recommendations for improvement, are reported to the Audit Committee or the Board.

(6) In order to support the rapid and healthy development of business diversification of the Group, the Company conducts annual risk review at corporate level and assesses risks and risk management controls on the key business aspects based on the Risk Management Manual of Li Ning Company Limited.

## ANNUAL REVIEW

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

A comprehensive review on the effectiveness of the Group's internal control system is conducted by the Board annually, covering all material controls including financial, operational and compliance controls and risk management functions. The review is performed internally on a self-assessment approach (CSA) with a complete set of reporting forms. Colleagues-in-charge of each division and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In 2013, the self-assessment on procedural control covered various divisions or departments in light of the Company's organisational restructuring and business expansion. In addition, members of the Senior Management were required to assess the effectiveness of the corporate internal control system according to the outlines of the COSO internal control system, including control environment and risk assessment information and communication. The review process has enabled the colleagues-in-charge to verify whether the internal control system is operated as intended, to identify failures or weaknesses and to take relevant remedial actions. The Internal Audit Department also carried out independent examination and analysis on the reviewing process and the results, and submitted a declaration to the Audit Committee and the Board certifying the adequacy and effectiveness of the Group's internal control system.

The results of the review for the year ended 31 December 2013 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. The areas of the systems and procedures pending further improvement have been identified and remedial actions have either been taken or designated to be taken. No material weaknesses have been identified by the Group so far and there are no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board have also received the annual review results with regard to the adequacy of resources, qualifications and experience of the Group's accounting and financial reporting staff and the sufficiency of their training programmes and budget. In accordance with such results, the Audit Committee and the Board are of the view that the Group has adequate workforce to fulfill accounting and financial reporting duties. These personnel possess necessary professional qualifications and practicing experience to effectively perform their respective functions, and there have been appropriate training programmes and related budget for the staff.

The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the Code Provisions of the Corporate Governance Code for the year ended 31 December 2013.

## INTERNAL AUDIT

The Internal Audit Department was established soon after the Company's listing on the Stock Exchange in 2004. The main functions of the Internal Audit Department are reviewing the operational and financial conditions of the Group, so as to disclose potential risks, and following up with related remedial measures, with a view to continuously enhancing the operation effectiveness and efficiency of the Group. The Internal Audit Department plays an important role in the Group's internal control and risk management framework with an aim to providing the Audit Committee and the Board with objective assurance that the internal control system and risk management system are effectively maintained and operated and that the risks associated with the achievement of business objectives are being managed properly and circumvented. The Internal Audit Department reports directly to the CFO and refers matters to the Audit Committee directly if necessary. The head of the Internal Audit Department attended every meeting of the Audit Committee and maintained constructive dialogue with the Company's external auditor during 2013. The Internal Audit Department also collaborates with the external auditor where appropriate.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk assessment results, and engages in related tasks with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular audits and evaluation of the operational effectiveness and efficiency of various business and functional systems; and (ii) special audits in areas designated by the management and the Audit Committee based on the assessment of risks. In the year 2013, the Internal Audit Department conducted audits on the product division, sales system, marketing system, retail subsidiaries, supply chain system and human resources system of LI-NING brand, as well as Double Happiness Company, and submitted the relevant audit reports to the Audit Committee and the management.

For significant audit findings and risk factors, the Internal Audit Department will notify the Audit Committee and the management of such risks in a timely manner, and will regularly follow up with the improvement progress. As at 31 December 2013, various audit findings and risk factors had been properly handled by the management, and there were no material irreparable audit findings and risk factors. The Internal Audit Department planned to carry out audits focusing on branding, product and financial systems in 2014.

The Internal Audit Department also plays an important role in internal control and risk management system and is responsible for reviewing and assessing the adequacy and compliance level of the Group's internal control system and risk management system and providing an independent and objective opinion on the effectiveness of the systems. In 2013, the Internal Audit Department participated in reviewing the implementation of the risk management system, internal control system, risk management of sales channels and branding, and the human resources system.

## INSIDE INFORMATION

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

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

## COMPLIANCE WITH THE MODEL CODE ON SHARE DEALINGS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules regarding securities transactions by the Directors. Directors are reminded regularly of their obligations under the Model Code. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2013.

Employees who are likely to be in possession of unpublished inside information of the Group are also subject to the compliance with guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in the year 2013.

## COMPANY SECRETARY

During the year, Ms. Yim Wai Yin, Lisa ("Ms. Yim") had been the company secretary of the Company (the "Company Secretary") for the period from 1 January 2013 to 30 April 2013. Ms. Tai Kar Lei ("Ms. Tai") was appointed the Company Secretary with effect from 13 May 2013. During the vacation of office of the Company Secretary for the period from 1 May 2013 to 12 May 2013, Mr. Tsang, Terence Wah-fung, the CFO, oversaw the company secretarial function of the Company with the assistance of professional advisers.

Both Ms. Yim and Ms. Tai were full time employees in their respective tenures and had day-to-day knowledge of the Company's affairs. During their respective tenures in 2013, Ms. Yim and Ms. Tai reported to the Executive Chairman, Executive Vice Chairman and/or the CFO. In addition, both of them have duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

## SHAREHOLDERS' RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS

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

## Procedures for Shareholders to convene a general meeting/put forward proposals

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

## Procedures for Proposing a Person for Election as a Director

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

## Procedures for Shareholders to send enquiries to the Board

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

For the year 2013, there was no change in the Articles of Association.

## SHAREHOLDERS' MEETINGS

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

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

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

Board members (including the chairmen of each of the Nomination Committee, the Remuneration Committee and the Audit Committees) and the Company's external auditor were present at the annual general meeting of Company held on 31 May 2013 (the "2013 AGM"). A question-and-answer session was available for the Shareholders to raise questions. The next annual general meeting of the Company will be held on 30 May 2014 (the "2014 AGM"). Details of the 2014 AGM and necessary information on issues to be considered are set out in the circular despatched to the Shareholders together with this annual report.

The attendance record of the Directors at the shareholders' meetings held in the year 2013 are set out below:

| | Extraordinary General Meeting held on 21 February 2013 | 2013 AGM |
|---|---|---|
| ***Executive Directors*** | | |
| Mr. Li Ning *(Executive Chairman)* | ✓ | ✓ |
| Mr. Jin-Goon Kim *(Executive Vice Chairman and Interim CEO)* | ✓ | ✓ |
| Mr. Zhang Zhi Yong | – | – |
| ***Non-executive Directors*** | | |
| Mr. Chen Yue, Scott | ✓ | ✓ |
| Mr. Chu Wah Hui *(resigned on 1 January 2013)* | N/A | N/A |
| Mr. James Chun-Hsien Wei *(resigned on 1 September 2013)* | – | – |
| ***Independent non-executive Directors*** | | |
| Mr. Koo Fook Sun, Louis | ✓ | ✓ |
| Ms. Wang Ya Fei | – | ✓ |
| Dr. Chan Chung Bun, Bunny | ✓ | – |
| Mr. Su Jing Shyh, Samuel | – | ✓ |

## WAY FORWARD

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

By order of the Board

**Li Ning**
*Executive Chairman and Executive Director*

Hong Kong, 21 March 2014

# Directors and Senior Management

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

## EXECUTIVE DIRECTORS

**Mr. LI Ning**, aged 51, is the founder of the LI-NING brand and the Group's Executive Chairman and an executive Director of the Group. Mr. Li also serves as the Chairman of the Executive Committee and a member of the Nomination Committee. 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 only 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 in 1989 from his athlete career, Mr. Li initiated the idea of LI-NING brand with the goal of creating the first national sports goods brand in the PRC. He has dedicated the past over 20 years to the development of the Group's business, making great contribution to the development of the sporting goods industry in China. Mr. Li also serves as chairman, chief executive officer and executive director of Viva China Holdings Limited, a company listed on the Growth Enterprise Market of the Stock Exchange. Mr. Li holds a bachelor's degree in law from School of Law of Peking University (北京大學), an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院), a technical honorary doctorate from Loughborough University in the United Kingdom and a degree of Doctor of Humanities honoris causa of The Hong Kong Polytechnic University. In June 2010, Mr. Li was also conferred honorary fellowship from The Hong Kong University of Science and Technology.

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

**Mr. Jin-Goon KIM,** aged 46, is the Executive Vice Chairman, Interim Chief Executive Officer and an executive Director of the Group, leading the development of the Group's internal affairs and daily operations. Mr. Kim also serves as a member of the Executive Committee and the Nomination Committee. Mr. Kim became a director of the Company in April 2012. Mr. Kim is a partner of TPG and a member of TPG's Operations Group. TPG is a world's leading private equity investment firm. From December 2007 to January 2011, he was an executive director and interim chief executive officer of China Grand Automotive Service Co., Ltd. (廣匯汽車服務股份公司), and was appointed as vice-chairman of the Board from April 2012 to September 2013 and built China's leading passenger car retail and service network. As a director of the board from July 2008, Mr. Kim led the turnaround of UniTrust Finance & Leasing Corporation (恒信金融租賃有限公司), a leading capital equipment leasing company in China. Mr. Kim is also a non-executive director of the board of Daphne International Holdings Limited ("Daphne") since April 2011, a leading ladies' shoe company in China and a company listed on the Main Board of the Stock Exchange, and has led TPG's operational initiatives to help transform Daphne's core operations and pioneer industry's first fast retail business model. Prior to joining TPG, Mr. Kim worked for Dell Inc. as the managing director of its Korea business from 2002 to 2006. Prior to that from 2000 to 2002, Mr. Kim was vice president of Internet Business Capital Corporation in Cambridge, Massachusetts, a privately funded early-stage venture capital firm and from 1996 to 2000, he was the engagement manager at McKinsey & Company, an international management consulting firm. Mr. Kim received his undergraduate degree in Arts majored in Government and East Asian Studies from Harvard University with High Honors, conducted post graduate research in Nanjing-Hopkins Center in China, and returned to Harvard University to pursue his Master of Public Policy.

**Mr. ZHANG Zhi Yong**, aged 45, is an executive Director. Mr. Zhang joined the Group in October 1992 as a finance manager of Beijing Li Ning Footwear Co., Ltd. (北京李寧鞋業有限公司), became the financial controller of Beijing Li Ning Sports Goods Co., Ltd. (北京李寧體育用品有限公司) in April 1999 and was the general manager of the company from February 2001 to June 2004. From the listing of the Company on the Stock Exchange in June 2004 to 3 July 2012, Mr. Zhang was the Company's Chief Executive Officer, responsible for the overall strategy of the Group, and promoting the development of human resources, information resources and financial resources in line with the Group's brand development. Since 1992 when he began his career in the sporting goods industry in China, Mr. Zhang has accumulated 20 years of China experience in the industry with thorough understanding of the change of the consumer market in China, the building of brand images and change management for Chinese firms. Mr. Zhang has been appointed as an independent non-executive director of C.banner International Holdings Limited, a company listed on the Main Board of the Stock Exchange, with effect from 15 October 2012. Mr. Zhang holds a bachelor's degree from Beijing College of Economics (北京經濟學院) and an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院).

## NON-EXECUTIVE DIRECTOR

**Mr. CHEN Yue, Scott**, aged 37, is a non-executive Director, a member of the Executive Committee and the Remuneration Committee. Mr. Chen joined the Group in April 2012. TPG Stallion, L.P., which has interests in the convertible bonds and ordinary shares of the Company, is an affiliate of TPG, a world's leading private equity investment firm. Mr. Chen is a managing director of TPG. Mr. Chen focuses on investment opportunities for TPG in Greater China with an emphasis in the consumer and retail as well as technology, media, and telecom industries. Since joining TPG in 2001, Mr. Chen has been based in TPG's Singapore, Hong Kong and Beijing offices and has evaluated and executed private equity transactions across multiple industries spanning across most Asia Pacific countries. He is serving and has served on the boards of companies including UTAC Holdings Ltd. since 2007 and Taishin International Bank Co., Ltd., a Taiwanese bank, from 2008 to 2010. Prior to joining TPG, from 1999 to 2001, Mr. Chen worked as an analyst in the Technology Mergers & Acquisitions Group of Lehman Brothers Holdings Inc. in New York. Mr. Chen graduated from University of Colorado with a Bachelor Degree in Business Administration in 1999.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. KOO Fook Sun, Louis**, aged 57, is an independent non-executive Director and Chairman of the Audit Committee. Mr. Koo joined the Group in June 2004. Mr. Koo is the managing director of Hercules Capital Limited, a corporate finance advisory firm. Prior to the founding of Hercules Capital Limited, he was the managing director and the head of corporate finance department of a major international bank, and a director and chief executive officer of a company listed on the Main Board of the Stock Exchange. Mr. Koo also serves currently as an independent non-executive director of Midland Holdings Limited, Good Friend International Holdings Inc., Xingda International Holdings Limited and Richfield Group Holdings Limited, all of which are listed on the Main Board of the Stock Exchange. From 20 October 2003 to 29 June 2012, Mr. Koo served as an independent non-executive director of Weichai Power Co. Limited (a company listed on the Main Board of the Stock Exchange). Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley in the United States and is a certified public accountant.

**Ms. WANG Ya Fei**, aged 58, is an independent non-executive Director, Chairperson of the Remuneration Committee and a member of the Audit Committee. Ms. Wang joined the Group in January 2003. Ms. Wang has over 20 years of experience in management and corporate finance matters. Ms. Wang has been appointed as chairman of Caelum Asset Management Company with effect from September 2011. She also serves as an independent director of Xueda Education Group, listed on the New York Stock Exchange. Ms. Wang was the director and deputy general manager of Beijing Investment Consultants Inc. from 1996 to September 2011, and an associate professor in Guanghua School of Management of Peking University (北京大學光華管理學院) from 1995 to September 2011. She holds a bachelor's degree in international politics from Fudan University (復旦大學) in Shanghai and was an exchange scholar in Maryland University, College Park in the United States. Ms. Wang also holds a M.B.A. degree from University of Lancaster in the United Kingdom.

**Dr. CHAN Chung Bun, Bunny**, aged 56, is an independent non-executive Director and a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Dr. Chan joined the Group in June 2004. Dr. Chan has more than 30 years of experience in the garment industry and is currently the chairman of Prospectful Holdings Ltd. Dr. Chan has also served as independent non-executive director respectively of Great Harvest Maeta Group Holdings Limited since September 2010 and of Speedy Global Holdings Limited since December 2012. Both companies are listed on the Main Board of the Stock Exchange. Dr. Chan is active in community affairs in Hong Kong. Dr. Chan is currently the chairman of the Kwun Tong District Council of Hong Kong and has been appointed as the chairman of the Commission on Youth of Hong Kong from 1 April 2009. Dr. Chan was appointed as Justice of Peace in 2002 and was awarded the Bronze Bauhinia Star medal in 2004 and Silver Bauhinia Star medal in 2009 by the Hong Kong Government. In December 2013, Dr. Chan was conferred Doctor of Business Administration, honoris causa, by the Open University of Hong Kong.

**Mr. SU Jing-Shyh Samuel**, aged 61, is an independent non-executive Director and Chairman of the Nomination Committee. Mr. Su joined the Group in July 2012. Mr. Su is the chairman and chief executive officer of the China Division of Yum! Brands, Inc. ("Yum!"), a company listed on the New York Stock Exchange. He also serves as an executive director and the vice chairman on Yum!'s board of directors. Mr. Su earned his undergraduate degree at the National Taiwan University, a M.Sc. degree of Chemical Engineering at Pennsylvania State University and an MBA at the Wharton School. Before joining Yum!, Mr. Su worked with Procter & Gamble in Germany and Taiwan. Mr. Su started his career with Yum! in 1989 as KFC International's director of marketing for the North Pacific region. In 1993, he became vice president of North Asia for both KFC and Pizza Hut. Mr. Su was named president of Greater China for Tricon Global Restaurants International upon Pepsi's spin-off of the restaurant business in 1997. Yum!'s China Division today leads the development of the KFC, Pizza Hut Dine-in Restaurants, Pizza Hut Home Service, East Dawning and Little Sheep brands in mainland China. Mr. Su was a non-executive director of Little Sheep Group Limited from 2 June 2009 to 2 February 2012, which was delisted from the Main Board of the Stock Exchange in February 2012.

## SENIOR MANAGEMENT

**Mr. TSANG, Terence Wah-Fung (2nd from the left)**, aged 52, Chief Financial Officer of the Group, joined the Group in April 2013, and is responsible for finance, internal audit, company secretary, legal and investor relationship. Mr. Tsang has over 23 years of experience in the apparel industry. His previous employment included that for Guess Inc, Ashworth Inc and Levi Strauss Company. Mr. Tsang had held various management roles including as chief financial officer, chief operation officer, Asia president and senior vice president for business unit throughout his career. He is a Certified Public Accountant. Mr. Tsang holds a Bachelor of Science in Accounting and a Master of Business Administration from State University of New York.

**Mr. Edwin Alexander JONKERS (1st from the left)**, aged 49, Vice President and Chief Product and Merchandising Officer of the Group, joined the Group in September 2012, and is responsible for product creation, including product planning, design, research, development and merchandising functions in footware, apparel and hardware. Mr. Jonkers has over 20 years of experience in sporting goods and fashion industry at retail and brands in product creation and marketing roles. Prior to joining the Group, Mr. Jonkers worked in internationally renowned sports brand companies. He graduated from University of Applied Science TMO in Netherlands with a Bachelor's degree of Arts in Marketing and Business Management.

**Mr. DENG Hongbing (2nd from the right)**, aged 43, Vice President and Chief Supply Chain Officer, joined the Group in August 2012, and is responsible for establishment and optimisation of supply chain management system. Mr. Deng has 20 years of experience in supply chain management. Prior to joining the Group, Mr. Deng worked in Dell for 14 years, holding various key management positions, including executive director for sales operations of small and medium business in Asia-Pacific and Japanese region, executive director for worldwide procurement in Dell, manufacturing operations director in Dell China, procurement and business planning director in Dell China, with senior management experience leading revolutionary transformation. Mr. Deng holds a master's degree in Business Administration from China Europe International Business School.

**Ms. Catherine TENG (3rd from the right)**, aged 45, Vice President of the Group and Chief Marketing Officer of LI-NING brand. Ms. Teng joined the Group in October 2012. She is responsible for the marketing and brand development of the Group, including strengthening brand equity, developing growth strategies and innovation pipeline, managing the sports resources. Ms. Teng comes from Taiwan with 20 years of rich experience in brand management across beauty care and food categories. Ms. Teng held key marketing positions from multinational corporations, including P&G and Johnson & Johnson Asia Pacific. Prior to joining the Group, Ms. Teng was the managing director of General Mills Taiwan. Ms. Teng graduated from the National Taiwan University with a bachelor's degree in Foreign Languages and Literatures, and holds two master degrees respectively a master in Journalism from University of Texas at Austin and an EMBA from National Taiwan University.

**Ms. Monica, Zhengzheng SUN (1st from the right)**, aged 45, is the Vice President of the Group and Chief Human Resources Officer of the LI-NING brand. Ms. Sun joined the Group in July 2013. She is responsible for establishing and improving the Group's strategic human resources management, talent management system, remuneration and benefits, and personnel management. Ms. Sun has over 17 years of experience in the business operations and human resources management in multinational companies. She held numerous positions with Germany-based Henkel Group, including Vice President of Human Resources (Asia Pacific Region), Director of Human Resources (China), President (Singapore and Malaysia), and Vice President of Henkel adhesive technologies Southeast Asia Region. She has extensive experience in human resources management and business operations. Ms. Sun graduated from Beijing Foreign Studies University with a Bachelor of Arts degree and holds a Diploma in Management from China Europe International Business School.

# Investor Relations Report

## OVERVIEW

In 2013, during the first stage of the Transformation Plan, the Company and its management continued to be committed to maintaining an effective investor relations programme. Effective and proactive investor relations is vital when the Company is undergoing transformation as the market needs to understand the priorities and progress of the transformation against the rapidly changing industry conditions. During the year the Company strived to enhance the understanding of the Company's strategies, current business development and operations in relation to financial performance through active communications with the sell-side and buy-side, as well as individual shareholders. The communications with stakeholders was two-fold – the Company provided easy access to information through its investor relations department and corporate website, and investors were also encouraged to reach out to the Company directly with their enquiries. The Annual General Meeting in May also offered an excellent platform for shareholders to communicate directly with the senior management.

