LI NING COMPANY LIMITED
李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

FINANCIAL HIGHLIGHTS

- Reported net profit attributable to equity holders increased by 56% to RMB515 million, net profit margin raised from 4.1% to 5.8% (comparative figures excluding net gain on disposal of 10% equity interest in Double Happiness):
  - Revenue increased by 11% to RMB8,874 million
  - Gross profit margin expanded 0.9 percentage point
  - Enhanced operating leverage through disciplined cost management
- Operating cash flow increased by approximately 40% to RMB1,159 million (relating to continuing operations only).
- Significant improvement in working capital continued:
  - Gross average working capital improved (reduced) by over 10% while revenue increased by 11%
  - Cash conversion cycle further improved (shortened) by 10 days (2016: 59 days/2017: 49 days)
  - Gross trade receivables improved (reduced) by 14%

OPERATIONAL HIGHLIGHTS

- High-single digit growth for total platform retail sell-through, including online and offline channels.
- Channel inventory turnover further improved to 6 months.
- Overall Same-Store-Sales recorded mid-single digit growth.
- Retail capabilities improvement continued:
  - Sell-out rate was up by approximately 4 percentage points
  - Discount rate improved by over 1 percentage point

ANNUAL RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017, together with comparative figures of 2016, as follows:

CONSOLIDATED BALANCE SHEET

	Note	**As at 31 December** **2017** ***RMB'000***	2016 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**838,185**	827,677
Land use rights		**75,986**	77,887
Intangible assets		**257,947**	282,696
Deferred income tax assets		**234,327**	207,458
Available-for-sale financial assets		**14,000**	14,000
Investments accounted for using the equity method		**689,071**	625,008
Derivative financial instruments		**–**	319
Other receivables and prepayments		**101,451**	95,009
Total non-current assets		**2,210,967**	2,130,054
Current assets			
Inventories	*4*	**1,102,538**	965,422
Trade receivables	*5*	**1,138,034**	1,370,254
Other receivables and prepayments – current portion		**339,867**	360,175
Restricted bank deposits		**721**	1,001
Cash and cash equivalents		**2,529,222**	1,953,588
Total current assets		**5,110,382**	4,650,440
Total assets		**7,321,349**	6,780,494

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**203,347**	188,021
Share premium		**3,189,792**	2,539,355
Shares held for Restricted Share Award Scheme		**(69,600)**	(50,605)
Other reserves		**1,086,613**	1,171,526
Retained earnings		**660,895**	146,302
		5,071,047	3,994,599
Non-controlling interests in equity		**2,550**	2,550
Total equity		**5,073,597**	3,997,149
LIABILITIES			
Non-current liabilities			
License fees payable		**39,203**	44,464
Derivative financial instruments		**5,584**	1,343
Deferred income tax liabilities		**18,323**	6,799
Deferred income		**56,832**	56,824
Total non-current liabilities		**119,942**	109,430
Current liabilities			
Trade payables	*6*	**1,145,113**	1,047,323
Other payables and accruals		**929,263**	807,885
License fees payable – current portion		**33,392**	41,603
Current income tax liabilities		**20,042**	9,118
Borrowings		**–**	200,000
Convertible bonds		**–**	567,986
Total current liabilities		**2,127,810**	2,673,915
Total liabilities		**2,247,752**	2,783,345
Total equity and liabilities		**7,321,349**	6,780,494

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Continuing operations			
Revenue	*3*	**8,873,912**	8,015,293
Cost of sales	*7*	**(4,697,429)**	(4,310,065)
Gross profit		**4,176,483**	3,705,228
Distribution expenses	*7*	**(3,273,375)**	(2,969,341)
Administrative expenses	*7*	**(501,066)**	(424,129)
Other income and other gains-net	*8*	**43,636**	74,047
Operating profit		**445,678**	385,805
Finance income	*9*	**43,577**	7,460
Finance expenses	*9*	**(25,537)**	(115,035)
Finance income/(expenses) – net	*9*	**18,040**	(107,575)
Share of profit of investments accounted for using the equity method		**73,806**	9,716
Profit before income tax		**537,524**	287,946
Income tax expense	*10*	**(22,369)**	(32,435)
Profit for the year from continuing operations		**515,155**	255,511
Discontinued operations			
Profit for the year	*13*	**–**	132,157
Gain on disposal of 10% equity interest in discontinued operations, net of income tax	*13*	**–**	313,201
Profit for the year from discontinued operations	*13*	**–**	445,358
Profit for the year		**515,155**	700,869
Attributable to:			
Equity holders of the Company		**515,155**	643,254
Non-controlling interests		**–**	57,615
		515,155	700,869