## PROACTIVE AND TARGETED COMMUNICATIONS WITH INVESTORS

2013 continued to be a year of uncertainty for the consumer sectors in China. With mixed market views on the pace of recovery of the domestic sportswear industry, keeping investors abreast of the Company's operational and financial conditions was critical. Educating investors was crucial as the Company continued to push forward the Transformation Plan and the Channel Revival Plan announced in 2012. Throughout the year the management maintained transparent financial disclosure. This was more challenging in 2013 due to the implementation of the retail business model under the Transformation Plan, a new concept for sportswear market in China and therefore the Company needed to communicate proactively the concept and rationale, as well as introduce new measurements to operational performance to all its stakeholders. During the year, the Company took a more targeted approach in its investor outreach in order to communicate in a focused and consistent manner to a more relevant investor audience. At the same time, the engagement with our investors through meetings and perception audits allowed us to understand their concerns and opinions and through this investor intelligence we were able to improve our communication narrative.

Below are the highlights of some investor relations initiatives throughout the year:

| Type of Initiative | 2013 | 2012 |
|---|---|---|
| Roadshow (including reverse roadshows) | **2 times (total 22 meetings)** | 7 times (total 81 meetings) |
| Investor forums | **1 time** | 1 time |
| Investor site visits | **2 time** | 1 time |
| Regular 1 on 1 meetings with investors | **43 times** | 59 times |
| Investor Conference calls | **87 times** | 70 times |
| Company's store visits | **17 times** | 23 times |
| Investor perception audit | **3 times** | 0 time |
| Stock commentator roundtable | **1 time** | 0 time |

## A STRENGTHENED INVESTOR RELATIONS TEAM

With the Company's CFO, Mr. Terence Tsang, fully on board in May 2013 and Mr. Angus Yiu joining the team as the Head of Investor Relations and Corporate Planning in December 2013, the Company is well positioned with an experienced investor relations team now supporting the various investor relations initiatives. This strengthened team will continue to work towards further enhancing the communications with investors through various platforms such as roadshows, investor forums, meetings, shop visits, conference calls, media briefings and other forms of engagement.

## A STRONGER AND STABLE SHAREHOLDER STRUCTURE SUPPORTS BETTER MARKET VALUATION OF THE COMPANY

At a time when the industry landscape continues to evolve with constant changes in market dynamics among players in the sector, it is vital to maintain a quality shareholder base to provide the necessary investor support as the Company continues through the pioneering transformation of Li Ning. The investor relations department will continue to implement various exercises towards building a targeted shareholders base that supports the investment proposition of the Company to correctly reflect its valuation.

## FUTURE OUTLOOK

Effective investor relations communication is an integral part of the Company's management philosophy. In 2014, the Company will continue to implement the next stage of the Transformation Plan and maintain effective communications with investors. Through the investor relations department's efforts, the Company aspired to instill further confidence among investors and enhance their understanding of our business as we navigate through the next stage of our transformation journey.

## INFORMATION FOR INVESTORS

### Share information

Listing: Main Board of the Hong Kong Stock Exchange
on 28 June 2004
Stock code: 2331
Board lot: 500 shares
No. of issued shares as at 31 December 2013: 1,369,633,448
Market capitalization as at 31 December 2013:
Approximately HK$8,382,156,700

### Dividend for 2013

Interim dividend: None
Final dividend: None

### Financial Calendar

Announcement of annual results: 21 March 2014
Annual General Meeting: 30 May 2014

### Corporate websites

Li Ning Corporate Website: http://www.lining.com
Li Ning Official Website – Chinese only:
http://www.li-ning.com
Li Ning IR Site: http://www.lining.com/eng/ir/finhigh.php

### Contact for Investor Relations

Suites 1, 7-15, Level 45, Office Tower,
Langham Place, 8 Argyle Street, Mongkok, Kowloon
Hong Kong SAR
Investor Relations Department, Li Ning Company Limited

Phone: +852 3541 6000
Fax: +852 3102 0927
Email: investor@li-ning.com.cn

# Get Moving

# Corporate Social Responsibilities

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

## CORE VALUES

The Group considers its employees the greatest asset. By maintaining a working environment that helps their physical and psychological well-being, providing them with skill training and creating career development opportunities, the Group can enhance staff cohesion, create a greater sense of belonging and improve individuals' skills. As a result, the staff grows as the company grows.

In 2013, the Group continued to adhere to the core values that embrace achieving excellence and breakthrough, creating consumer-oriented work ethics with both integrity and commitment, as well as building the Li Ning Company dream and culture. Senior management and staff of the Group had many opportunities to communicate with each other through various internal platforms, including town hall meetings, management workshops, Group intranet, the internal publication – "Sports Ethics" (《運動品格》) – and various training courses. Our staff was greatly encouraged to project their positive energy and develop a sense of ownership of the Company, which helped them deliver good performance, inspire innovation and proactively take part in the corporate reform and transformation.

### Staff Training

Adhering to the principle of being "people-oriented" and based on the well-established system that integrates the perspectives and needs of trainees, lecturers and curriculum, the Group developed its training programs with the focus on fulfilling the mutual need for development of both the corporation and the staff.

In terms of enhancing leadership skills, the Group designed four standard courses tailored for management, namely Strategy Analysis and Execution, Performance Management, Leadership in Transformation, and Crucial Conversations, to address the needs arising from corporate transformation. The curricula cover management techniques and tactics, and provide expert knowledge and practices to better equip the trainees to adopt new skillsets tailored to the Group's vision of building a retail business model (RBM). These training courses have been consistently carried out to build a strong foundation of corporate management and enhance the overall management and execution capabilities of the Group.

In view of the distinctive challenges that arise during the transformation period, the Group provided support to the new teams in each of the business units to facilitate their team building and integration, and offered professional courses to support the retail business model transformation.

At the same time, the Group also continued to perfect its comprehensive talent development system, which included orientation camps for new staff, "TOP" training camps for employees identified to have strong potential, management training camps for newly promoted personnel and mini-EMBA courses for outstanding managerial staff. With the application of Key Development Indicator (KDI), managerial staff was also trained to be trainers themselves to help nurture selected junior employees with great growth potential. These programs not only helped the individuals' development and enhanced the overall strength of the teams; they also served to form a sustainable internal talent pool displaying strong potential and competitiveness.

## Working Environment and Culture

The Group regards highly the physical and psychological well-being of its employees. Employees are always encouraged to participate in various sporting activities as they provide valuable opportunities for team interaction and bonding. The Li-Ning Centre, situated at the Group's headquarters in Beijing, offers a variety of facilities and venues for staff use, ranging from basketball courts, badminton courts and swimming pools to outdoor football fields. Professional coaches are also hired not only to teach the employees various sports but also to instill sportsmanship among them. The Group is funding a number of sports clubs for staff, where various internal and external competitions have already been held, including general sports games, badminton/basketball/tennis competitions, Beijing marathons, and swimming competitions for foreign-invested enterprises in Beijing. Taking part in these sporting activities provided the staff with the unique opportunity to deepen their appreciation of corporate values. Our unique sporting culture has also become one of the important factors in attracting talents to the Group.

## Taking Care of Staff and Their Families

In addition to our unique sporting culture, the Group has also regularly organized various activities for our employees' families, including parent-child gatherings, annual meet-ups and sports competitions for staff and their families. These activities helped enhance employees' sense of belonging to the Group and demonstrated the Company's care for its employees and their families.

## Employee Benefits and Welfare

The Group provides supplementary commercial medical insurance to all employees and their family members, and arranges free medical check-ups for its staff every year. Our offices are designed and furnished with various green plants and environment-friendly facilities to create an elegant and soothing space as well as to ensure a healthy and comfortable working environment. In 2013, the Group streamlined the rules and procedures to optimise our staff welfare system. In addition, the Group established a support program to help employees handle stress in a positive way. Regular department meetings were also held to provide additional platforms for communications between the management and staff.

# CONTRIBUTING TO THE COMMUNITY

The Company has been actively fulfilling its social responsibility as a corporate citizen, particularly in the aftermath of natural disasters such as the snowstorm in south China and the earthquake in Sichuan. In November 2013, we learned that at Pengji Township Elementary School situated at the foot of Mount Everest, Shigatse region, Tibet, over 180 students and the neighbouring villagers were in desperate need of winter clothing and school supplies due to the high altitude, extreme weather conditions and inconvenient location. We organised a "Warm Winter" donation event, which called for the staff to donate unused household items and clothing, as a token of care for the students. Within five days, 22 boxes of items were collected, amounting to a total value of approximately RMB100,000. This donation is only a starting point. The Company attaches great importance to corporate social responsibility and will continue to encourage our employees' participation in charity work in the future.

## Corporate Responsibility and Sustainability Management

### I. Social Responsibility and Sustainability of our Supply Chain:

During the year, we published and implemented the major event reporting system for social and environmental responsibilities of suppliers, with a focus on labour rights, occupational health and safety, environmental protection and sustainable development. Environmental performance reviews were carried out on key suppliers. We also joined efforts with other brands under the Joint Roadmap of ZDHC (Zero Discharge of Hazardous Chemicals) to promote research and projects on elimination of hazardous chemicals.

#### *Occupational Health, Safety and Social Responsibility of our Supply Chain:*

During the year, the Group carried out onsite compliance reviews of its key suppliers with regard to labour rights and occupational health and safety. The review helped to identify potential risks in the supply chain. In addition, preventive training sessions on protection of underage labourers were conducted for new suppliers and those at key risk areas.

Onsite social responsibility reviews of 18 major finished-product suppliers were completed, accounting for 80% of total employees at finished-product suppliers.

Survey and assessment on social responsibility management practices were completed for 39 finished-product factories.

We published and implemented the major event reporting system for social and environmental responsibilities of suppliers (signed by Vice President of Supply Chain on 1 April 2013).

The procedures for handling major social responsibility non-compliance (such as child labour) were standardised.

### *Environmental Responsibility of our Supply Chain:*

Currently, we are the only sporting goods brand in China officially committed to achieving zero discharge of hazardous chemicals by 2020. Through pilot environmental reviews on the supply chain, the Group made substantive progress in environmental impact and chemicals management in the supply chain during the year, demonstrating an active stance to implementing the ZDHC zero discharge roadmap.

### *During the year, the Group organised benchmarking training and provided educational materials for suppliers on onsite chemicals usage:*

Through training sessions and project implementation, we continued to improve suppliers' onsite chemicals management to reduce potential risks in chemicals purchase, acceptance, storage, distribution, use, collection, treatment and disposal. We monitored the potential risk of occupational poisoning across the supply chain, while providing support to suppliers in complying with the code of conduct.

### *During the year, the Group cooperated with ITS, an external professional consultancy and monitoring service provider, to carry out pilot onsite environmental reviews on major material suppliers:*

Through proactive and preventative onsite environmental risk assessment, the reviews helped to identify significant environmental management risks and opportunities, and laid a solid foundation for a green supply chain. The reviews consisted of three modules, namely "basic review", "diagnostic review on chemicals management (including chemicals test)", and "wastewater sampling and testing".

**Module 1: Basic Review**

It is designed to understand the risk points and weaknesses mainly in environmental management, environmental compliance, employee health and safety, and onsite chemicals management at factories.

**Module 2: Diagnostic review on chemicals management (including chemicals test)**

It mainly comprises risk assessment, analysis and tests according to the list of chemicals used in factories.

**Module 3: Wastewater sampling and testing**

With reference to conditions of suppliers, wastewater before processing by the treatment facilities is sampled and tested, with a focus on 11 hazardous chemicals to understand the discharge of toxic and hazardous substances by suppliers.

### *Progress during the year in following the ZDHC Joint Roadmap:*

During the year, the Group updated the restricted substances list (RSL) of LI-NING products, which has been published in February 2014.

The Group also developed the material restricted substances list (MRSL) for its production process, and is planning to enter into the declaration of conformity with its suppliers before April 2014.

We understand that regarding the elimination of hazardous substances, it is more important to control and eliminate the release of hazardous substances in the production process than merely removing them from products.

During the year, the Group reviewed its existing usage of perfluorocarbons (PFCs), including the ratio of SKUs containing C8 and C6 among all SKUs.

The Group intends to publish its plan on usage reduction and elimination percentage of PFCs in 2014.

During the year, the Group carried out research on durable prevention technology.

The research focused on durable technologies, addressing waterproof, oil proof and easy-cleaning requirements for outdoor and fashion industries. In particular, we are aiming to achieve a breakthrough in the development of LI-NING "green" fluoride-free durable waterproof fabric by the end of 2014.

## II. Product Safety and Sustainability:

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

During the year, the Group continued to optimise the management system of product quality and safety. The Group upgraded and improved its own product safety standards in line with the latest industry standards and increased the proportion of restricted substances to be inspected and tested in products. All of the Group's products sold on the market have passed inspections by independent third party testing institutions holding national credentials.

The Group also continued to apply the "eco-product" concept and new environmentally-friendly technology to the research and development of products. The Group conserved energy, reduced emission and increased the utilisation of materials using innovative fabrics and design. This year, the Group has included carbon footprints in its measurements of CSR practice and will continue to push forward the control and implementation of carbon emission reduction during the products' life cycle.

During the year, the licensed brands of the Group also made respective efforts in brand concept innovation, supply chain responsibility and product sustainability.

## III. Stakeholder Communication and Industry Cooperation:

During the year, in striving for sustainable development, the Group collaborated and participated in open dialogues with active social groups and civil organizations with the aim of establishing stable, long-term communication channels.

The Group also teamed up with signatory members committed to ZDHC to explore environmental protection in relation to products and supply chains and the elimination of harmful chemicals. Through these interactions and mutual learning, the Group excelled among domestic industries in respect of CSR practices and achieving sustainable development.

During the year, the Group and brands under the ZDHC convention cooperated with China Textile Industry Association to organise the "Seminar on Hazardous Chemicals for Stakeholders in the Textile Industry". The seminar was designed to advance positive drivers in environmental protection and sustainable development, and fulfill the ultimate goal of zero discharge.

At the 2013 Annual Conference of Global Textile and Apparel Supply Chain, the Group put forward challenges and opportunities for the dyeing industry and apparel brands, and expressed its views on collaborative solutions to energy conservation, environmental protection, product innovation and improvements in market competitiveness.

# Standing Out

# Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2013.

## PRINCIPAL ACTIVITIES

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

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

## SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and its investment in associates and a joint venture as at 31 December 2013 are set out in notes 10 and 11 respectively, to the consolidated financial statements.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2013 are set out in the consolidated income statement on page 93 of this annual report.

During the year, the Company did not declare interim dividend for the six months ended 30 June 2013 (2012: Nil). In light of the current operating environment, the Board considers it appropriate to retain cash for the future development of the Group, therefore, it does not recommend the payment of a final dividend in respect of the year ended 31 December 2013 (2012: Nil).

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2013 are set out in note 16 to the consolidated financial statements.

## RESERVES

As at 31 December 2013, distributable reserves of the Company amounted to RMB2,097,259,000 (2012: RMB725,626,000). Details of movements in reserves of the Group during the year are set out in notes 16 and 17 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

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

| | Year ended 31 December | |
|---|---|---|
| | **2013** **% of total revenue** | 2012 % of total revenue (Restated) |
| The largest customer | **5.1** | 6.8 |
| Five largest customers | **16.4** | 21.6 |

| | **% of total purchases** | % of total purchases (Restated) |
|---|---|---|
| The largest supplier | **11.2** | 13.7 |
| Five largest suppliers | **36.1** | 43.5 |

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

## BANK BORROWINGS

Bank borrowings of the Group as at 31 December 2013 amounted to RMB400,000,000 (2012: RMB1,447,157,000). Particulars of the borrowings are set out in note 21 to the consolidated financial statements.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB2,040,702 (2012: RMB201,045).

## PROPERTY, PLANT AND EQUIPMENT

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

## CONVERTIBLE BONDS

On 19 January 2012, the Company entered into the subscription agreements with TPG ASIA, Inc. (TPG ASIA, INC., and/or its affiliates "TPG") and Tetrad Ventures Pte. Ltd. ("GIC Investor") respectively in relation to the issue by the Company of convertible bonds (the "Convertible Bonds") in an aggregate amount of RMB750,000,000 with a conversion price of HK$7.74 per Share. The Convertible Bonds bear minimum interest at the rate of 4% per annum and will be due on the fifth anniversary of the date of issue of the Convertible Bonds. The Company had issued Convertible Bonds in the principal amount of RMB561,000,000 to TPG Stallion Holdings, L.P. (which is an affiliate of TPG) and Convertible Bonds in the principal amount of RMB189,000,000 to GIC Investor on 8 February 2012 respectively.

On 23 January 2013, the Company entered into deeds of amendment with TPG and GIC Investor respectively to amend certain terms and conditions of the subscriptions agreements and the terms and conditions attached to the Convertible Bonds, among which the conversion price of the Convertible Bonds was reset to HK$4.5 per Share. Please refer to the announcement of the Company dated 25 January 2013 for details.

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

## CONVERTIBLE SECURITIES

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

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

During the year, the Convertible Securities in an aggregate principal amount of HK$1,096,112,000 had been converted into 313,174,819 Shares. As at 31 December 2013, the outstanding Convertible Securities amounted to HK$751,726,000 entitling a total of 214,778,995 Shares to be issued thereby.

## FIVE-YEAR FINANCIAL HIGHLIGHTS

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

## PRE-EMPTIVE RIGHTS

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

## DIRECTORS

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

### Executive Directors

| | |
|---|---|
| Mr. Li Ning | *(re-elected on 31 May 2013)* |
| Mr. Jin-Goon Kim | *(re-elected on 31 May 2013)* |
| Mr. Zhang Zhi Yong | |

### Non-executive Directors

| | |
|---|---|
| Mr. Chen Yue, Scott | |
| Mr. Chu Wah Hui | *(resigned on 1 January 2013)* |
| Mr. James Chun-Hsien Wei | *(resigned on 1 September 2013)* |

### Independent non-executive Directors

| | |
|---|---|
| Mr. Koo Fook Sun, Louis | *(re-elected on 31 May 2013)* |
| Ms. Wang Ya Fei | |
| Dr. Chan Chung Bun, Bunny | *(re-elected on 31 May 2013)* |
| Mr. Su Jing Shyh, Samuel | *(re-elected on 31 May 2013)* |

In accordance with article 87 of the Company's Articles of Association and the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Listing Rules, Mr. Zhang Zhi Yong, Mr. Chen Yue, Scott and Ms. Wang Ya Fei shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the annual general meeting to be held on 30 May 2014 ("2014 AGM").

Ms. Wang Ya Fei has served on the Board for more than nine years. The Board considers Ms. Wang to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgment. The Board has assessed and reviewed the annual confirmation of independence based on the criteria set out in Rule 3.13 of the Listing Rules, and affirmed that Ms. Wang remain independent. The Board considers that in a long-term, complex and technologically advanced business environment, it is essential that independent non-executive Directors have the opportunity to acquire, over a number of years, the experience and knowledge of the business and the sectors within which the Company operates. Hence, the Board considers that the long service of Ms. Wang would not affect her exercise of independent judgment in her service with the Company, and recommends Ms. Wang to be re-elected as an independent non-executive Director at the 2014 AGM.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

## DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2014 AGM has an unexpired service contract which is not determinable by the Company or its subsidiaries within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTEREST IN CONTRACTS

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

## PENSION SCHEMES

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

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

None of the Pension Schemes or abovementioned provident fund plans has provision for the forfeiture of contributions made to the provident fund. Contributions to these plans are expensed as incurred. The Group's contributions to retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2013 were RMB46,678,000 (2012: RMB49,453,000).

## MANAGEMENT CONTRACTS

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

## LONG-TERM INCENTIVE SCHEMES

### Share Purchase Scheme

As part of the reorganisation of the Group prior to the listing of Shares on the Hong Kong Stock Exchange in June 2004, Mr. Li Ning, the Executive Chairman of the Company has, through Alpha Talent, established the Share Purchase Scheme. The Share Purchase Scheme was adopted by Alpha Talent on 5 June 2004 and shall be valid and effective for a period of ten years from that date. Under the Share Purchase Scheme, Mr. Li Ning has transferred 35,250,000 Shares beneficially owned by him to Alpha Talent. The objective of the Share Purchase Scheme is to grant rights to purchase Shares beneficially owned by Mr. Li Ning through Alpha Talent to key individuals who have contributed to the economic achievement of the Group. A committee established by the board of directors of Alpha Talent shall determine, among other things, the directors and employees of the Group who shall be selected to receive the options, the exercise price, and the terms and conditions of the options. Currently, there is no option outstanding under the Share Purchase Scheme.

## Post-IPO Share Option Scheme

The Company adopted the Post-IPO Share Option Scheme ("Post-IPO Share Option Scheme") on 5 June 2004. The Post-IPO Share Option Scheme will remain in force for a period of ten years starting from 5 June 2004.

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

By an ordinary resolution passed by the Shareholders at the annual general meeting of the Company held on 15 May 2009, the Post-IPO Share Option Scheme was amended to allow the Board to determine in its absolute discretion whether the right to exercise an option is subject to or conditional upon the achievement of specified performance target relating to the Company or to the grantee and/or the satisfaction of such other conditions as the Board may in its absolute discretion determine to be appropriate. Any of the foregoing condition(s) as determined by the Board shall be set out in the grant letter as referred to in the Post-IPO Share Option Scheme.

The exercise periods of the options following cessation of entitlement of grantees under certain circumstances under the Post-IPO Share Option Scheme are revised pursuant to resolutions of the Board on 11 October 2012. Such revisions are only applicable to options granted on or after 11 October 2012.

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

Participants of the Post-IPO Share Option Scheme are required to pay HK$1 for each option granted upon acceptance of the grant. The exercise price of the option is determined by the Directors and should not be less than the highest of: (a) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of the option; (b) the average closing price of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the option; and (c) the nominal value of the Shares.

The maximum number of Shares available for issue upon exercise of all options granted and yet to be exercised under the Post-IPO Share Option Scheme and other share option schemes in aggregate shall not exceed 30% of the number of issued shares of the Company from time to time. In addition, subject to the restrictions imposed by the Listing Rules, the total number of Shares which may be available for issue upon exercise of all options to be granted under the Post-IPO Share Option Scheme, together with all options to be granted under any other share option schemes of any member of the Group, must not represent more than 10% of the nominal amount of issued shares of the Company as at 28 June 2004, being the date of the listing of Shares on the Stock Exchange. Therefore, the Company may grant options in respect of up to 98,606,200 Shares (or such numbers of Shares as shall result from a sub-division or a consolidation of such 98,606,200 Shares from time to time) to eligible participants under the Post-IPO Share Option Scheme. As at the date of this report, the total number of Shares available for issue under the Post-IPO Share Option Scheme, save for those granted and yet to be exercised, amounted to 18,281,677 Shares (as adjusted upon the Open Offer), representing approximately 1.33% of the issued share capital of the Company as at the date of this report. The total number of Shares issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. An option may be exercised in accordance with the terms of the Post-IPO Share Option Scheme at any time during a period to be notified by the Board, which must not be more than ten years from the date of grant. Any Share allotted and issued on the exercise of options will rank pari passu with other Shares in issue on the date of allotment.

Details of movements of the options granted under the Post-IPO Share Option Scheme for the year ended 31 December 2013 are set out below and in note 33 to the consolidated financial statements.

| | | | | Number of Shares | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grantees | Date of grant | Exercise price per Share HK$ | Adjusted exercise price per Share upon the Open Offer HK$ (Note 3) | As at 01/01/2013 | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled during the year | Adjusted on 22/04/2013 upon the Open Offer (Note 3) | As at 31/12/2013 | Vesting period | Exercise period |
| **Executive Directors** | | | | | | | | | | | | |
| Jin-Goon Kim | 20/12/2012 | 5.360 | 4.92 | 287,450 | – | – | – | – | 25,456 | 312,906 | 21/12/2013 – 21/12/2017 | 21/12/2013 – 31/12/2018 |
| Zhang Zhi Yong | 04/07/2008 | 17.220 | 15.82 | 121,600 | – | – | – | – | 10,769 | 132,369 | 04/07/2009 – 04/07/2011 | 04/07/2009 – 31/12/2015 |
| | 19/01/2009 | 11.370 | 10.45 | 4,519,400 | – | – | – | – | 400,229 | 4,919,629 | 19/01/2010 – 19/01/2014 | 19/01/2010 – 31/12/2015 |
| | 15/07/2011 | 9.896 | 9.09 | 836,690 | – | – | – | – | 74,095 | 910,785 | 01/07/2012 – 04/07/2014 | 01/07/2012 – 31/12/2015 |
| | 04/07/2012 | 4.690 | 4.31 | 1,000,000 | – | (362,500) (Note 2(a)) | – | – | 88,558 | 726,058 | 04/07/2013 – 04/07/2015 | 04/07/2013 – 31/12/2015 |
| **Non-executive Directors** | | | | | | | | | | | | |
| Chen Yue, Scott | 20/12/2012 | 5.360 | 4.92 | 287,450 | – | – | – | – | 25,456 | 312,906 | 21/12/2013 – 21/12/2017 | 21/12/2013 – 31/12/2018 |
| James Chun-Hsien Wei (resigned on 1 September 2013) | 04/07/2008 | 17.220 | 15.82 | 51,400 | – | – | – | – | 4,552 | 55,952 | 04/07/2009 – 04/07/2011 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.370 | 10.45 | 263,400 | – | – | (57,345) | – | 23,326 | 229,381 | 19/01/2010 – 19/01/2014 | 19/01/2010 – 19/01/2015 |
| | 15/07/2011 | 9.896 | 9.09 | 209,180 | – | – | (75,903) | – | 18,525 | 151,802 | 01/07/2012 – 01/07/2014 | 01/07/2012 – 15/07/2017 |
| | 20/12/2012 | 5.360 | 4.92 | 287,450 | – | – | (312,906) | – | 25,456 | – | 21/12/2013 – 21/12/2017 | 21/12/2013 – 31/12/2018 |
| **Independent non-executive Directors** | | | | | | | | | | | | |
| Koo Fook Sun, Louis | 04/07/2008 | 17.220 | 15.82 | 51,400 | – | – | – | – | 4,552 | 55,952 | 04/07/2009 – 04/07/2011 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.370 | 10.45 | 263,400 | – | – | – | – | 23,326 | 286,726 | 19/01/2010 – 19/01/2014 | 19/01/2010 – 19/01/2015 |
| | 15/07/2011 | 9.896 | 9.09 | 209,180 | – | – | – | – | 18,525 | 227,705 | 01/07/2012 – 01/07/2014 | 01/07/2012 – 15/07/2017 |
| | 20/12/2012 | 5.360 | 4.92 | 287,450 | – | – | – | – | 25,456 | 312,906 | 21/12/2013 – 21/12/2017 | 21/12/2013 – 31/12/2018 |
| Wang Ya Fei | 04/07/2008 | 17.220 | 15.82 | 51,400 | – | – | – | – | 4,552 | 55,952 | 04/07/2009 – 04/07/2011 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.370 | 10.45 | 263,400 | – | – | – | – | 23,326 | 286,726 | 19/01/2010 – 19/01/2014 | 19/01/2010 – 19/01/2015 |
| | 15/07/2011 | 9.896 | 9.09 | 209,180 | – | – | – | – | 18,525 | 227,705 | 01/07/2012 – 01/07/2014 | 01/07/2012 – 15/07/2017 |
| | 20/12/2012 | 5.360 | 4.92 | 287,450 | – | – | – | – | 25,456 | 312,906 | 21/12/2013 – 21/12/2017 | 21/12/2013 – 31/12/2018 |
| Chan Chung Bun, Bunny | 04/07/2008 | 17.220 | 15.82 | 51,400 | – | – | – | – | 4,552 | 55,952 | 04/07/2009 – 04/07/2011 | 04/07/2009 – 04/07/2014 |
| | 19/01/2009 | 11.370 | 10.45 | 263,400 | – | – | – | – | 23,326 | 286,726 | 19/01/2010 – 19/01/2014 | 19/01/2010 – 19/01/2015 |
| | 15/07/2011 | 9.896 | 9.09 | 209,180 | – | – | – | – | 18,525 | 227,705 | 01/07/2012 – 01/07/2014 | 01/07/2012 – 15/07/2017 |
| | 20/12/2012 | 5.360 | 4.92 | 287,450 | – | – | – | – | 25,456 | 312,906 | 21/12/2013 – 21/12/2017 | 21/12/2013 – 31/12/2018 |
| Su Jing Shyh, Samuel | 20/12/2012 | 5.360 | 4.92 | 287,450 | – | – | – | – | 25,456 | 312,906 | 21/12/2013 – 21/12/2017 | 21/12/2013 – 31/12/2018 |

| | | | | Number of Shares | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Grantees | Date of grant | Exercise price per Share HK$ | Adjusted exercise price per Share upon the Open Offer HK$ (Note 3) | As at 01/01/2013 | Granted during the year | Exercised during the year | Lapsed during the year | Cancelled during the year | Adjusted on 22/04/2013 upon the Open Offer (Note 3) | As at 31/12/2013 | Vesting period | Exercise period |
| **Employees of the Group** | | | | | | | | | | | | |
| In aggregate | 04/07/2008 | 17.220 | 15.82 | 655,032 | – | – | (111,108) | – | 55,395 | 599,319 | 04/07/2009 – 04/07/2011 | 04/07/2009 – 04/07/2014 |
| In aggregate | 05/12/2008 | 10.940 | 10.05 | 92,700 | – | – | (94,861) | – | 2,161 | – | 05/12/2009 – 05/12/2011 | 05/12/2009 – 05/12/2014 |
| In aggregate | 19/01/2009 | 11.370 | 10.45 | 1,232,080 | – | – | – | – | 109,111 | 1,341,191 | 19/01/2010 – 19/01/2014 | 19/01/2010 – 19/01/2015 |
| In aggregate | 22/10/2009 | 21.870 | 20.09 | 2,390,802 | – | – | (354,822) | – | 204,269 | 2,240,249 | 01/07/2010 – 01/07/2012 | 01/07/2010 – 22/10/2015 |
| In aggregate | 15/07/2011 | 9.896 | 9.09 | 962,687 | – | – | (66,927) | – | 79,327 | 975,087 | 01/07/2012 – 01/07/2014 | 01/07/2012 – 15/07/2017 |
| In aggregate | 20/12/2012 | 5.360 | 4.92 | 16,763,410 | – | – | (2,272,432) | – | 1,453,981 | 15,944,959 | 21/12/2013 – 21/12/2017 | 21/12/2013 – 31/12/2018 |
| In aggregate | 13/08/2013 | 5.070 | N/A | – | 6,451,880 *(Note 1 (a))* | – | (247,920) | – | – | 6,203,960 | 31/03/2014 – 14/08/2018 | 31/03/2014 – 31/12/2019 |
| In aggregate | 18/12/2013 | 6.790 | N/A | – | 1,093,962 *(Note 1 (c))* | – | – | – | – | 1,093,962 | 19/12/2014 – 19/12/2018 | 19/12/2014 – 31/12/2019 |
| **Other participants** | | | | | | | | | | | | |
| In aggregate | 19/07/2007 | 19.680 | 18.08 | 350,000 | – | – | (380,995) | – | 30,995 | – | 19/07/2008 – 19/07/2010 | 19/07/2008 – 19/07/2013 |
| In aggregate | 04/07/2008 | 17.220 | 15.82 | 351,401 | – | – | (37,302) | – | 31,119 | 345,218 | 04/07/2009 – 04/07/2011 | 04/07/2009 – 04/07/2014 |
| In aggregate | 19/01/2009 | 11.370 | 10.45 | 316,080 | – | – | (220,050) | – | 18,660 | 114,690 | 19/01/2010 – 19/01/2014 | 19/01/2010 – 01/04/2014 |
| In aggregate | 01/04/2009 | 13.180 | 12.11 | 413,100 | – | – | – | – | 36,583 | 449,683 | 01/04/2010 - 01/04/2012 | 01/04/2010 - 31/01/2014 |
| In aggregate | 22/10/2009 | 21.870 | 20.09 | 300,000 | – | – | – | – | 26,567 | 326,567 | 01/07/2010 – 01/07/2012 | 01/07/2010 – 22/10/2015 |
| In aggregate | 15/07/2011 | 9.896 | 9.09 | 403,804 | – | – | (215,355) | – | 23,411 | 211,860 | 01/07/2012 – 01/07/2014 | 01/07/2012 – 31/01/2014 |
| In aggregate | 20/12/2012 | 5.360 | 4.92 | 634,470 | – | (188,500) *(Note 2(b))* | (381,888) | – | 30,732 | 94,814 | 15/01/2013 – 15/01/2014 | 15/01/2013 – 31/12/2014 |
| In aggregate | 13/08/2013 | 5.070 | N/A | – | 123,960 | – | – | – | – | 123,960 | 31/03/2014 – 14/08/2018 | 31/03/2014 – 31/12/2019 |
| In aggregate | 20/11/2013 | 6.720 | N/A | – | 1,750,000 *(Note 1(b))* | – | (1,750,000) | – | – | – | 20/11/2013 – 01/09/2016 | 20/11/2013 – 30/09/2019 |
| | | | | 35,451,326 | 9,419,802 | (551,000) | (6,579,814) | – | 3,039,766 | 40,780,080 | | |

*Notes:*

1. a. The closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets immediately before 13 August 2013 is HK$4.91 per Share.

   b. The closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets immediately before 20 November 2013 is HK$6.50 per Share.

   c. The closing price of the Shares as stated in the Hong Kong Stock Exchange's daily quotations sheets immediately before 18 December 2013 is HK$6.70 per Share.

2. a. The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$3.86.

   b. The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$6.77.

3. As a result of the Open Offer, the exercise prices and the number of the Shares to be allotted and issued upon full exercise of the outstanding share options were adjusted in accordance with the Post-IPO -Share Option Scheme on 22 April 2013. Please refer to the announcement of the Company dated on 25 April 2013 for details.

Details of valuation of the share options granted during the year ended 31 December 2013 under the Post-IPO Share Option Scheme is set out in note 33 to the consolidated financial statements. The fair values are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

## Restricted Share Award Scheme

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

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

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

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

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

During the year ended 31 December 2013, no Restricted Shares were granted to eligible participants pursuant to the Restricted Share Award Scheme. During the year, 737,822 Restricted Shares were vested and 211,010 Restricted Shares lapsed. Details of movements of the Restricted Shares under the Restricted Share Award Scheme for the year ended 31 December 2013 are as follows:

| | | Number of Restricted Shares | | | | | |
|---|---|---|---|---|---|---|---|
| Date of grant | Fair value per Restricted Share *(Note)* HK$ | as at 01/01/2013 | granted during the year | vested during the year | lapsed during the year | as at 31/12/2013 | Vesting period |
| 03/09/2010 | 23.30 | 780,000 | – | (170,000) | – | 610,000 | 01/07/2011 – 01/07/2016 |
| 03/09/2010 | 23.30 | 369,336 | – | (333,754) | (35,582) | – | 01/07/2011 – 31/08/2013 |
| 30/12/2010 | 16.62 | 4,536 | – | – | – | 4,536 | 30/12/2011 – 28/02/2014 |
| 15/07/2011 | 8.96 | 619,778 | – | (234,068) | (175,428) | 210,282 | 15/07/2012 – 15/07/2014 |
| | | 1,773,650 | – | (737,822) | (211,010) | 824,818 | |

*Note:*

The fair values of the Restricted Shares were based on the closing price per Share at the date of grant.

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

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

As at 31 December 2013, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, are as follows:

| Name of Director | Capacity | Number of Shares held | Number of underlying Shares | Total (Long Position) | Approximate % of total issued Shares* |
|---|---|---|---|---|---|
| Li Ning | Interests of controlled corporations | 268,181,850 *(Note 1)* | 146,758,944 *(Note 1)* | 414,940,794 | 30.30% |
| Jin-Goon Kim | Personal interest | – | 312,906 *(Note 2)* | 312,906 | 0.02% |
| Zhang Zhi Yong | Personal interest | 100 | 6,688,841 *(Note 2)* | 6,688,941 | 0.49% |
| Chen Yue, Scott | Personal interest | – | 312,906 *(Note 2)* | 312,906 | 0.02% |
| Koo Fook Sun, Louis | Personal interest | 345,450 | 883,289 *(Note 2)* | 1,228,739 | 0.09% |
| Wang Ya Fei | Personal interest | 347,044 | 883,289 *(Note 2)* | 1,230,333 | 0.09% |
| Chan Chung Bun, Bunny | Personal interest | 189,450 | 883,289 *(Note 2)* | 1,072,739 | 0.08% |
| Su Jing Shyh, Samuel | Personal interest | – | 312,906 *(Note 2)* | 312,906 | 0.02% |

* *The percentage has been calculated based on 1,369,633,448 Shares in issue as at 31 December 2013.*

*Notes:*

1. Mr. Li Ning is deemed to be interested in an aggregate of 268,181,850 Shares held by Viva China Holdings Ltd ("Viva China BVI") and Alpha Talent Management Limited ("Alpha Talent"), and the Convertible Securities in the total amount of HK$513,656,304 which is entitled to the conversion of 146,758,944 Shares under the SFO, details of which are as follows:

   (a) 266,374,000 Shares are held by Viva China BVI which is wholly owned by Viva China Holdings Limited ("Viva China"). Viva China is owned as to approximately 21.07% by Victory Mind Assets Limited and approximately 35.09% by Lead Ahead Limited which in turn are respectively 57% and 60% owned by Ace Leader Holdings Limited (which is 100% owned by a discretionary trust of which Mr. Li is a settlor) and Mr. Li. Mr. Li is therefore deemed to be interested in the Shares held by Viva China. Mr. Li is the Chairman and Chief Executive Officer of Viva China.

   (b) 1,807,850 Shares are held by Alpha Talent, which is established and solely owned by Mr. Li for the purpose of holding the relevant Shares under the Share Purchase Scheme. Mr. Li is therefore deemed to be interested in the 1,807,850 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.

   (c) Viva China BVI subscribed the Convertible Securities in an aggregate amount of HK$513,656,304 under the Open Offer, entitling to the conversion of 146,758,944 Shares.

2. The underlying Shares are the share options granted by the Company to the respective Director under the Post-IPO Share Option Scheme.

Save as disclosed above, so far as was known to any Director, as at 31 December 2013, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

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

As at 31 December 2013, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, representing 5% or more of the Company's issued share capital:

| Name of shareholders | Number of Shares held | Number of underlying Shares: Convertible Bonds due 2017 | Number of underlying Shares: Convertible Securities issued under the Open Offer | Total (Long Position) | Capacity | Approximate % of total issued Shares* |
|---|---|---|---|---|---|---|
| Li Ning | 268,181,850 | – | 146,758,944 | 414,940,794 *(Note 1)* | Interests of controlled corporations | 30.30% |
| Li Chun | 266,374,000 | – | 146,758,944 | 413,132,944 *(Note 2)* | Interests of controlled corporations | 30.16% |
| Viva China Holdings Limited | 266,374,000 | – | 146,758,944 | 413,132,944 *(Note 1(a))* | Interests of controlled corporation | 30.16% |
| David Bonderman | 53,000,000 | 153,340,000 | 35,396,706 | 241,736,706 *(Note 3)* | Interests of controlled corporations | 17.65% |
| James G. Coulter | 53,000,000 | 153,340,000 | 35,396,706 | 241,736,706 *(Note 3)* | Interests of controlled corporations | 17.65% |
| Genesis Asset Managers, LLP | 154,687,492 | – | – | 154,687,492 | Investment manager | 11.29% |
| Minister for Finance | 67,360,876 | 51,660,000 | – | 119,020,876 *(Note 4)* | Interests of controlled corporations | 8.69% |
| FIL Limited | 83,027,242 | – | – | 83,027,242 | Investment manager | 6.06% |

* *The percentage has been calculated based on 1,369,633,448 Shares in issue as at 31 December 2013.*

*Notes:*

1. (a) Viva China BVI, a wholly-owned subsidiary of Viva China, is interested in the 266,374,000 Shares and the Convertible Securities in the total amount of HK$513,656,304 entitling to the conversion of a total of 146,758,944 Shares. Viva China is owned as to approximately 35.09% by Lead Ahead Limited ("Lead Ahead") and 21.07% by Victory Mind Assets Limited ("Victory Mind") respectively. Lead Ahead is owned as to 60% by Mr. Li Ning and 40% by his brother, Mr. Li Chun. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li Ning is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor). As a result, Mr. Li Ning is deemed to be interested in the 266,374,000 Shares and the 146,758,944 underlying Shares held by Viva China. He is also the Chairman and Chief Executive Officer of Viva China.