	Note	Year ended 31 December 2017 RMB'000	2016 RMB'000
Profit attributable to equity holders of the Company arises from:			
Continuing operations		**515,155**	255,511
Discontinued operations	*13*	**–**	387,743
		515,155	643,254
Earnings per share from continuing and discontinued operations attributable to equity holders of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share			
From continuing operations	*11*	**21.47**	11.53
From discontinued operations	*11*	**–**	17.50
		21.47	29.03
Diluted earnings per share			
From continuing operations	*11*	**20.87**	11.50
From discontinued operations	*11*	**–**	17.45
		20.87	28.95

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Profit for the year	**515,155**	700,869
Other comprehensive (loss)/income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(3,850)**	1,213
Total comprehensive income for the year	**511,305**	702,082
Attributable to:		
Equity holders of the Company	**511,305**	644,467
Non-controlling interests	**–**	57,615
	511,305	702,082
Total comprehensive income attributable to equity holders of the Company arises from:		
Continuing operations	**511,305**	256,724
Discontinued operations	**–**	387,743
	511,305	644,467

NOTES:

1. General Information

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

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

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

These consolidated financial results are presented in Renminbi ("RMB"), unless otherwise stated. These consolidated financial results have been approved for issue by the Board on 21 March 2018.

2. Basis of preparation

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial results. These policies have been consistently applied to all the years presented, unless otherwise stated.

(i) Compliance with IFRS and HKCO

The consolidated financial results of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622.

(ii) Historical cost convention

The financial results have been prepared on a historical cost basis, except for the available-for-sale financial assets, financial assets and liabilities (including derivative instruments) – measured at fair value.

(iii) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2017:

Amendments to IAS 12	Income taxes
Amendments to IAS 7	Statement of cash flows
Amendments to IFRS 12	Disclosure of interest in other entities

The adoption of these amendments did not have any impact on the amounts recognised in prior periods. Most of the amendments will also not affect the current or future periods.

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

The following are new standards and amendments to standards that have been issued but are not yet effective for the financial year beginning on 1 January 2017 and have not been early adopted.

Amendments to IFRS 1	First time adoption of IFRS [1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions [1]
IFRS 9	Financial instruments [1]
IFRS 15	Revenue from contracts with customers [1]
Amendments to IAS 28	Investments in associates and joint ventures [1]
Amendments to IAS 40	Transfers of investment property[1]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
IFRS 16	Leases [2]
IFRIC 23	Uncertainty over Income Tax Treatments [2]
IFRS 17	Insurance Contracts [3]
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture [4]

[1] Effective for the accounting period beginning on 1 January 2018
[2] Effective for the accounting period beginning on 1 January 2019
[3] Effective for the accounting period beginning on 1 January 2021
[4] The effective date is to be determined

The Group will apply the above new standards and amendments to standards when they become effective. The Group's assessment of the impact of certain new standards and interpretations is set out below.

IFRS 9 Financial Instruments

Nature of change

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group has reviewed its financial assets and liabilities and does not expect the new guidance to affect the classification and measurement of these financial assets or financial liabilities.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by Group

Must be applied for financial years commencing on or after 1 January 2018. The Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

IFRS 15 Revenue from Contracts with Customers

Nature of change

The standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts and the related literature. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial results and has identified the following areas that will be affected:

Accounting for the customer loyalty programme – IFRS 15 requires that the total consideration received must be allocated to the points and goods based on relative stand-alone selling prices rather than based on the residual value method. This will result in higher amounts being allocated to the goods sold and result in an earlier recognition of a portion of the revenue.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB800,572,000. The Group has not yet assessed what adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options, or what exceptions will be taken. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

Date of adoption by Group

Mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date. The Group is currently assessing the impact of the new standard on the Group's results and financial position under different approaches in order to determine whether to apply the simplified transition approach or modified retrospective approach for the first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. Segment information

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

Management considers the business from a brand perspective. During the year ended 31 December 2015, the Group decided to dispose 10% equity interest in Shanghai Double Happiness Co., Ltd. ("Double Happiness") and announced its disposal plan on 23 October 2015. The disposal transaction was completed in December 2016, upon which Double Happiness has become an associate company, and therefore no longer a reportable segment of the Group.

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, all other brands from continuing operations and Double Happiness brand from discontinued operations, which are RMB8,819,188,000, RMB54,724,000 and nil for the year ended 31 December 2017 and RMB7,925,439,000, RMB89,854,000 and RMB700,181,000 for the year ended 31 December 2016, respectively.