   (b) 1,807,850 Shares are held by Alpha Talent Management Limited ("Alpha Talent"), which is established and solely owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme. Mr. Li Ning is therefore deemed to be interested in the 1,807,850 Shares held by Alpha Talent. He is a director of Alpha Talent.

2. As disclosed in Note 1 above, Mr. Li Chun is deemed to be interested in the 266,374,000 Shares and the 146,758,944 underlying Shares held by Viva China. He is the brother of Mr. Li Ning.

3. 53,000,000 Shares and the Convertible Bonds with the principal amount of RMB561,000,000 due 2017 and the Convertible Securities in the principal amount of HK$123,888,471 entitling to the conversion in aggregate of 153,340,000 Shares and 35,396,706 Shares respectively are held by TPG Stallion, L.P. which is wholly owned by TPG Asia Advisors V, Inc. and, in turn, it is owned as to 50% by Mr. David Bonderman and 50% by Mr. James G. Coulter.

4. 58,735,500 Shares and the Convertible Bonds with the principal amount of RMB189,000,000 due 2017 entitling to the conversion of a total of 51,660,000 Shares are directly held by Tetrad Ventures Pte Ltd ("Tetrad") which is wholly owned by Government of Singapore Investment Corporation (Ventures) Pte Ltd ("GICV"). GIC Special Investments Pte Ltd manages the investment of Tetrad, and is wholly owned by Government of Singapore Investment Corporation Pte Ltd ("GIC"). GIC also directly holds 8,625,376 Shares and is wholly owned by Minister for Finance.

Save as disclosed above, as at 31 December 2013, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

## CONNECTED TRANSACTIONS WITH VIVA CHINA

On 23 January 2013, the Company entered into an underwriting agreement ("Underwriting Agreement") with Viva China, pursuant to which Viva China agreed to underwrite 60% of all the Convertible Securities to be offered under the Open Offer other than the excluded securities in accordance with the terms and conditions to the Underwriting Agreement. The underwriting commission payable to Viva China is 2.5% on the principal amount of Convertible Securities underwritten by Viva China, which is approximately HK$18,617,000 and payable in cash.

Viva China, who indirectly held approximately 25.23% interests in the Company as at 25 January 2013, being the date on which the Company announced the Open Offer, was a substantial Shareholder and thus a connected person of the Company. Accordingly, the payment of the underwriting commission to Viva China pursuant to the Underwriting Agreement constituted a connected transaction for the Company. As the percentage ratios (other than the profits ratio) in respect of the underwriting commission payable by the Company to Viva China is more than 0.1% but less than 5%, the payment of the underwriting commission by the Company to Viva China is subject to reporting and announcement but is exempt from the independent Shareholders' approval under the Listing Rules. Please refer to the announcement dated 25 January 2013 of the Company with respect to the Open Offer for details.

## CONTINUING CONNECTED TRANSACTIONS WITH VIVA CHINA

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

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

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

For the year ended 31 December 2013, there was an aggregate contracted amount of approximately RMB46,188,000 for the Viva China Transactions under the Renewed Master Agreement. The Company has complied with the relevant disclosure requirements in respect of such continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

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

(1) in the ordinary and usual course of business of the Group;

(2) in accordance with the Group's pricing policies for transactions involving the provision of services by the Group;

(3) on normal commercial terms; and

(4) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

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

(1) have been approved by the Board;

(2) have been in accordance with the pricing policies of the Group for transactions involving the provision of services by the Group;

(3) have been entered into in accordance with the relevant agreements governing the transactions during the year; and

(4) have not exceeded the annual caps disclosed in the announcement of the Company dated 4 January 2013.

## RELATED-PARTY TRANSACTIONS

The Viva China Transactions also constituted related-party transactions which, among others, are set out in note 35(d) to the consolidated financial statements.

Apart from the Viva China Transactions, other related-party transactions set out in note 35 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions which are subject to the reporting, annual review, announcement and/or independent shareholders approval requirements under Chapter 14A of the Listing Rules.

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

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

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2013 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

## CORPORATE GOVERNANCE

Throughout the year ended 31 December 2013, the Company has applied all the principles and complied with the code provisions of the Corporate Governance Code, except for certain deviations specified with considered reason as explained in the Corporate Governance Report.

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

## SUBSEQUENT EVENTS

Details of the significant events after the reporting period of the Group are set out in note 36 to the consolidated financial statements.

## AUDITOR

PricewaterhouseCoopers will retire as auditor of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the 2014 AGM.

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

Hong Kong, 21 March 2014

# INDEPENDENT AUDITOR'S REPORT

羅兵咸永道

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

We have audited the consolidated financial statements of Li Ning Company Limited ("the Company") and its subsidiaries (together, the "Group") set out on pages 90 to 163, which comprise the consolidated and company balance sheets as at 31 December 2013, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

## OTHER MATTERS

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

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 21 March 2014

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

# CONSOLIDATED BALANCE SHEET

| | Note | As at 31 December 2013 RMB'000 | As at 31 December 2012 RMB'000 (Restated) | As at 1 January 2012 RMB'000 (Restated) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | *6* | **791,071** | 857,044 | 831,090 |
| Land use rights | *7* | **351,352** | 362,763 | 371,696 |
| Intangible assets | *8* | **380,935** | 423,382 | 751,836 |
| Deferred income tax assets | *23* | **345,610** | 362,067 | 442,078 |
| Available-for-sale financial assets | *9* | **46,930** | 46,930 | 46,930 |
| Investments accounted for using the equity method | *11* | **13,496** | 12,254 | 13,177 |
| Other receivables and prepayments | *14* | **125,807** | 49,608 | 92,791 |
| **Total non-current assets** | | **2,055,201** | 2,114,048 | 2,549,598 |
| **Current assets** | | | | |
| Inventories | *12* | **942,368** | 901,368 | 1,119,768 |
| Trade receivables | *13* | **1,371,240** | 1,479,560 | 2,089,065 |
| Other receivables and prepayments – current portion | *14* | **362,643** | 233,211 | 358,607 |
| Current income tax recoverable | | **2,566** | 36,393 | – |
| Restricted bank deposits | *15* | **2,149** | 13,688 | 13,194 |
| Cash and cash equivalents | *15* | **1,280,684** | 1,241,304 | 1,188,504 |
| **Total current assets** | | **3,961,650** | 3,905,524 | 4,769,138 |
| **Total assets** | | **6,016,851** | 6,019,572 | 7,318,736 |
| **EQUITY** | | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | | |
| Ordinary shares | *16* | **136,613** | 111,622 | 111,604 |
| Share premium | *16* | **1,146,845** | 315,972 | 312,379 |
| Shares held for Restricted Share Award Scheme | *16* | **(31,509)** | (41,185) | (52,415) |
| Other reserves | *17* | **1,101,347** | 489,485 | 370,106 |
| Retained earnings | *17* | **330,934** | 737,703 | 2,730,169 |
| | | **2,684,230** | 1,613,597 | 3,471,843 |
| **Non-controlling interests in equity** | | **207,534** | 198,644 | 192,816 |
| **Total equity** | | **2,891,764** | 1,812,241 | 3,664,659 |

# CONSOLIDATED BALANCE SHEET

| | | As at 31 December | | As at 1 January |
|---|---|---|---|---|
| | Note | **2013** | 2012 | 2012 |
| | | **RMB'000** | RMB'000 | RMB'000 |
| | | | (Restated) | (Restated) |
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| License fees payable | *20* | **122,309** | 152,518 | 458,793 |
| Borrowings | *21* | **200,000** | – | – |
| Convertible bonds | *22* | **645,727** | 651,632 | – |
| Deferred income tax liabilities | *23* | **75,316** | 79,318 | 81,269 |
| Deferred income | *24* | **64,012** | 59,736 | 61,030 |
| **Total non-current liabilities** | | **1,107,364** | 943,204 | 601,092 |
| **Current liabilities** | | | | |
| Trade payables | *18* | **913,988** | 958,020 | 1,459,411 |
| Other payables and accruals | *19* | **836,611** | 735,305 | 655,385 |
| License fees payable – current portion | *20* | **54,624** | 111,145 | 71,649 |
| Current income tax liabilities | | **–** | – | 28,481 |
| Borrowings | *21* | **200,000** | 1,447,157 | 838,059 |
| Convertible bonds – interest payable | *22* | **12,500** | 12,500 | – |
| **Total current liabilities** | | **2,017,723** | 3,264,127 | 3,052,985 |
| **Total liabilities** | | **3,125,087** | 4,207,331 | 3,654,077 |
| **Total equity and liabilities** | | **6,016,851** | 6,019,572 | 7,318,736 |
| **Net current assets** | | **1,943,927** | 641,397 | 1,716,153 |
| **Total assets less current liabilities** | | **3,999,128** | 2,755,445 | 4,265,751 |

**Li Ning**
*Executive Director & Chairman*

**Jin-Goon Kim**
*Executive Director & Vice Chairman*

The notes on pages 97 to 163 are an integral part of these financial statements.

# BALANCE SHEET

| | Note | As at 31 December 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Investment in subsidiaries | 10 | **2,134,864** | 1,000,040 |
| **Current assets** | | | |
| Dividends receivable | | **650,494** | 670,848 |
| Cash and cash equivalents | 15 | **115,346** | 455 |
| **Total current assets** | | **765,840** | 671,303 |
| **Total assets** | | **2,900,704** | 1,671,343 |
| **EQUITY** | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | |
| Ordinary shares | 16 | **136,613** | 111,622 |
| Share premium and other reserves | 16,17 | **2,097,259** | 725,626 |
| **Total equity** | | **2,233,872** | 837,248 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Convertible bonds | 22 | **645,727** | 651,632 |
| **Current liabilities** | | | |
| Other payables and accruals | 19 | **8,605** | 7,806 |
| Borrowings | 21 | **–** | 162,157 |
| Convertible bonds – interest payable | 22 | **12,500** | 12,500 |
| **Total current liabilities** | | **21,105** | 182,463 |
| **Total liabilities** | | **666,832** | 834,095 |
| **Total equity and liabilities** | | **2,900,704** | 1,671,343 |
| **Net current assets** | | **744,735** | 488,840 |
| **Total assets less current liabilities** | | **2,879,599** | 1,488,880 |

**Li Ning**
*Executive Director & Chairman*

**Jin-Goon Kim**
*Executive Director & Vice Chairman*

The notes on pages 97 to 163 are an integral part of these financial statements.

# CONSOLIDATED INCOME STATEMENT

| | Note | Year ended 31 December<br>2013<br>RMB'000 | <br>2012<br>RMB'000<br>(Restated) |
|---|---|---|---|
| Revenue | 5 | **5,824,110** | 6,676,441 |
| Cost of sales | 25 | **(3,230,134)** | (4,162,141) |
| **Gross profit** | | **2,593,976** | 2,514,300 |
| Distribution expenses | 25 | **(2,674,235)** | (2,611,816) |
| Administrative expenses | 25 | **(235,860)** | (1,670,210) |
| Other income and other gains – net | 26 | **146,702** | 168,792 |
| **Operating loss** | | **(169,417)** | (1,598,934) |
| Finance income | 28 | **8,699** | 7,550 |
| Finance expenses | 28 | **(158,696)** | (209,132) |
| Finance expenses – net | | **(149,997)** | (201,582) |
| Share of profit/(loss) of investments accounted for using the equity method | 11 | **2,242** | (5,403) |
| **Loss before income tax** | | **(317,172)** | (1,805,919) |
| Income tax expense | 29 | **(42,219)** | (149,480) |
| **Loss for the year** | | **(359,391)** | (1,955,399) |
| **Attributable to:** | | | |
| Equity holders of the Company | | **(391,540)** | (1,979,114) |
| Non-controlling interests | | **32,149** | 23,715 |
| | | **(359,391)** | (1,955,399) |
| **Losses per share for loss attributable to equity holders of the Company (RMB cents)** | | | |
| – basic | 30 | **(29.91)** | (172.63) |
| – diluted | 30 | **(29.91)** | (172.63) |

The notes on pages 97 to 163 are an integral part of these financial statements.

| | Note | Year ended 31 December<br>2013<br>RMB'000 | <br>2012<br>RMB'000 |
|---|---|---|---|
| **Dividends** | 31 | – | – |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

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

The notes on pages 97 to 163 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Ordinary shares RMB'000 (Note 16) | Share premium RMB'000 (Note 16) | Shares held for Restricted Share Award Scheme RMB'000 (Note 16) | Other reserves RMB'000 (Note 17) | Retained earnings RMB'000 (Note 17) | Subtotal RMB'000 | Non-controlling interests in equity RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2012** | 111,604 | 312,379 | (52,415) | 370,106 | 2,730,169 | 3,471,843 | 192,816 | 3,664,659 |
| Total comprehensive (loss)/ income for the year | – | – | – | (1,060) | (1,979,114) | (1,980,174) | 23,715 | (1,956,459) |
| *Transactions with owners:* | | | | | | | | |
| Net proceeds from shares issued pursuant to share option schemes | 18 | 1,586 | – | – | – | 1,604 | – | 1,604 |
| Value of services provided under share option schemes | – | – | – | 6,929 | – | 6,929 | – | 6,929 |
| Transfer of fair value of share options exercised to share premium | – | 2,007 | – | (2,007) | – | – | – | – |
| Shares vested under Restricted Share Award Scheme | – | – | 11,230 | (11,230) | – | – | – | – |
| Appropriations to statutory reserves | – | – | – | 13,352 | (13,352) | – | – | – |
| Convertible bonds – equity component | – | – | – | 113,395 | – | 113,395 | – | 113,395 |
| Dividends to non-controlling interests of a subsidiary | – | – | – | – | – | – | (22,887) | (22,887) |
| Contribution from non-controlling interests of a subsidiary | – | – | – | – | – | – | 5,000 | 5,000 |
| **As at 31 December 2012** | 111,622 | 315,972 | (41,185) | 489,485 | 737,703 | 1,613,597 | 198,644 | 1,812,241 |
| **As at 1 January 2013** | **111,622** | **315,972** | **(41,185)** | **489,485** | **737,703** | **1,613,597** | **198,644** | **1,812,241** |
| Total comprehensive income/ (loss) for the year | **–** | **–** | **–** | **657** | **(391,540)** | **(390,883)** | **32,149** | **(358,734)** |
| *Transactions with owners:* | | | | | | | | |
| Net proceeds from shares issued pursuant to share option schemes | **44** | **1,929** | **–** | **–** | **–** | **1,973** | **–** | **1,973** |
| Value of services provided under share option schemes | **–** | **–** | **–** | **21,104** | **–** | **21,104** | **–** | **21,104** |
| Transfer of fair value of share options exercised to share premium | **–** | **4,285** | **–** | **(4,285)** | **–** | **–** | **–** | **–** |
| Shares vested under Restricted Share Award Scheme | **–** | **–** | **9,676** | **(9,676)** | **–** | **–** | **–** | **–** |
| Appropriations to statutory reserves | **–** | **–** | **–** | **15,229** | **(15,229)** | **–** | **–** | **–** |
| Issuance of convertible securities | **–** | **–** | **–** | **1,441,484** | **–** | **1,441,484** | **–** | **1,441,484** |
| Shares converted from convertible securities | **24,947** | **824,659** | **–** | **(849,606)** | **–** | **–** | **–** | **–** |
| Dividends to non-controlling interests of a subsidiary | **–** | **–** | **–** | **–** | **–** | **–** | **(23,804)** | **(23,804)** |
| Acquisition of non-controlling interests of a subsidiary | **–** | **–** | **–** | **(3,045)** | **–** | **(3,045)** | **(1,955)** | **(5,000)** |
| Contribution from non-controlling interests of a subsidiary | **–** | **–** | **–** | **–** | **–** | **–** | **2,500** | **2,500** |
| **As at 31 December 2013** | **136,613** | **1,146,845** | **(31,509)** | **1,101,347** | **330,934** | **2,684,230** | **207,534** | **2,891,764** |

The notes on pages 97 to 163 are an integral part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Year ended 31 December 2013 RMB'000 | 2012 RMB'000 (Restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | *32* | **(17,594)** | (795,520) |
| Income tax received/(paid) | | **4,063** | (136,294) |
| **Net cash used in operating activities** | | **(13,531)** | (931,814) |
| **Cash flows from investing activities** | | | |
| – acquisition of non-controlling interests of a subsidiary | | **(5,000)** | – |
| – proceeds on disposal of investment in an associate | | **1,000** | – |
| – purchases of property, plant and equipment | | **(93,801)** | (122,771) |
| – purchases of intangible assets | | **(119,871)** | (93,173) |
| – investment in associates | | **–** | (10,090) |
| – prepayment for purchase of land use rights and buildings | | **(71,829)** | – |
| – proceeds on disposal of property, plant and equipment and land use rights | | **61,827** | 1,943 |
| – interest received | | **8,699** | 7,550 |
| **Net cash used in investing activities** | | **(218,975)** | (216,541) |
| **Cash flows from financing activities** | | | |
| – dividends paid to non-controlling interests of a subsidiary | | **(23,804)** | (22,887) |
| – proceeds from issuance of ordinary shares | | **1,973** | 1,604 |
| – contribution from non-controlling interests of a subsidiary | | **2,500** | 5,000 |
| – proceeds from bank borrowings | | **1,803,005** | 1,714,472 |
| – repayments of bank borrowings | | **(2,848,243)** | (1,108,028) |
| – proceeds from issuance of convertible securities | | **1,480,488** | – |
| – transaction costs paid in relation to issuance of convertible securities | | **(39,004)** | – |
| – proceeds from issuance of convertible bonds | | **–** | 745,691 |
| – interest paid | | **(96,687)** | (134,782) |
| – decrease/(increase) in restricted bank deposits | | **11,539** | (494) |
| **Net cash generated from financing activities** | | **291,767** | 1,200,576 |
| **Net increase in cash and cash equivalents** | | **59,261** | 52,221 |
| Cash and cash equivalents at beginning of year | | **1,241,304** | 1,188,504 |
| Exchange (losses)/gains on cash and cash equivalents | | **(19,881)** | 579 |
| **Cash and cash equivalents at end of year** | | **1,280,684** | 1,241,304 |

The notes on pages 97 to 163 are an integral part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 1. General information

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

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

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

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

## 2. Summary of significant accounting policies

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

### 2.1 Basis of preparation

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

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

#### 2.1.1 Changes in accounting policies and disclosures

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

The Group has adopted the following new and revised standards and amendments to standards which are relevant to the Group's operations and are mandatory for the financial year beginning on or after 1 January 2013:

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

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

### 2.1 Basis of preparation *(Continued)*

#### 2.1.1 Changes in accounting policies and disclosures *(Continued)*

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

### 2.1 Basis of preparation *(Continued)*

#### 2.1.1 Changes in accounting policies and disclosures *(Continued)*

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

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

**Impact on balance sheet**

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

**Impact on income statement**

| Decrease | Year ended 31 December 2012 RMB'000 |
|---|---|
| Revenue | 62,470 |
| Expenses | 62,470 |
| Loss for the year | – |

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

*(b)* *New standards and amendments which are not yet effective*

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

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

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

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

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

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

## 2.1 Basis of preparation *(Continued)*

### 2.1.1 Changes in accounting policies and disclosures *(Continued)*

*(b) New standards and amendments which are not yet effective (Continued)*

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

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

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

## 2.2 Consolidation

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

### (a) Subsidiaries

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

### 2.2 Consolidation *(Continued)*

#### (a) Subsidiaries *(Continued)*

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.10). The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

#### (b) Transactions with non-controlling interests

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

### 2.3 Associates

An associate is an entity over which the Group has significant influence but not control. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

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

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

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

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

### 2.4 Joint arrangements

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

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

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group. The change in accounting policies has been applied as from 1 January 2012.

The effects of the change in accounting policies on the balance sheet and income statement of the Group at 1 January 2012 and 31 December 2012 are shown in Note 2.1.1. The change in accounting policies has had no impact on the statement of comprehensive income and losses per share and the effect on the statement of cash flows was immaterial.

### 2.5 Segment reporting

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

### 2.6 Foreign currency translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

### 2.6 Foreign currency translation *(Continued)*

#### (c) Group companies

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

i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

ii. income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the translation dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

iii. all resulting currency translation differences are recognised in other comprehensive income.

### 2.7 Property, plant and equipment

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

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

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

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

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

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

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

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

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

### 2.8 Land use rights

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

### 2.9 Intangible assets

#### (a) Goodwill

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

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

#### (b) License rights

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

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

#### (c) Computer software

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

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

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

### 2.11 Financial assets

#### (a) Classification

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

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

(i) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are included within trade receivables, other receivables, restricted bank deposits and cash and cash equivalents in the balance sheets (Notes 2.13 and 2.14).

(ii) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

#### (b) Recognition and measurement

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

At 31 December 2013, the Group's available-for-sale financial assets represent interests in certain unlisted companies which do not have quoted market prices in an active market and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed. Accordingly, these investments are carried at cost less accumulated impairment losses.

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

### 2.12 Inventories

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

### 2.13 Trade receivables and other receivables

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

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

### 2.14 Cash and cash equivalents

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

### 2.15 Share capital

#### (a) Ordinary shares

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

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

#### (b) Convertible securities

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

The convertible securities are not re-measured subsequent to initial recognition.

If the convertible securities are converted, the carrying value of the equity initially recognised is transferred to share capital and share premium respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

### 2.16 Trade payables

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

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

### 2.17 License fees payable

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

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

### 2.18 Borrowings

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

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

### 2.19 Borrowing costs

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

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

### 2.20 Compound financial instruments

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

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

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

### 2.20 Compound financial instruments *(Continued)*

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

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

### 2.21 Current and deferred income tax

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

#### (i) Current income tax

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

#### (ii) Deferred income tax

- *Inside basis differences*

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

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

- *Outside basis differences*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

### 2.21 Current and deferred income tax *(Continued)*

#### (iii) Offsetting

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

### 2.22 Employee benefits

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

#### (a) Pension obligations

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

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

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

#### (b) Share-based compensation

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

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

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

### 2.22 Employee benefits *(Continued)*

#### (c) Other benefits

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

### 2.23 Provisions

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

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

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

### 2.24 Revenue recognition

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

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

#### (a) Sales of goods

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

### 2.24 Revenue recognition *(Continued)*

#### (b) Interest income

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

#### (c) Dividend income

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

#### (d) License fee income

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

### 2.25 Operating leases (as the lessee for operating leases)

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

### 2.26 Government grants

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

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

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

### 2.27 Dividend distribution

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

# 3. Financial risk management

## 3.1 Financial risk factors

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

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

### (a) Market risks

*(i)* *Foreign exchange risk*

The Group mainly operates in the PRC with most of the transactions settled in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong dollars (HK$), United States dollars (US$), EURO (EUR), Singapore dollars (SGD) or South Korean Won (KRW) (Note 15). In addition, the Company is required to pay dividends and certain license fees, borrowings and other payables in foreign currencies. Any foreign currency exchange rate fluctuations against RMB may have a financial impact to the Group. The Group did not use any financial instruments to hedge against its foreign currency risk as at 31 December 2013.

As at 31 December 2013 and 2012, if RMB strengthened/weakened by 5% against HK$/US$/EUR/SGD/KRW with all other variables held constant, the post-tax loss for each year would have changed mainly as a result of foreign exchange gains/losses on translation of HK$, US$, EUR, SGD and KRW denominated cash and cash equivalents, borrowings, license fees and other payables.

| | | **2013**<br>**RMB'000** | 2012<br>RMB'000<br>(Restated) |
|---|---|---|---|
| Post-tax loss increase/(decrease) | | | |
| – Strengthened | 5% | **4,009** | (8,339) |
| – Weakened | 5% | **(4,009)** | 8,339 |

*(ii)* *Cash flow and fair value interest rate risk*

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

Management does not anticipate significant impact resulting from the changes in interest rates because the borrowings bear fixed interest rates. The weighted average effective interest rates per annum of the borrowings were 6.76% (2012: 6.80%) for bank borrowings denominated in RMB and 2.26% (2012: 2.78%) for bank borrowings denominated in HK$ as disclosed in Note 21.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 3. Financial risk management *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### (b) Credit risk

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

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

| | **2013** | 2012 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| | | (Restated) |
| Banks* | | |
| Bank A | **414,268** | 362,547 |
| Bank B | **326,145** | 226,136 |
| Bank C | **167,096** | 145,723 |
| | **907,509** | 734,406 |

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

Trade receivables were due within 90 days from the date of billing. In general, most debtors with balances that were 30 days past due are requested to settle all outstanding balances before any further credit is granted. The Company has launched a series of plans to manage the credit risk of the customers. Allowance is made for the balances past due when management considers the loss from non-performance by these counterparties is likely.

#### (c) Liquidity risk

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

# 3. Financial risk management *(Continued)*

## 3.1 Financial risk factors *(Continued)*

### (c) Liquidity risk *(Continued)*

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

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **As at 31 December 2013** | | | | |
| Borrowings | **224,303** | **208,050** | **–** | **–** |
| Convertible bonds *(a)* | **30,000** | **30,000** | **795,000** | **–** |
| License fees payable | **57,998** | **61,642** | **97,040** | **4,572** |
| Trade payables | **913,988** | **–** | **–** | **–** |
| Other payables | **281,889** | **–** | **–** | **–** |
| | **1,508,178** | **299,692** | **892,040** | **4,572** |
| **As at 31 December 2012 (Restated)** | | | | |
| Borrowings | 1,459,911 | – | – | – |
| Convertible bonds *(a)* | 30,000 | 30,000 | 825,000 | – |
| License fees payable | 114,000 | 45,492 | 140,961 | 35,642 |
| Trade payables | 958,020 | – | – | – |
| Other payables | 313,478 | – | – | – |
| | 2,875,409 | 75,492 | 965,961 | 35,642 |
| **Company** | | | | |
| **As at 31 December 2013** | | | | |
| Convertible bonds *(a)* | **30,000** | **30,000** | **795,000** | **–** |
| Other payables | **8,605** | **–** | **–** | **–** |
| | **38,605** | **30,000** | **795,000** | **–** |
| **As at 31 December 2012** | | | | |
| Borrowings | 162,299 | – | – | – |
| Convertible bonds *(a)* | 30,000 | 30,000 | 825,000 | – |
| Other payables | 7,806 | – | – | – |
| | 200,105 | 30,000 | 825,000 | – |

*Note:*

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 3. Financial risk management *(Continued)*

### 3.2 Capital risk management

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

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

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

As at 31 December 2013, the gearing ratio of the Group was 39.4% (including convertible bonds) (2012: 130.8%) and 14.9% (excluding convertible bonds) (2012: 89.7%) respectively.

### 3.3 Fair value estimation

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

## 4. Critical accounting estimates and judgements

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

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

### (a) Estimated impairment of goodwill and intangible assets

The Group tests whether goodwill and intangible assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.9. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (See Note 8).

### (b) Net realisable value of inventories

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

## 4. Critical accounting estimates and judgements *(Continued)*

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

The Group's management determines the allowance for impairment of trade receivables and other receivables in accordance with the accounting policy stated in Note 2.13. Such allowance for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Company's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant judgment. The Group's customers mainly are distributors of sports products, and they vary in size and types of products to be distributed. In making the judgment on the allowance for impairment, the Company evaluates, among other factors, the historical payment pattern in the past few months and credit-worthiness of each customer, default rates of prior years, aging of receivable balances and latest communication with individual customers. To the extent the financial condition of any customer deteriorates which results in an inability to make payments on time, or the customers significantly exceed their credit term and ask for payment extension, or if the Company incurs more bad debt than their original estimates, additional allowance may be required. This assessment is based on the specific facts and circumstances of each customer. Management reassesses the allowance at each balance sheet date to ensure the current allowance is still appropriate.

### (d) Income taxes

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

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

### (e) Joint arrangements

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

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

## 5. Segment information

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 5. Segment information *(Continued)*

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

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

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

The segment information provided to the management for the reportable segments for the years ended 31 December 2013 and 2012 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 2013** | | | | |
| Total revenue | **5,082,786** | **613,084** | **176,005** | **5,871,875** |
| Inter-segment revenue | **–** | **(675)** | **(47,090)** | **(47,765)** |
| **Revenue from external customers** | **5,082,786** | **612,409** | **128,915** | **5,824,110** |
| Operating (loss)/profit | **(279,572)** | **104,958** | **5,197** | **(169,417)** |
| Distribution expenses and administrative expenses | **2,720,873** | **141,474** | **47,748** | **2,910,095** |
| Depreciation and amortisation | **168,756** | **17,316** | **7,123** | **193,195** |
| **Year ended 31 December 2012 (Restated)** | | | | |
| Total revenue | 5,926,165 | 542,713 | 263,836 | 6,732,714 |
| Inter-segment revenue | – | (1,158) | (55,115) | (56,273) |
| **Revenue from external customers** | 5,926,165 | 541,555 | 208,721 | 6,676,441 |
| Operating (loss)/profit | (1,480,147) | 78,946 | (197,733) | (1,598,934) |
| Distribution expenses and administrative expenses | 3,872,989 | 128,887 | 280,150 | 4,282,026 |
| Depreciation and amortisation | 201,169 | 17,588 | 7,982 | 226,739 |

## 5. Segment information *(Continued)*

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

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

### Geographical information of revenue

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

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

The Group has a large number of customers. For the years ended 31 December 2013 and 2012, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 6. Property, plant and equipment – Group

| | Buildings RMB'000 | Leasehold improvement RMB'000 | Mould RMB'000 | Machinery RMB'000 | Office equipment and motor vehicles RMB'000 | Construction-in-progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **As at 1 January 2012 (Restated)** | | | | | | | |
| Cost | 527,748 | 157,520 | 192,320 | 75,419 | 197,353 | 146,893 | 1,297,253 |
| Accumulated depreciation | (98,283) | (101,441) | (125,808) | (22,936) | (117,695) | – | (466,163) |
| Net book amount | 429,465 | 56,079 | 66,512 | 52,483 | 79,658 | 146,893 | 831,090 |
| **Year ended 31 December 2012 (Restated)** | | | | | | | |
| Opening net book amount | 429,465 | 56,079 | 66,512 | 52,483 | 79,658 | 146,893 | 831,090 |
| Additions | – | 10,858 | 36,754 | 5,458 | 9,481 | 111,946 | 174,497 |
| Transfer out from construction-in-progress | 166,398 | – | – | 57,881 | 8,947 | (233,226) | – |
| Disposals | – | (1,006) | (341) | (1,392) | (4,261) | – | (7,000) |
| Depreciation charge | (24,900) | (31,010) | (50,818) | (9,474) | (25,341) | – | (141,543) |
| Closing net book amount | 570,963 | 34,921 | 52,107 | 104,956 | 68,484 | 25,613 | 857,044 |
| **As at 31 December 2012 (Restated)** | | | | | | | |
| Cost | 694,146 | 106,281 | 226,653 | 136,540 | 194,464 | 25,613 | 1,383,697 |
| Accumulated depreciation | (123,183) | (71,360) | (174,546) | (31,584) | (125,980) | – | (526,653) |
| Net book amount | 570,963 | 34,921 | 52,107 | 104,956 | 68,484 | 25,613 | 857,044 |
| **Year ended 31 December 2013** | | | | | | | |
| Opening net book amount | **570,963** | **34,921** | **52,107** | **104,956** | **68,484** | **25,613** | **857,044** |
| Additions | **702** | **13,568** | **36,804** | **5,926** | **21,680** | **11,019** | **89,699** |
| Transfer out from construction-in-progress | **30,655** | **–** | **–** | **1,494** | **–** | **(32,149)** | **–** |
| Disposals | **(21,869)** | **(78)** | **–** | **(4,736)** | **(1,671)** | **–** | **(28,354)** |
| Depreciation charge | **(28,173)** | **(24,490)** | **(37,354)** | **(12,769)** | **(24,532)** | **–** | **(127,318)** |
| Closing net book amount | **552,278** | **23,921** | **51,557** | **94,871** | **63,961** | **4,483** | **791,071** |
| **As at 31 December 2013** | | | | | | | |
| Cost | **691,499** | **89,083** | **263,457** | **136,830** | **209,055** | **4,483** | **1,394,407** |
| Accumulated depreciation | **(139,221)** | **(65,162)** | **(211,900)** | **(41,959)** | **(145,094)** | **–** | **(603,336)** |
| Net book amount | **552,278** | **23,921** | **51,557** | **94,871** | **63,961** | **4,483** | **791,071** |

## 6. Property, plant and equipment – Group *(Continued)*

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB3,976,000 (2012: RMB5,454,000) are built on land which the Group is in the process of applying for the legal title (Note 7).

Depreciation expenses of RMB39,008,000 (2012: RMB57,832,000) has been charged to cost of sales, RMB54,378,000 (2012: RMB51,489,000) to distribution expenses and RMB33,932,000 (2012: RMB32,222,000) to administrative expenses.

As at 31 December 2013, the Group has no secured bank borrowings. As at 31 December 2012, buildings with net book value of RMB18,441,000 were pledged as securities for the Group's borrowings (Note 21).

## 7. Land use rights – Group

| | RMB'000 |
|---|---|
| **As at 1 January 2012** | |
| Cost | 404,129 |
| Accumulated amortisation | (32,433) |
| Net book amount | 371,696 |
| **Year ended 31 December 2012** | |
| Opening net book amount | 371,696 |
| Amortisation charge | (8,933) |
| Closing net book amount | 362,763 |
| **As at 31 December 2012** | |
| Cost | 404,129 |
| Accumulated amortisation | (41,366) |
| Net book amount | 362,763 |
| **Year ended 31 December 2013** | |
| Opening net book amount | **362,763** |
| Disposal | **(2,610)** |
| Amortisation charge | **(8,801)** |
| Closing net book amount | **351,352** |
| **As at 31 December 2013** | |
| Cost | **399,054** |
| Accumulated amortisation | **(47,702)** |
| Net book amount | **351,352** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 7. Land use rights – Group *(Continued)*

All the Group's land use rights are located in the PRC and are held under leases for periods varying from 20 to 50 years. The Group is in the process of applying for the legal title for land use rights with net book value of RMB101,613,000 as at 31 December 2013 (2012: RMB104,435,000).

As at 31 December 2013, the Group has no secured bank borrowings. As at 31 December 2012, land use rights with net book value of RMB14,594,000 were pledged as securities for the Group's borrowings (Note 21).

## 8. Intangible assets – Group

| | Goodwill RMB'000 | Trademarks RMB'000 | Computer Software RMB'000 | License rights RMB'000 | Customer relationships & Non-compete agreements RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **As at 1 January 2012** | | | | | | |
| Cost | 179,226 | 119,037 | 112,246 | 628,601 | 41,339 | 1,080,449 |
| Accumulated amortisation and impairment | – | (28,969) | (55,289) | (229,936) | (14,419) | (328,613) |
| Net book amount | 179,226 | 90,068 | 56,957 | 398,665 | 26,920 | 751,836 |
| **Year ended 31 December 2012** | | | | | | |
| Opening net book amount | 179,226 | 90,068 | 56,957 | 398,665 | 26,920 | 751,836 |
| Adjustment upon entering into Lotto supplemental license agreement *(Note a)* | – | – | – | (206,890) | – | (206,890) |
| Additions | – | – | 16,760 | 65,777 | – | 82,537 |
| Amortisation charge | – | (5,538) | (18,824) | (46,494) | (5,407) | (76,263) |
| Impairment charge *(Note a)* | – | – | – | (127,838) | – | (127,838) |
| Closing net book amount | 179,226 | 84,530 | 54,893 | 83,220 | 21,513 | 423,382 |
| **As at 31 December 2012** | | | | | | |
| Cost | 179,226 | 119,037 | 128,754 | 288,430 | 41,339 | 756,786 |
| Accumulated amortisation and impairment | – | (34,507) | (73,861) | (205,210) | (19,826) | (333,404) |
| Net book amount | 179,226 | 84,530 | 54,893 | 83,220 | 21,513 | 423,382 |
| **Year ended 31 December 2013** | | | | | | |
| Opening net book amount | **179,226** | **84,530** | **54,893** | **83,220** | **21,513** | **423,382** |
| Additions | **–** | **–** | **10,930** | **3,699** | **–** | **14,629** |
| Amortisation charge | **–** | **(5,538)** | **(19,495)** | **(26,636)** | **(5,407)** | **(57,076)** |
| Closing net book amount | **179,226** | **78,992** | **46,328** | **60,283** | **16,106** | **380,935** |
| **As at 31 December 2013** | | | | | | |
| Cost | **179,226** | **119,037** | **139,684** | **292,129** | **41,339** | **771,415** |
| Accumulated amortisation and impairment | **–** | **(40,045)** | **(93,356)** | **(231,846)** | **(25,233)** | **(390,480)** |
| Net book amount | **179,226** | **78,992** | **46,328** | **60,283** | **16,106** | **380,935** |

## 8. Intangible assets – Group *(Continued)*

*Note:*

(a) In 2012, the Group and Lotto Sport H.K. Limited ("Lotto Sport") entered into a supplemental agreement pursuant to which the termination date of the Lotto brand license was amended to 31 December 2018 (from the original termination date of 31 December 2028 under the original license agreement). In addition, the fixed minimum undiscounted periodic payments to be made in the remaining term of the license was revised to approximately RMB182,400,000 (RMB906,200,000 under the original license agreement).

As at the date of above modification, carrying amounts of intangible asset and license fees payable relating to the original Lotto license right, which amounted to RMB334,728,000 and RMB448,030,000 respectively, were derecognised with a gain of RMB68,302,000 after netting off the RMB45,000,000 consideration payable for entering into the supplemental license agreement. Such gain was recognised in the consolidated income statement as "Other income and other gains – net" (Note 26).

At the same time, intangible asset and license fees payable amounted to RMB127,838,000 and RMB127,838,000 respectively were recognised relating to supplemental license agreement. Based on latest market condition and the projected business performance of the Lotto brand, an impairment provision of RMB127,838,000 has been made and included in 'Administrative expenses' in the consolidated income statement for the year ended 31 December 2012 (Note 25).

As a result of above, the net impact related to revision of the licence agreement of Lotto brand for the year ended 31 December 2012 was as follows:

| | **Year ended 31 December 2012** RMB'000 |
|---|---|
| Other income and other gains – net *(Note 26)* | 68,302 |
| Administrative expenses *(Note 25)* | (127,838) |
| | (59,536) |

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

### Impairment tests for goodwill

Goodwill is allocated to Double Happiness brand and Kason brand, which are cash-generating units (CGUs) at the lowest level within the Group at which the goodwill is monitored for internal management purpose.

The recoverable amounts for the CGUs have been determined based on values-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. The weighted average revenue growth rate used for the sixth year to the tenth year for Double Happiness brand and Kason brand are 2.4% and 7.4% per annum respectively and a growth rate of zero has been applied from the eleventh year to the twentieth year, which is in accordance with the observed annual growth rate for the related industry combined with management's expectations of declining growth. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGUs operate. The pre-tax discount rates used are 17.6% and 16.8% which reflect specific risks relating to Double Happiness brand and Kason brand respectively. Management's assessment of the values-in use of Double Happiness brand and Kason brand exceeds their carrying values, therefore no impairment provision was recorded by management.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 9. Available-for-sale financial assets – Group

The Group's available-for-sale financial assets include investments in two private companies. None of the investments is impaired as at 31 December 2013.

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **46,930** | 46,930 |

## 10. Investment in subsidiaries – Company

### (a) Investments in subsidiaries

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Investment in unlisted shares, at cost | **79,568** | 79,568 |
| Loan to subsidiaries | **2,023,787** | 879,287 |
| Contribution to the Restricted Share Award Scheme Trust | **31,509** | 41,185 |
| | **2,134,864** | 1,000,040 |

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

The following is a list of the Group's subsidiaries as at 31 December 2013:

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| *Directly held:* | | | | |
| RealSports Pte Ltd. | The British Virgin Islands, 8 October 2002 Limited liability company | US$1,000 | 100% | Investment holding |
| *Indirectly held:* | | | | |
| Li Ning Sports Technology Development (Hong Kong) Co., Ltd. (李寧體育科技發展(香港)有限公司) | Hong Kong, 28 May 2004 Limited liability company | HK$1 | 100% | Research and development |
| Li Ning Sports (Hong Kong) Co., Ltd. (李寧體育(香港)有限公司) | Hong Kong, 19 March 2003 Limited liability company | HK$100 | 100% | Provision of administrative services |
| 李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Co., Ltd.) | The PRC, 25 August 1997 Limited liability company | US$8,000,000 | 100% | Sale of sports goods |
| 上海狐步信息系統有限公司 (Shanghai Hubu Information System Co., Ltd.) | The PRC, 20 April 2000 Limited liability company | RMB2,000,000 | 100% | Provision of information technology service |

## 10. Investment in subsidiaries – Company *(Continued)*

### (a) Investments in subsidiaries *(Continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 上海少昊體育用品研發有限公司 (Shanghai Shao Hao Sports Goods Research and Development Co., Ltd.) | The PRC, 18 December 2001 Limited liability company | RMB3,000,000 | 100% | Product design, research and development |
| 上海悦奧體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.) | The PRC, 5 March 2003 Limited liability company | RMB3,000,000 | 100% | Sale of sports goods |
| 佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastic School Services Co., Ltd.) | The PRC, 31 October 1996 Limited liability company | RMB1,000,000 | 100% | Property management |
| 廣東悦奧體育發展有限公司 (Guangdong Yue Ao Sports Development Co., Ltd.) | The PRC, 13 December 2001 Limited liability company | RMB8,241,000 | 100% | Manufacture of sports goods |
| 李寧(中國)體育用品有限公司 (Li Ning (China) Sports Goods Co., Ltd.) | The PRC, 6 July 2007 Limited liability company | RMB116,670,000 | 100% | Sale of sports goods |
| Li Ning Sports USA, Inc. (李寧體育美國有限公司) | USA, 28 August 2007 Limited liability company | US$1,000 | 100% | Design of athletic shoes and apparel |
| Li Ning Korea Sports Ltd. (李寧韓國有限公司) | South Korea, 21 August 2013 Limited liability company | KRW100,000,000 | 100% | Research and development |
| 李寧(北京)體育用品商業有限公司 (Li Ning (Beijing) Sports Goods Commercial Co., Ltd.) | The PRC, 19 December 2007 Limited liability company | HK$10,000,000 | 100% | Sale of sports goods |
| 上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.) | The PRC, 9 July 2001 Limited liability company | RMB10,000,000 | 100% | Sale of sports goods |
| 鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.) | The PRC, 25 June 1998 Limited liability company | RMB2,750,000 | 100% | Sale of sports goods |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 10. Investment in subsidiaries – Company *(Continued)*

### (a) Investments in subsidiaries *(Continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.) | The PRC, 6 October 1998 Limited liability company | RMB3,200,000 | 100% | Sale of sports goods |
| 瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.) | The PRC, 10 June 1999 Limited liability company | RMB3,000,000 | 100% | Sale of sports goods |
| 濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.) | The PRC, 15 April 2003 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.) | The PRC, 2 June 1999 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.) | The PRC, 4 November 1997 Limited liability company | RMB5,000,000 | 100% | Sale of sports goods |
| 上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.) | The PRC, 8 August 2000 Limited liability company | RMB5,000,000 | 100% | Sale of sports goods |
| 天津一動體育用品銷售有限公司 (Tianjin Edosports Goods Sales Co., Ltd.) | The PRC, 14 December 1999 Limited liability company | RMB3,500,000 | 100% | Sale of sports goods |
| 南京一動體育用品銷售有限公司 (Nanjing Edosports Goods Sales Co., Ltd.) | The PRC, 15 April 2003 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 新疆一動體育用品銷售有限公司 (Xinjiang Edosports Goods Sales Co., Ltd.) | The PRC, 4 February 2005 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 長沙一動體育用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.) | The PRC, 26 August 1998 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.) | The PRC, 29 July 1998 Limited liability company | RMB1,500,000 | 100% | Sale of sports goods |

## 10. Investment in subsidiaries – Company *(Continued)*

### (a) Investments in subsidiaries *(Continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 西安一動體育用品銷售有限公司 (Xian Edosports Goods Sales Co., Ltd.) | The PRC, 23 January 2006 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 上海心動體育用品有限公司 (Shanghai Z-DO Sports Goods Co., Ltd.) | The PRC, 14 January 2008 Limited liability company | RMB20,000,000 | 100% | Sale of sports goods |
| 成都一動體育用品銷售有限公司 (Chengdu Edosports Goods Sales Co., Ltd.) | The PRC, 4 February 2008 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 昆明一動體育用品銷售有限公司 (Kunming Edosports Goods Sales Co., Ltd.) | The PRC, 24 September 2008 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 蘭州一動體育用品銷售有限公司 (Lanzhou Edosports Goods Sales Co., Ltd.) | The PRC, 13 May 2009 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 厦門悦奧商貿有限公司 (Xiamen Yue Ao Trading Co., Ltd.) | The PRC, 26 October 2009 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 大連悦奧商貿有限公司 (Dalian Yue Ao Trading Co., Ltd.) | The PRC, 13 June 2010 Limited liability company | RMB3,000,000 | 100% | Sale of sports goods |
| 杭州悦奧體育用品銷售有限公司 (Hangzhou Yue Ao Sports Goods Sales Co., Ltd.) | The PRC, 17 December 2010 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 合肥一動體育用品銷售有限公司 (Hefei Edosports Goods Sales Co., Ltd.) | The PRC, 21 March 2011 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 福州悦奧體育用品有限公司 (Fuzhou Yue Ao Sports Goods Co., Ltd.) | The PRC, 6 April 2011 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |
| 長春一動體育用品銷售有限公司 (Changchun Edosports Goods Sales Co., Ltd.) | The PRC, 2 August 2011 Limited liability company | RMB1,000,000 | 100% | Sale of sports goods |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 10. Investment in subsidiaries – Company *(Continued)*

### (a) Investments in subsidiaries *(Continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 上海李寧電子商務有限公司 (Shanghai Lining E-business Co., Ltd.) | The PRC, 27 September 2008 Limited liability company | RMB10,000,000 | 100% | Sale of sports goods |
| 李寧體育(天津)有限公司 (Lining Sports (Tianjin) Co., Ltd.) | The PRC, 19 January 2009 Limited liability company | RMB330,000,000 | 100% | Sale of sports goods |
| 上海紅雙喜股份有限公司 (Shanghai Double Happiness Co., Ltd.) | The PRC, 26 December 1995 Limited liability company | RMB112,000,000 | 57.5% | Manufacture and sale of sports goods |
| 上海紅雙喜體育用品銷售有限公司 (Shanghai Double Happiness Sports Goods Sales Co., Ltd.) | The PRC, 21 August 1996 Limited liability company | RMB15,900,000 | 57.5% | Sale of sports goods |
| 北京紅雙喜體育用品銷售有限公司 (Beijing Double Happiness Sports Goods Sales Co., Ltd.) | The PRC, 27 December 2010 Limited liability company | RMB2,000,000 | 57.5% | Sale of sports goods |
| 廣州紅雙喜體育用品銷售有限公司 (Guangzhou Double Happiness Sports Goods Sales Co., Ltd.) | The PRC, 6 May 2011 Limited liability company | RMB2,000,000 | 57.5% | Sale of sports goods |
| 上海紅雙喜體育用品蘇州有限公司 (Suzhou Double Happiness Guan Du Sports Goods Co., Ltd.) | The PRC, 10 August 2002 Limited liability company | RMB15,000,000 | 43.1% | Manufacture and sale of sports goods |
| 上海紅冠體育用品有限責任公司 (Shanghai Hong Guan Sports Goods Co., Ltd.) | The PRC, 29 July 1998 Limited liability company | RMB500,000 | 57.5% | Sale of sports goods |
| 上海李寧體育用品電子商務有限公司 (Shanghai Li Ning Sports Goods E-business Co.,Ltd) | The PRC, 27 July 2011 Limited liability company | RMB10,000,000 | 100% | Sale of sports goods |

## 10. Investment in subsidiaries – Company *(Continued)*

### (a) Investments in subsidiaries *(Continued)*

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/paid up capital | Effective equity interest held by the Company | Principal activities |
|---|---|---|---|---|
| 樂途體育用品有限公司 (Lotto Sports Goods Co., Ltd.) | The PRC, 19 January 2009 Limited liability company | RMB400,000,000 | 100% | Sale of sports goods |
| 樂途(大慶)體育用品有限責任公司 (Lotto (Daqing) Sports Goods Co., Ltd.) | The PRC, 24 January 2011 Limited liability company | RMB5,000,000 | 100% | Sale of sports goods |
| 樂途(四川)體育用品有限責任公司 (Lotto (Sichuan) Sports Goods Co., Ltd.) | The PRC, 9 September 2011 Limited liability company | RMB5,000,000 | 100% | Sale of sports goods |
| 樂途(廣東)體育用品有限責任公司 (Lotto (Guangdong) Sports Goods Co., Ltd.) | The PRC, 31 October 2011 Limited liability company | RMB10,000,000 | 100% | Sale of sports goods |
| 李寧(福建)羽毛球科技發展有限公司 (Li Ning (Fujian) Badminton Technology Development Co., Ltd.) | The PRC, 30 June 2008 Limited liability company | RMB20,000,000 | 100% | Manufacture and sale of sports goods |
| Kason Sports (Hong Kong) Ltd. (凱勝體育(香港)有限公司) | Hong Kong, 15 January 2008 Limited liability company | HK$1 | 100% | Investment holding |
| Li Ning International Trading (Hong Kong) Co., Ltd. (李寧國際貿易(香港)有限公司) | Hong Kong, 27 August 2010 Limited liability company | HK$2 | 100% | Sales of sports goods |
| 李寧(湖北)體育用品有限公司 (Li Ning (Hubei) Sports Good Co., Ltd.) | The PRC, 2 November 2010 Limited liability company | RMB411,844,000 | 100% | Manufacture and sale of sports goods |
| 湖北李寧鞋業有限公司 (Hubei Li Ning Footwear Co., Ltd.) | The PRC, 18 April 2013 Limited liability company | RMB50,000,000 | 95% | Manufacture and sale of sports goods |
| 天津李寧投資管理有限公司 (Tianjin Li Ning Investment Management Co., Ltd.) | The PRC, 13 February 2012 Limited liability company | RMB30,000,000 | 100% | Investment management |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 10. Investment in subsidiaries – Company *(Continued)*

### (b) Material non-controlling interests

As at 31 December 2013, the total non-controlling interests of the Group is RMB207,534,000, of which RMB205,034,000 is relating to Shanghai Double Happiness Co., Ltd.. The non-controlling interest in respect of Hubei Li Ning Footwear Co., Ltd. is not material.

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

#### Summarised balance sheet

| | As at 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| **Current** | | |
| Assets | **291,790** | 209,977 |
| Liabilities | **(238,060)** | (188,176) |
| **Total current net assets** | **53,730** | 21,801 |
| **Non-current** | | |
| Assets | **584,506** | 599,979 |
| Liabilities | **(64,997)** | (67,475) |
| **Total non-current net assets** | **519,509** | 532,504 |
| **Net assets** | **573,239** | 554,305 |

#### Summarised income statement

| | Year ended 31 December | |
|---|---|---|
| | **2013** | 2012 |
| | **RMB'000** | RMB'000 |
| Revenue | **606,828** | 526,483 |
| Profit before income tax | **98,782** | 80,689 |
| Income tax expense | **(25,555)** | (20,150) |
| Profit for the year | **73,227** | 60,539 |
| **Total comprehensive income** | **73,227** | 60,539 |
| **Total comprehensive income allocated to Non-Controlling Interests** | **32,149** | 26,760 |

## 10. Investment in subsidiaries – Company *(Continued)*

### (b) Material non-controlling interests *(Continued)*

**Summarised cash flows**

| | Year ended 31 December | |
|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 |
| **Cash flows from operating activities** | | |
| Cash generated from operations | **188,251** | 104,126 |
| Income tax paid | **(25,720)** | (28,244) |
| Net cash generated from operating activities | **162,531** | 75,882 |
| Net cash used in investing activities | **(75,362)** | (6,290) |
| Net cash used in financing activities | **(83,571)** | (66,517) |
| **Net increase in cash and cash equivalents** | **3,598** | 3,075 |
| Cash and cash equivalents at beginning of year | **90,804** | 87,888 |
| Exchange losses on cash and cash equivalents | **(676)** | (159) |
| **Cash and cash equivalents at end of year** | **93,726** | 90,804 |

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

## 11. Investments accounted for using the equity method – Group

The amounts recognised in the balance sheet are as follows:

| | **2013 RMB'000** | 2012 RMB'000 (Restated) |
|---|---|---|
| Associates | **–** | 4,275 |
| Joint ventures | **13,496** | 7,979 |
| At 31 December | **13,496** | 12,254 |

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

| | **2013 RMB'000** | 2012 RMB'000 (Restated) |
|---|---|---|
| Associates | **(3,275)** | (11,508) |
| Joint ventures | **5,517** | 6,105 |
| For the year ended 31 December | **2,242** | (5,403) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

### Investment in associates

The following is a list of the Group's associates as at 31 December 2013:

| Name | Place of operation/ incorporation, date of incorporation and kind of legal entity | Issued share/paid up capital | Effective equity interest held by the Group | Principal activities |
|---|---|---|---|---|
| Digital Li-Ning Company Limited ("Digital Li-Ning") | Cayman Islands, 11 July 2011 Limited liability company | US$10,000,000 | 19.9% | The marketing and distribution of sports goods in the United States |
| Tianjin Kuan Mao Mi Children's Products Company Limited ("Tianjin Kuan Mao Mi") | The PRC, 24 May 2011 Limited liability company | RMB30,000,000 | 13.30% | Sale of sports goods |
| Tianjin Yue Hao Tuo Outdoor Sports Company Limited ("Tianjin Yue Hao Tuo") | The PRC, 3 August 2011 Limited liability company | RMB20,790,000 | 14.82% | Sale of sports goods |

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

The directors of the Company are of the view that none of the Group's associates is material to the Group as at 31 December 2013. The Group's share of loss from continuing operations and total comprehensive income of its associates for the year ended 31 December 2013 were RMB3,275,000 (2012: RMB11,508,000) and RMB3,275,000 (2012: RMB11,508,000), respectively. The Group does not have any share of post-tax loss from discontinued operations or other comprehensive income of its associates for the years ended 31 December 2013 and 2012.

### Investment in joint venture

| | **2013 RMB'000** | 2012 RMB'000 (Restated) |
|---|---|---|
| At 1 January | **7,979** | 1,874 |
| Share of profit | **5,517** | 6,105 |
| At 31 December | **13,496** | 7,979 |

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

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

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

## 12. Inventories – Group

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

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

As at 31 December 2012, the Group made a provision of RMB585,996,000 to write-down the inventories to their net realisable value. In view of that the actual inventory clearance during the year ended 31 December 2013 was better than the forecast, the provision required to write-down the inventories to their net realisable value decreased to RMB382,066,000 as at 31 December 2013. Inventory provision and the amount of reversal have been included in cost of sales in the consolidated income statement for the years ended 31 December 2013 and 2012.

## 13. Trade receivables – Group

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 13. Trade receivables – Group *(Continued)*

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

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

Customers are normally granted credit terms within 90 days. As at 31 December 2013, trade receivables of RMB1,170,645,000 (2012: RMB1,458,457,000) were past due. As discussed in Note 4(c), the Company's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, ageing of receivable balances, and latest communication with individual customers. The Group had launched a series of plans to communicate with individual customers and manage the credit risk of the customers. Management will closely monitor and continue to pursue collection of those receivables and a portion of the receivables is expected to be recovered. An allowance of RMB590,928,000 has been made as at 31 December 2013 (2012: RMB937,535,000).

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

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

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

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

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

## 14. Other receivables and prepayments – Group

| | **2013** **RMB'000** | 2012 RMB'000 (Restated) |
|---|---|---|
| Prepaid rentals and other deposits | **209,648** | 205,312 |
| Prepayment for purchase of land use rights and buildings | **71,829** | – |
| Prepayment for advertising expenses | **37,837** | 8,327 |
| Prepayment for acquisition of the business of certain distributors *(Note 36(b))* | **66,956** | – |
| Loans to a joint venture | **20,441** | 21,082 |
| Advances to suppliers | **12,434** | 11,969 |
| Staff advances and other payments for employees | **8,736** | 2,719 |
| Others | **60,569** | 33,410 |
| | **488,450** | 282,819 |
| Less: non-current portion | **(125,807)** | (49,608) |
| Current portion | **362,643** | 233,211 |

Other receivables and prepayment do not contain impaired assets. Non-current portion mainly comprised prepaid rentals, deposits and prepayment for purchase of land use rights and buildings.

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

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

As at 31 December 2013, the Group had the following cash, cash equivalents and bank deposits mainly held at banks in the PRC (including the Hong Kong Special Administrative Region):

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2013** **RMB'000** | 2012 RMB'000 (Restated) | **2013** **RMB'000** | 2012 RMB'000 |
| Cash and cash equivalents | **1,280,684** | 1,241,304 | **115,346** | 455 |
| Restricted bank deposits | **2,149** | 13,688 | **–** | – |
| | **1,282,833** | 1,254,992 | **115,346** | 455 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 (Restated) | **2013 RMB'000** | 2012 RMB'000 |
| Denominated in RMB | **1,144,405** | 1,192,461 | **–** | 13 |
| Denominated in HK$ | **125,544** | 23,920 | **115,346** | 442 |
| Denominated in US$ | **9,332** | 23,232 | **–** | – |
| Denominated in EUR | **3,352** | 8,319 | **–** | – |
| Denominated in SGD | **–** | 7,060 | **–** | – |
| Denominated in KRW | **200** | – | **–** | – |
| | **1,282,833** | 1,254,992 | **115,346** | 455 |

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

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

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

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

| | Number of shares (Thousands) | Approximate amount HK$'000 |
|---|---|---|
| **Authorised at HK$0.10 each** | | |
| As at 31 December 2013 and 2012 | 10,000,000 | 1,000,000 |

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

### Issued and fully paid

| | Number of share of HK$0.10 each (Thousands) | Ordinary shares RMB'000 | Share premium RMB'000 | Subtotal RMB'000 | Shares held for Restricted Share Award Scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **As at 1 January 2012** | 1,052,411 | 111,604 | 312,379 | 423,983 | (52,415) | 371,568 |
| Net proceeds from shares issued pursuant to share option schemes *(Note a)* | 224 | 18 | 1,586 | 1,604 | – | 1,604 |
| Transfer of fair value of share options exercised to share premium | – | – | 2,007 | 2,007 | – | 2,007 |
| Shares vested under Restricted Share Award Scheme | 835 | – | – | – | 11,230 | 11,230 |
| **As at 31 December 2012** | 1,053,470 | 111,622 | 315,972 | 427,594 | (41,185) | 386,409 |
| **As at 1 January 2013** | **1,053,470** | **111,622** | **315,972** | **427,594** | **(41,185)** | **386,409** |
| Net proceeds from shares issued pursuant to share option schemes *(Note a)* | **551** | **44** | **1,929** | **1,973** | **–** | **1,973** |
| Transfer of fair value of share options exercised to share premium | **–** | **–** | **4,285** | **4,285** | **–** | **4,285** |
| Shares vested under Restricted Share Award Scheme | **738** | **–** | **–** | **–** | **9,676** | **9,676** |
| Shares converted from convertible securities *(Note 17)* | **313,175** | **24,947** | **824,659** | **849,606** | **–** | **849,606** |
| **As at 31 December 2013** | **1,367,934** | **136,613** | **1,146,845** | **1,283,458** | **(31,509)** | **1,251,949** |

*Notes:*

(a) During the year ended 31 December 2013, the Company issued 551,000 shares (2012: 224,000 shares) of HK$0.10 each to certain directors and employees of the Group at weighted-average issue price of HK$4.519 (2012: HK$8.830) per share pursuant to the Company's share option schemes (see Note 33).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 17. Reserves – Group and Company

### Group

| | Capital reserves RMB'000 | Statutory reserve funds RMB'000 | Share-based compensation reserves RMB'000 | Convertible bonds reserves RMB'000 | Convertible securities reserves RMB'000 | Currency translation difference RMB'000 | Subtotal RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|---|
| **As at 1 January 2012** | 49,508 | 220,593 | 95,049 | – | – | 4,956 | 370,106 | 2,730,169 | 3,100,275 |
| Loss for the year | – | – | – | – | – | – | – | (1,979,114) | (1,979,114) |
| Value of services provided under share schemes | – | – | 6,929 | – | – | – | 6,929 | – | 6,929 |
| Transfer of fair value of share options exercised to share premium | – | – | (2,007) | – | – | – | (2,007) | – | (2,007) |
| Share options lapsed | 14,667 | – | (14,667) | – | – | – | – | – | – |
| Shares vested under Restricted Share Award Scheme | – | – | (11,230) | – | – | – | (11,230) | – | (11,230) |
| Appropriations to statutory reserves | – | 13,352 | – | – | – | – | 13,352 | (13,352) | – |
| Issuance of convertible bonds – equity component *(Note 22)* | – | – | – | 113,395 | – | – | 113,395 | – | 113,395 |
| Translation difference of foreign currency financial statements | – | – | – | – | – | (1,060) | (1,060) | – | (1,060) |
| **As at 31 December 2012** | 64,175 | 233,945 | 74,074 | 113,395 | – | 3,896 | 489,485 | 737,703 | 1,227,188 |
| **As at 1 January 2013** | **64,175** | **233,945** | **74,074** | **113,395** | **–** | **3,896** | **489,485** | **737,703** | **1,227,188** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(391,540)** | **(391,540)** |
| Value of services provided under share schemes | **–** | **–** | **21,104** | **–** | **–** | **–** | **21,104** | **–** | **21,104** |
| Transfer of fair value of share options exercised to share premium | **–** | **–** | **(4,285)** | **–** | **–** | **–** | **(4,285)** | **–** | **(4,285)** |
| Share options lapsed | **5,661** | **–** | **(5,661)** | **–** | **–** | **–** | **–** | **–** | **–** |
| Shares vested under Restricted Share Award Scheme | **–** | **–** | **(9,676)** | **–** | **–** | **–** | **(9,676)** | **–** | **(9,676)** |
| Appropriations to statutory reserves | **–** | **15,229** | **–** | **–** | **–** | **–** | **15,229** | **(15,229)** | **–** |
| Issuance of convertible securities *(Note c)* | **–** | **–** | **–** | **–** | **1,441,484** | **–** | **1,441,484** | **–** | **1,441,484** |
| Shares converted from convertible securities *(Note c)* | **–** | **–** | **–** | **–** | **(849,606)** | **–** | **(849,606)** | **–** | **(849,606)** |
| Acquisition of non-controlling interests of a subsidiary | **(3,045)** | **–** | **–** | **–** | **–** | **–** | **(3,045)** | **–** | **(3,045)** |
| Translation difference of foreign currency financial statements | **–** | **–** | **–** | **–** | **–** | **657** | **657** | **–** | **657** |
| **As at 31 December 2013** | **66,791** | **249,174** | **75,556** | **113,395** | **591,878** | **4,553** | **1,101,347** | **330,934** | **1,432,281** |

## 17. Reserves – Group and Company *(Continued)*

### Company

| | Retained profits RMB'000 | Capital reserves RMB'000 | Share-based compensation reserves RMB'000 | Convertible bonds reserves RMB'000 | Convertible securities reserves RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| **As at 1 January 2012** | 247,762 | – | 95,049 | – | – | 342,811 |
| Loss for the year | (25,577) | – | – | – | – | (25,577) |
| Value of services provided under share schemes | – | – | 6,929 | – | – | 6,929 |
| Transfer of fair value of share options exercised to share premium | – | – | (2,007) | – | – | (2,007) |
| Share options lapsed | – | – | (14,667) | – | – | (14,667) |
| Shares vested under Restricted Share Award Scheme | – | – | (11,230) | – | – | (11,230) |
| Issuance of convertible bonds – equity component *(Note 22)* | – | – | – | 113,395 | – | 113,395 |
| **As at 31 December 2012** | 222,185 | – | 74,074 | 113,395 | – | 409,654 |
| **As at 1 January 2013** | **222,185** | **–** | **74,074** | **113,395** | **–** | **409,654** |
| Loss for the year | **(58,261)** | **–** | **–** | **–** | **–** | **(58,261)** |
| Value of services provided under share schemes | **–** | **–** | **21,104** | **–** | **–** | **21,104** |
| Transfer of fair value of share options exercised to share premium | | **–** | **(4,285)** | | | **(4,285)** |
| Share options lapsed | **–** | **5,661** | **(5,661)** | **–** | **–** | **–** |
| Issuance of convertible securities *(Note c)* | **–** | **–** | **–** | **–** | **1,441,484** | **1,441,484** |
| Shares converted from convertible securities *(Note c)* | **–** | **–** | **–** | **–** | **(849,606)** | **(849,606)** |
| Shares vested under Restricted Share Award Scheme | **–** | **–** | **(9,676)** | **–** | **–** | **(9,676)** |
| **As at 31 December 2013** | **163,924** | **5,661** | **75,556** | **113,395** | **591,878** | **950,414** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 17. Reserves – Group and Company *(Continued)*

### (a) Capital reserves

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

### (b) Statutory reserve funds

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

Statutory reserve funds include Statutory Surplus Reserve and Reserve Fund.

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

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

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

### (c) Convertible securities reserves

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

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

## 17. Reserves – Group and Company *(Continued)*

### (c) Convertible securities reserves *(Continued)*

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

As at 31 December 2013, convertible securities with carrying value of HK$1,067,046,000 (equivalent to approximately RMB849,606,000) had been converted into ordinary shares of the Company. Accordingly, ordinary shares of the Company have been increased by 313,175,000 shares as at 31 December 2013 (Note 16).

## 18. Trade payables – Group

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

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

## 19. Other payables and accruals – Group and Company

| | Group | | Company | |
|---|---|---|---|---|
| | **2013**<br>**RMB'000** | 2012<br>RMB'000<br>(Restated) | **2013**<br>**RMB'000** | 2012<br>RMB'000 |
| Accrued sales and marketing expenses | **305,439** | 257,547 | **–** | – |
| Advances from customers | **106,270** | 86,816 | **–** | – |
| Wages and welfare payables | **102,488** | 102,577 | **–** | – |
| Payable for property, plant and equipment | **49,096** | 63,949 | **–** | – |
| Other tax payables | **18,354** | 3,620 | **–** | – |
| Others | **254,964** | 220,796 | **8,605** | 7,806 |
| | **836,611** | 735,305 | **8,605** | 7,806 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 20. License fees payable – Group

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

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

| | RMB'000 |
|---|---|
| **As at 1 January 2012** | 530,442 |
| Acquisition of license rights | 65,777 |
| Adjustment upon entering into Lotto supplemental license agreement *(Note 8(a))* | (320,192) |
| Consideration payable for entering into Lotto supplemental license agreement *(Note 8(a))* | 45,000 |
| Payment of license fees | (76,413) |
| Amortisation of discount *(Note 28)* | 19,035 |
| Adjustment for exchange difference | 14 |
| **As at 31 December 2012** | 263,663 |
| **As at 1 January 2013** | **263,663** |
| Acquisition of license rights | **3,699** |
| Payment of license fees | **(108,941)** |
| Amortisation of discount *(Note 28)* | **21,270** |
| Adjustment for exchange difference | **(2,758)** |
| **As at 31 December 2013** | **176,933** |

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Analysis of license fees payable: | | |
| Non-current | | |
| – over five years | **2,324** | 17,636 |
| – the second to fifth year | **119,985** | 134,882 |
| Current | **54,624** | 111,145 |
| | **176,933** | 263,663 |

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

## 20. License fees payable – Group *(Continued)*

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

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Less than 1 year | **57,998** | 114,000 |
| Between 1 and 5 years | **158,682** | 186,453 |
| Over 5 years | **4,572** | 35,642 |
| | **221,252** | 336,095 |

## 21. Borrowings – Group and Company

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Bank borrowings denominated in | | | | |
| – RMB | **400,000** | 1,285,000 | **–** | – |
| – HK$ | **–** | 162,157 | **–** | 162,157 |
| | **400,000** | 1,447,157 | **–** | 162,157 |
| – secured | **–** | 3,000 | **–** | – |
| – unsecured | **400,000** | 1,444,157 | **–** | 162,157 |
| | **400,000** | 1,447,157 | **–** | 162,157 |

The carrying amounts of the borrowings at the respective balance sheet dates approximate their fair value as the impact of discounting is not significant.

The weighted average effective interest rates per annum of the borrowings were 6.76% (2012: 6.80%) for bank borrowings denominated in RMB and 2.26% (2012: 2.78%) for bank borrowings denominated in HK$ for the year ended 31 December 2013.

As at 31 December 2013, the Group has no secured bank borrowings. As at 31 December 2012, bank borrowings amounting to RMB3,000,000 were secured by the Group's land and buildings (Notes 6 and 7).

As at 31 December 2013, the Group has undrawn borrowing facilities within one year amounting to RMB1,128,580,000 (2012: RMB58,000,000). These facilities have been arranged to help financing of the Group's working capital.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 21. Borrowings – Group and Company *(Continued)*

Movement in borrowings is analysed as follows:

| | Group RMB'000 | Company RMB'000 |
|---|---|---|
| **As at 1 January 2012** | 838,059 | 486,420 |
| Additions | 1,714,472 | 324,472 |
| Effect of change in exchange rate | 2,654 | 2,654 |
| Repayments | (1,108,028) | (651,389) |
| **As at 31 December 2012** | 1,447,157 | 162,157 |
| **As at 1 January 2013** | **1,447,157** | **162,157** |
| Additions | **1,803,005** | **–** |
| Effect of change in exchange rate | **(1,919)** | **(1,919)** |
| Repayments | **(2,848,243)** | **(160,238)** |
| **As at 31 December 2013** | **400,000** | **–** |

The exposure of the Group's and the Company's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet date are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| – Less than 6 months | **5,000** | 1,429,157 | **–** | 162,157 |
| – Between 6 and 12 months | **195,000** | 18,000 | **–** | – |
| – Between 1 and 2 years | **200,000** | – | **–** | – |
| | **400,000** | 1,447,157 | **–** | 162,157 |

## 22. Convertible bonds – Group and Company

On 8 February 2012, the Company issued convertible bonds (the "CB") in the aggregate principal amount of RMB750,000,000 to TPG and the GIC Investor (existing shareholders of the Company). The CB bears a minimum interest rate of 4% per annum and due on 7 February 2017 (the "Maturity Date"). The initial conversion price is HK$7.74 per ordinary share of the Company (subject to anti-dilutive adjustments).

The CB cannot be redeemed prior to maturity, unless due to events of default, upon which the holders have the right to require early redemption at 130% of the outstanding principal amount of the CB plus any unpaid interests. As at 31 December 2012, the holders have released the Company from several clauses which may create future financial constraints on the Company.

The initial fair value of the liability component and the equity conversion component was determined based on net proceeds at issuance. The fair value of the liability component was calculated by using a market interest rate for an equivalent non-convertible bond. The residual amount of RMB113,395,000, representing the value of the equity conversion component, was included in shareholders' equity as other reserves (Note 17).

In relation to the CB issued on 8 February 2012, the Company and the bondholders signed an amendment deed on 23 January 2013 (the "Modification Date"), under which both parties agreed to (1) modify certain clauses for the remaining term of the CB, as such clauses may create future financial constraints on the Company, and (2) reset the conversion price from the initial conversion price of HK$7.74 to HK$4.5 per ordinary share of the Company. The amendment became effective on the Modification Date.

The above two changes constituted a substantial modification of the original CB, which resulted in the derecognition of the carrying value of the debt portion of the CB as of the Modification Date amounting to RMB668,525,000 and the recognition of a new financial liability based on the fair value of the debt portion of the CB as of the Modification Date amounting to RMB634,896,000. The consequential gain of RMB33,629,000 was recognised in the consolidated income statement as "Other income and other gains – net" (Note 26).

The convertible bonds recognised in the consolidated balance sheet were calculated as follows:

| | Group and Company RMB'000 |
|---|---|
| Liability component on initial recognition on the Modification Date | 634,896 |
| Payment of interest | (30,000) |
| Accumulated interest expenses up to 31 December 2013 | 53,331 |
| Liability component at 31 December 2013 | 658,227 |
| Less: Interest payable due within one year | (12,500) |
| Non-current portion | 645,727 |

The face value of the CB as at 31 December 2013 is RMB750,000,000. No part of the CB was converted to ordinary shares of the Company during the year or subsequent to 31 December 2013 and before the approval date of these consolidated financial statements. The carrying value of the liability component is calculated using cash flows discounted at an initial risk adjusted market interest rate of 9.51% per annum. The carrying value of the liability component approximates its fair value as of 31 December 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 23. Deferred income tax – Group

Movements in deferred income tax assets/(liabilities) are analysed as follows:

| | Provisions RMB'000 | Share schemes RMB'000 | Unrealised profit on intra-group sales RMB'000 | Fair value gains RMB'000 | Accumulated tax losses RMB'000 | Accruals RMB'000 | Others RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Deferred income tax assets** | | | | | | | | |
| **As at 1 January 2012 (Restated)** | 51,868 | 14,719 | 33,165 | – | 155,978 | 158,975 | 27,373 | 442,078 |
| (Charged)/credited to income statement | (15,802) | (12,700) | (28,489) | – | (63,454) | 45,338 | (4,904) | (80,011) |
| **As at 31 December 2012 (Restated)** | 36,066 | 2,019 | 4,676 | – | 92,524 | 204,313 | 22,469 | 362,067 |
| **As at 1 January 2013** | **36,066** | **2,019** | **4,676** | **–** | **92,524** | **204,313** | **22,469** | **362,067** |
| (Charged)/credited to income statement | **(11,314)** | **(2,019)** | **(592)** | **–** | **(28,079)** | **25,699** | **(152)** | **(16,457)** |
| **As at 31 December 2013** | **24,752** | **–** | **4,084** | **–** | **64,445** | **230,012** | **22,317** | **345,610** |
| **Deferred income tax liabilities** | | | | | | | | |
| **As at 1 January 2012** | – | – | – | (81,261) | – | – | (8) | (81,269) |
| Credited/(charged) to income statement | – | – | – | 4,103 | – | – | (2,152) | 1,951 |
| **As at 31 December 2012** | – | – | – | (77,158) | – | – | (2,160) | (79,318) |
| **As at 1 January 2013** | **–** | **–** | **–** | **(77,158)** | **–** | **–** | **(2,160)** | **(79,318)** |
| Credited/(charged) to income statement | **–** | **–** | **–** | **4,093** | **–** | **–** | **(91)** | **4,002** |
| **As at 31 December 2013** | **–** | **–** | **–** | **(73,065)** | **–** | **–** | **(2,251)** | **(75,316)** |

## 23. Deferred income tax – Group *(Continued)*

The amounts expected to be recovered for deferred income tax assets/(liabilities) are as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000<br>(Restated) |
|---|---|---|
| **Deferred income tax assets** | | |
| – to be recovered within 12 months | **252,459** | 237,106 |
| – to be recovered after more than 12 months | **93,151** | 124,961 |
| | **345,610** | 362,067 |
| **Deferred income tax liabilities** | | |
| – to be recovered within 12 months | **(6,336)** | (6,255) |
| – to be recovered after more than 12 months | **(68,980)** | (73,063) |
| | **(75,316)** | (79,318) |

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB272,231,000 (2012: RMB96,047,000) in respect of tax losses amounting to RMB1,096,351,000 (2012: RMB402,748,000) that can be carried forward against future taxable income and will expire between 2014 and 2018 as management believes it is more likely than not that such tax losses would not be utilised before they expire.

Deferred income tax liabilities of RMB21,078,000 (2012: RMB36,465,000) have not been recognised for the withholding tax that would be payable on the distributable retained profits of the Company's subsidiaries in the PRC earned after 1 January 2008. Such amounts totalling RMB421,563,000 (2012: RMB729,310,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

## 24. Deferred income – Group

| | RMB'000 |
|---|---|
| As at 1 January 2012 | 61,030 |
| Credited to income statement | (1,294) |
| As at 31 December 2012 | 59,736 |
| **As at 1 January 2013** | **59,736** |
| Addition | **5,570** |
| Credited to income statement | **(1,294)** |
| **As at 31 December 2013** | **64,012** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 25. Expenses by nature

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

*Note:*

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

## 26. Other income and other gains – net

| | 2013 RMB'000 | 2012 RMB'000 |
|---|---|---|
| Government grants | **101,551** | 95,790 |
| License fee income | **11,522** | 4,700 |
| Gain on modification of the CB *(Note 22)* | **33,629** | – |
| Gain on derecognition of intangible asset and license fees payable relating to revision of the license agreement of Lotto brand *(Note 8 (a))* | **–** | 68,302 |
| | **146,702** | 168,792 |

## 27. Staff costs

| | **2013 RMB'000** | 2012 RMB'000 (Restated) |
|---|---|---|
| Wages and salaries | **351,394** | 372,362 |
| Contributions to retirement benefit plan *(Note c)* | **46,678** | 49,453 |
| Share options and restricted shares granted to directors and employees | **21,104** | 6,929 |
| Staff quarters and housing benefits | **16,789** | 17,352 |
| Other benefits | **234,333** | 280,453 |
| | **670,298** | 726,549 |

### (a) Directors' and senior management's emoluments

The remuneration of each director for the year ended 31 December 2012 is set out below:

| Name of Director | Fees RMB'000 | Salary RMB'000 | Discretionary bonuses RMB'000 | Other benefits(i) RMB'000 | Employer's contribution to pension scheme RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| Mr. Li Ning | – | 3,454 | 839 | 17 | 140 | 4,450 |
| Mr. Zhang Zhi Yong *(ii)* | – | 3,171 | – | 4,221 | 149 | 7,541 |
| Mr. Chong Yi Kay *(iii)* | – | 1,293 | 107 | 1,182 | 108 | 2,690 |
| Mr. Jin-Goon Kim | 315 | – | – | 7 | – | 322 |
| Ms. Wang Ya Fei | 270 | – | – | 320 | – | 590 |
| Mr. Lim Meng Ann *(iv)* | 68 | – | – | 3 | – | 71 |
| Mr. Koo Fook Sun, Louis | 270 | – | – | 320 | – | 590 |
| Dr. Chan Chung Bun, Bunny | 250 | – | – | 320 | – | 570 |
| Mr. Chu Wah Hui *(v)* | 250 | – | – | 320 | – | 570 |
| Mr. James Chun-Hsien Wei *(vi)* | 250 | – | – | 320 | – | 570 |
| Mr. Chen Yue, Scott | 187 | – | – | 7 | – | 194 |
| Mr. Su Jing Shyh, Samuel | 122 | – | – | 7 | – | 129 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 27. Staff costs *(Continued)*

### (a) Directors' and senior management's emoluments *(Continued)*

The remuneration of each director for the year ended 31 December 2013 is set out below:

| Name of Director | Fees | Salary | Discretionary bonuses | Other benefits*(i)* | Employer's contribution to pension scheme | Total |
|---|---|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Mr. Li Ning | – | 3,710 | 960 | 17 | 161 | 4,848 |
| Mr. Zhang Zhi Yong *(ii)* | 127 | 1,371 | – | 2,446 | 113 | 4,057 |
| Mr. Jin-Goon Kim | 500 | – | – | 215 | – | 715 |
| Ms. Wang Ya Fei | 270 | – | – | 355 | – | 625 |
| Mr. Koo Fook Sun, Louis | 270 | – | – | 355 | – | 625 |
| Dr. Chan Chung Bun, Bunny | 250 | – | – | 355 | – | 605 |
| Mr. James Chun-Hsien Wei *(vi)* | 167 | – | – | 43 | – | 210 |
| Mr. Chen Yue, Scott | 250 | – | – | 215 | – | 465 |
| Mr. Su Jing Shyh, Samuel | 250 | – | – | 215 | – | 465 |

(i) Other benefits include insurance premium, housing allowance and fair value of share options charged to the consolidated income statement during the year.

(ii) Mr. Zhang Zhi Yong ceased to be the chief executive officer of the Company with effect from 4 July 2012.

(iii) Mr. Chong Yi Kay ceased to be an executive director and the chief financial officer of the Company with effect from 1 November 2012.

(iv) Mr. Lim Meng Ann ceased to be a non-executive director of the Company with effect from 1 April 2012.

(v) Mr. Chu Wah Hui ceased to be a non-executive director of the Company with effect from 1 January 2013.

(vi) Mr. James Chun-Hsien Wei ceased to be a non-executive director of the Company with effect from 1 September 2013.

The total remuneration of senior management, excluding directors, is within the following bands:

| | Number of individuals | |
|---|---|---|
| | **2013** | 2012 |
| Emoluments bands | | |
| RMB500,001 to RMB1,000,000 | – | 1 |
| RMB1,500,001 to RMB2,000,000 | 1 | 2 |
| RMB2,500,001 to RMB3,000,000 | 1 | – |
| RMB3,500,001 to RMB4,000,000 | 1 | – |
| RMB4,500,001 to RMB5,000,000 | 1 | – |
| RMB6,000,001 to RMB6,500,000 | 1 | – |
| | **5** | 3 |

## 27. Staff costs *(Continued)*

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included two directors for the years ended 31 December 2013 and three directors for the years ended 31 December 2012, and their emoluments are reflected in the analysis presented above. The aggregate amounts of emoluments paid and payable to the remaining three individuals (2012: two individuals) whose emoluments were the highest in the Group for the year are as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Salaries and allowances | **7,647** | 3,846 |
| Other benefits | **7,155** | 801 |
| Contributions to retirement benefit scheme | **263** | 157 |
| | **15,065** | 4,804 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2013** | 2012 |
| Emoluments bands | | |
| RMB2,000,001 to RMB2,500,000 | **–** | 2 |
| RMB4,000,001 to RMB4,500,000 | **1** | – |
| RMB4,500,001 to RMB5,000,000 | **1** | – |
| RMB6,000,001 to RMB6,500,000 | **1** | – |
| | **3** | 2 |

### (c) Pensions – defined contribution plans

The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 5% to 22% of the employees' basic salary dependent upon the applicable local regulations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 28. Finance income and expenses

| | 2013<br>RMB'000 | 2012<br>RMB'000<br>(Restated) |
|---|---|---|
| Interest income on bank balances and deposits | 8,699 | 7,550 |
| **Finance income** | **8,699** | 7,550 |
| Amortisation of discount – license fees payable *(Note 20)* | (21,270) | (19,035) |
| Interest expense on bank borrowings | (51,794) | (119,782) |
| Interest expense on the CB | (57,724) | (46,836) |
| Net foreign currency exchange loss | (15,861) | (1,541) |
| Others | (12,047) | (21,938) |
| **Finance expenses** | **(158,696)** | (209,132) |
| **Finance expenses – net** | **(149,997)** | (201,582) |

## 29. Income tax expense

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

## 29. Income tax expense *(Continued)*

*Notes:*

(a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2013 (2012: 16.5%).

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

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

The tax on the Group's loss before income tax differs from the theoretical amount that would arise using the tax rate of 25% as follows:

| | **2013<br>RMB'000** | 2012<br>RMB'000<br>(Restated) |
|---|---|---|
| Loss before income tax | **(317,172)** | (1,805,919) |
| Tax calculated at a tax rate of 25% (2012: 25%) | **(79,293)** | (451,480) |
| Effects of different overseas tax rates | **(684)** | 7,219 |
| Temporary differences and tax losses for which no deferred income tax asset is recognised | **113,204** | 526,264 |
| Expenses not deductible for tax purposes | **20,087** | 51,469 |
| Income not subject to tax | **(15,034)** | (1,495) |
| Withholding tax on interests and dividends from subsidiaries in PRC | **3,939** | 17,503 |
| Tax charge | **42,219** | 149,480 |

Based on the Company's assessment at the year ended 31 December 2013, the Group expects the realisation of tax benefits from some of the tax losses incurred is not probable, and therefore did not recognise a portion of deferred income tax assets, as such the effective tax rate decreased to negative 13.3% for the year ended 31 December 2013 from negative 8.3% for the year ended 31 December 2012.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 30. Losses per share

### Basic

Basic losses per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme during the year. Such weighted average number of ordinary shares outstanding shall be adjusted for events such as bonus issue and stock dividend. In April 2013, the Company has completed the issuance of the CS (see Note 17). The below market subscription price has effectively resulted in 58,768,000 ordinary shares (2012: 93,509,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of ordinary shares for the purpose of basic losses per share calculation. Such shares issued for nil consideration have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2012.

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

### Diluted

Diluted losses per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under convertible bonds, convertible securities (excluding the bonus element as discussed above), share option schemes and shares held for Restricted Share Award Scheme. In relation to share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

## 30. Losses per share *(Continued)*

### Diluted *(continued)*

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

*Note:*

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

## 31. Dividends

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 32. Statement of cash flows

Reconciliation of loss before taxation to net cash flow used in operations are as follows:

| | 2013<br>RMB'000 | 2012<br>RMB'000<br>(Restated) |
|---|---|---|
| Loss before income tax | (317,172) | (1,805,919) |
| Adjustments for: | | |
| Depreciation | 127,318 | 141,543 |
| Amortisation | 65,877 | 85,196 |
| (Gain)/loss on disposal of property, plant and equipment and land use rights | (52,879) | 5,057 |
| Gain on derecognition of intangible asset and license fees payable relating to revision of the license agreement of Lotto brand *(Note 8 (a))* | – | (68,302) |
| Gain on modification of the CB *(Note 22)* | (33,629) | – |
| Impairment of intangible assets | – | 127,838 |
| (Reversal of provision)/provision for impairment charge of trade receivables | (337,053) | 933,235 |
| (Reversal of provision)/provision for write-down of inventories to net realisable value | (203,930) | 399,913 |
| Provision for impairment charge of investments accounted for using the equity method | – | 5,610 |
| Share options and restricted shares granted to directors and employees | 21,104 | 6,929 |
| Finance expenses – net | 149,997 | 201,582 |
| Amortisation of deferred income | (1,294) | (1,294) |
| Share of (profit)/loss of investments accounted for using the equity method | (2,242) | 5,403 |
| Operating (loss)/profit before working capital changes | (583,903) | 36,791 |
| Decrease/(increase) in inventories | 162,930 | (181,513) |
| Decrease/(increase) in trade receivables | 378,417 | (323,730) |
| (Increase)/decrease in other receivables and prepayments | (50,011) | 159,220 |
| Decrease in trade payables | (44,032) | (501,391) |
| Increase in other payables and accruals | 119,005 | 15,103 |
| Cash outflow used in operations | (17,594) | (795,520) |

## 33. Share-based compensation

### (a) Share Option Scheme

Pursuant to a shareholders' resolution passed on 5 June 2004, the Company adopted a share option scheme (the "Post-IPO Option"). The Post-IPO Option will remain in force for a period of 10 years commencing from 5 June 2004.

The purpose of the Post-IPO Option is to provide incentives to eligible participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are any individuals being employees, officers, agents, consultants or representatives of any member of the Group who, based on the board of directors' discretion, have made valuable contributions to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge of the industry and other factors.

## 33. Share-based compensation *(Continued)*

### (a) Share Option Scheme *(Continued)*

HK$1 is payable by the participant who accepts the grant of an option. The subscription price for the shares under the option to be granted will be determined by the Company's board of directors and will be the highest of: (a) the closing price of the shares of the Company as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheets on the date of the grant of the option; (b) the average closing price of the shares of the Company as stated in The Stock Exchange of Hong Kong Limited's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (c) the nominal value of the shares of the Company.

The maximum number of shares that may be granted under the Post-IPO Option and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. Lapsed or cancelled options may be re-granted in accordance with the terms of the Post-IPO Option.

An option may be exercised in accordance with the terms of the Post-IPO Option at any time during a period to be notified by the Company's board of directors, which must not be more than 10 years from the date of the grant.

Any share of the Company allotted and issued on the exercise of options will rank pari passu with the other shares of the Company in issue on the date of allotment.

Movements in the number of share options outstanding and their weighted average exercise prices are as follows:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| | **Weighted average exercise price (per share) HK$** | **Outstanding options (thousands)** | Weighted average exercise price (per share) HK$ | Outstanding options (thousands) |
| **As at 1 January** | **8.884** | **35,451** | 13.287 | 23,984 |
| Granted | **4.783** | **9,420** | 5.327 | 20,410 |
| Adjustment in relation to issuance of the CS *(i)* | **8.167** | **3,040** | – | – |
| Exercised | **4.519** | **(551)** | 8.830 | (224) |
| Lapsed | **6.628** | **(6,580)** | 12.673 | (8,719) |
| **As at 31 December** | **7.677** | **40,780** | 8.884 | 35,451 |
| **Exercisable as at 31 December** | **11.696** | **14,525** | 15.060 | 10,254 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 33. Share-based compensation *(Continued)*

### (a) Share Option Scheme *(Continued)*

(i) As a result of the issuance of the CS, the exercise prices and the number of the shares to be allotted and issued upon full exercise of the outstanding share options were adjusted in accordance with the Post-IPO Option. The above adjustments have taken effect from 22 April 2013. Save for the above adjustments, all other terms and conditions of the share options granted under the Post-IPO Option remain unchanged.

Share options outstanding under this scheme at the end of the years have the following expiry date and exercise price:

| | **2013** | | 2012 | |
|---|---|---|---|---|
| **Expiry date** | **Exercise price (per share) HK$** | **Share options (Thousands)** | Exercise price (per share) HK$ | Share options (Thousands) |
| 19 July 2013 | **18.080** | **–** | 19.680 | 350 |
| 4 July 2014 | **15.820** | **1,301** | 17.220 | 1,333 |
| 5 December 2014 | **–** | **–** | 10.940 | 93 |
| 31 December 2014 | **4.920** | **9,937** | 5.360 | 347 |
| 19 January 2015 | **10.450** | **7,465** | 11.370 | 7,121 |
| 1 April 2015 | **12.110** | **450** | 13.180 | 413 |
| 22 October 2015 | **20.090** | **2,567** | 21.870 | 2,691 |
| 15 July 2017 | **9.090** | **2,932** | 9.896 | 3,040 |
| 4 July 2018 | **4.310** | **726** | 4.690 | 1,000 |
| 31 December 2018 | **4.920** | **7,980** | 5.360 | 19,063 |
| 31 December 2019 | **5.070** | **6,328** | – | – |
| 31 December 2019 | **6.790** | **1,094** | – | – |
| | | **40,780** | | 35,451 |

The fair value of the options granted under the above scheme during the years ended 31 December 2013 and 2012 determined by using Black-Scholes valuation model were as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Post-IPO Option | **12,922** | 42,978 |

## 33. Share-based compensation *(Continued)*

### (a) Share Option Scheme *(Continued)*

Significant inputs into the model were as follows:

| | **2013** | 2012 |
|---|---|---|
| **Post-IPO Option** | | |
| Weighted average share price (HK$) | **5.57** | 5.33 |
| Weighted average exercise price (HK$) | **5.58** | 5.33 |
| Expected volatility | **52.7%** | 53.9% |
| Expected option life (years) | **4.36** | 4.34 |
| Weighted average annual risk free interest rate | **0.9%** | 0.2% |
| Expected dividend yield | **1.0%** | 1.0% |

The expected volatility is estimated based on the daily trading prices of the Company's shares since its date of listing (28 June 2004) as at the date of grant.

The fair value of Post-IPO Option is charged to the consolidated income statement over the vesting period of the option. The amount charged during the year ended 31 December 2013 was RMB17,220,000 (2012: RMB420,000).

### (b) Restricted Share Award Scheme

The Company adopted Restricted Share Award Scheme on 14 July 2006 with a duration of 10 years commencing from the adoption date. The objective of Restricted Share Award Scheme is to encourage and retain selected participants which include directors, employees, officers, agents and consultants of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals.

The Group has set up the Li Ning Company Limited Restricted Share Award Scheme Trust ("Restricted Share Trust") to administer and hold the Company's shares before they are vested and transferred to selected participants. As the financial and operational policies of the Restricted Share Trust are governed by the Group, and Group benefits from the Restricted Share Trust's activities, the Restricted Share Trust is consolidated in the Group's financial statements as a special purpose entity.

Upon granting of shares to selected participants ("Restricted Shares"), the Restricted Share Trust purchases the Company's shares awarded from the open market with funds provided by the Company by way of contributions. Restricted Shares vest gradually after selected participants complete a period of service in the Group of 12 to 36 months from the date of grant. The vested shares are transferred to selected participants at nil consideration. Dividends on Restricted Shares are used to purchase additional shares and allocated to selected participants on a pro rata basis.

The maximum number of Restricted Shares shall not exceed 5% of the Company's share capital in issue from time to time. For each selected participant, the maximum number of Restricted Shares granted in aggregate shall not exceed 10,278,000 shares, being 1% of the Company's issued share capital as at the adoption date of 14 July 2006.

The fair value of Restricted Shares awarded was based on the market value of the Company's shares at the grant date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 33. Share-based compensation *(Continued)*

### (b) Restricted Share Award Scheme *(Continued)*

Movements in the number of Restricted Shares granted and related fair value are as follows:

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Weighted average fair value (per share) HK$ | Number of Restricted Shares granted (Thousands) | Weighted average fair value (per share) HK$ | Number of Restricted Shares granted (Thousands) |
| As at 1 January | **18.27** | **1,774** | 17.18 | 3,539 |
| Vested | **18.75** | **(738)** | 18.01 | (835) |
| Lapsed | **11.38** | **(211)** | 14.35 | (930) |
| As at 31 December | **19.61** | **825** | 18.27 | 1,774 |

The fair value of Restricted Shares charged to the consolidated income statement was RMB3,884,000 during the year ended 31 December 2013 (2012: RMB6,509,000).

## 34. Commitments

### (a) Capital commitments

Capital expenditure contracted for but not paid by the Group and the Company at the balance sheet dates are as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2013 RMB'000** | 2012 RMB'000 | **2013 RMB'000** | 2012 RMB'000 |
| Contracted for but not paid – property, plant and equipment | **–** | 42,506 | **–** | – |

There is no capital expenditure authorised but not contracted for by the Group and the Company as at 31 December 2013 and 2012.

## 34. Commitments *(Continued)*

### (b) Operating lease commitments – where any group companies are the lessee

The Group has commitments to make the following aggregate minimum payments under non-cancelable operating leases in respect of its office premises and shops:

| | **2013** **RMB'000** | 2012 RMB'000 (Restated) |
|---|---|---|
| Not later than 1 year | **248,935** | 234,923 |
| Later than 1 year and not later than 5 years | **443,192** | 510,345 |
| Later than 5 years | **31,197** | 15,354 |
| | **723,324** | 760,622 |

The Company does not have any operating lease commitments as at 31 December 2013 and 2012.

## 35. Related-party transactions

Related party is a party that is related to the Group if directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group (including the Company or its wholly or non-wholly owned subsidiaries); or the party has an interest in the Group that gives it significant influence over the Group; or the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual who is a member of the key management personnel of the Group.

Besides as disclosed elsewhere in these consolidated financial statements, the Group has following related-party transactions during the year:

### (a) Sales of goods to:

| | **2013** **RMB'000** | 2012 RMB'000 |
|---|---|---|
| Related companies of Shanghai Double Happiness (Group) Co., Ltd., all being controlled by a key management personnel of a non-wholly owned subsidiary | **3,675** | 3,810 |
| Digital Li-Ning | **–** | 6,451 |
| | **3,675** | 10,261 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 35. Related-party transactions *(Continued)*

### (b) Purchases of goods from:

| | 2013<br>RMB'000 | 2012<br>RMB'000<br>(Restated) |
|---|---|---|
| Related companies of Shanghai Double Happiness (Group) Co., Ltd. | **16,184** | 18,105 |
| Subsidiary of Li Ning Aigle Ventures | **6,469** | 3,172 |
| | **22,653** | 21,277 |

### (c) Sales of services to:

| | 2013<br>RMB'000 | 2012<br>RMB'000<br>(Restated) |
|---|---|---|
| Tianjin Kuan Mao Mi | **4,023** | – |
| Tianjin Yue Hao Tuo | **965** | – |
| Subsidiary of Li Ning Aigle Ventures | **500** | 500 |
| | **5,488** | 500 |

### (d) Purchases of services from:

| | 2013<br>RMB'000 | 2012<br>RMB'000 |
|---|---|---|
| Subsidiaries of Viva China, companies controlled by a substantial shareholder of the Company | **46,188** | 200 |

In the opinion of the directors, these transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

## 35. Related-party transactions *(Continued)*

### (e) Key management compensation

Details of compensation paid or payable to key management of the Group are as follows:

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Salaries and other benefits | **22,138** | 16,773 |
| Contribution to retirement benefit scheme | **556** | 463 |
| Employee share schemes for value of services provided | **9,362** | 4,865 |
| | **32,056** | 22,101 |

### (f) Year-end balances arising from sales/purchases of goods and services

| | **2013 RMB'000** | 2012 RMB'000 |
|---|---|---|
| Receivables from related parties: | | |
| Subsidiary of Viva China | **6,750** | – |
| Tianjin Kuan Mao Mi | **900** | – |
| Tianjin Yue Hao Tuo | **462** | – |
| Digital Li-Ning | **–** | 3,105 |
| | **8,112** | 3,105 |
| Payables to related parties: | | |
| Related companies of Shanghai Double Happiness (Group) Co., Ltd. | **4,016** | 5,153 |
| Subsidiary of Viva China | **8,688** | – |
| | **12,704** | 5,153 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 36. Events after the balance sheet date

### (a) Grant of share options

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

### (b) Acquisition of three distributors' business

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

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

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

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

# GLOSSARY

In this annual report, unless the context states otherwise, the following expressions have the following meanings:

| | |
|---|---|
| "Alpha Talent" | Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme |
| "Articles of Association" | the articles of association of the Company |
| "associate(s)" | has the meaning ascribed to it under the Listing Rules |
| "Board" | the board of Directors |
| "Company" or "Li Ning Company" | Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange |
| "connected person(s)" | has the meaning ascribed to it under the Listing Rules |
| "Director(s)" | the director(s) of the Company |
| "Group" or " Li Ning Group" | the Company and its subsidiaries |
| "HK$" | Hong Kong Dollars, the lawful currency of Hong Kong |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Listing Rules" | Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| "Post-IPO Share Option Scheme" | the post-IPO share option scheme of the Company adopted on 5 June 2004 and as amended on 15 May 2009 and 11 October 2012 |
| "PRC" or "China" | the People's Republic of China |
| "Restricted Share Award Scheme" | the restricted share award scheme adopted by the Company on 14 July 2006 and as amended on 30 April 2009 and 4 July 2012 |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Share(s)" | ordinary share(s) of HK$0.10 each in the share capital of the Company |
| "Share Purchase Scheme" | the share purchase scheme set up by Mr. Li Ning and adopted by Alpha Talent on 5 June 2004 |
| "Shareholders" | shareholders of the Company |
| "Stock Exchange" or "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "%" | per cent. |

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