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

The segment information provided to Management for the reportable segments for the years ended 31 December 2017 and 2016 is as follows:

	LI-NING brand *RMB'000*	Continuing All other brands *RMB'000*	Subtotal *RMB'000*	Discontinued Double Happiness brand * *RMB'000*	Total *RMB'000*
Year ended 31 December 2017					
Total revenue	**8,819,188**	**88,190**	**8,907,378**	**–**	**8,907,378**
Inter-segment revenue	**–**	**(33,466)**	**(33,466)**	**–**	**(33,466)**
Revenue from external customers	**8,819,188**	**54,724**	**8,873,912**	**–**	**8,873,912**
Operating profit	**455,556**	**(9,878)**	**445,678**	**–**	**445,678**
Distribution expenses and administrative expenses	**3,745,087**	**29,354**	**3,774,441**	**–**	**3,774,441**
Depreciation and amortisation	**362,172**	**7,615**	**369,787**	**–**	**369,787**
Year ended 31 December 2016					
Total revenue	7,925,439	123,323	8,048,762	700,181	8,748,943
Inter-segment revenue	–	(33,469)	(33,469)	–	(33,469)
Revenue from external customers	7,925,439	89,854	8,015,293	700,181	8,715,474
Operating profit	361,432	24,373	385,805	170,827	556,632
Distribution expenses and administrative expenses	3,380,337	13,133	3,393,470	162,934	3,556,404
Depreciation and amortisation	312,795	4,831	317,626	–	317,626

* Double Happiness brand has been classified as discontinued operations, the related revenue, expenses and income tax are presented as a single amount in the income statement under "Profit for the year from discontinued operations" for the year ended 31 December 2016.

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

	Year ended 31 December **2017** ***RMB'000***	2016 *RMB'000*
Operating profit from continuing operations	**445,678**	385,805
Finance income	**43,577**	7,460
Finance expenses	**(25,537)**	(115,035)
Share of profit of investments accounted for using the equity method	**73,806**	9,716
Profit before income tax from continuing operations	**537,524**	287,946
Operating profit from discontinued operations	**–**	170,827
Finance income	**–**	2,236
Finance expenses	**–**	(155)
Gain on disposal of 10% equity interest in discontinued operations	**–**	329,612
Profit before income tax from discontinued operations	**–**	502,520

Geographical information of revenue

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Continuing operations		
The PRC (including the Hong Kong Special Administrative Region)	**8,634,026**	7,808,789
Other regions	**239,886**	206,504
Revenue from continuing operations	**8,873,912**	8,015,293
Discontinued operations		
The PRC (including the Hong Kong Special Administrative Region)	**–**	653,129
Other regions	**–**	47,052
Revenue from discontinued operations	**–**	700,181
Total	**8,873,912**	8,715,474

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 2017 and 2016, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Inventories

	2017	2016
	RMB'000	*RMB'000*
Raw materials	**1,270**	1,763
Work in progress	**3,134**	2,727
Finished goods	**1,228,486**	1,104,135
	1,232,890	1,108,625
Less: provision for write-down of inventories to net realisable value	**(130,352)**	(143,203)
	1,102,538	965,422

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB4,598,262,000 for the year ended 31 December 2017 (2016: RMB4,214,265,000). Inventory provision and the amount of reversal have been included in cost of sales in the consolidated income statement for the years ended 31 December 2017 and 2016.

5. Trade receivables

	2017	2016
	RMB'000	*RMB'000*
Accounts receivable	**1,530,779**	1,777,665
Notes receivable	**9,100**	6,726
	1,539,879	1,784,391
Less: allowance for impairment of trade receivables	**(401,845)**	(414,137)
	1,138,034	1,370,254

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

	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	**671,736**	667,529
31 – 60 days	**229,891**	191,606
61 – 90 days	**176,579**	225,382
91 – 180 days	**118,219**	323,546
Over 180 days	**343,454**	376,328
	1,539,879	1,784,391

Customers are normally granted credit terms within 90 days. As at 31 December 2017, trade receivables of RMB461,673,000 (31 December 2016: RMB699,874,000) were past due. The Group's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, ageing of the trade receivable, and the latest communication with individual customers. Management has been closely monitoring the credit risk of each customer and actively pursuing collection of those receivables until all efforts are exhausted. An allowance for impairment of RMB401,845,000 has been made as at 31 December 2017 (31 December 2016: RMB414,137,000).

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.

As of 31 December 2017, trade receivables of RMB59,828,000 (31 December 2016: RMB285,737,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	2017	2016
	RMB'000	*RMB'000*
91 – 180 days	**59,828**	285,737

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

	2017	2016
	RMB'000	*RMB'000*
As at 1 January	**414,137**	475,757
Reversal of provision for impairment of trade receivables	**(10,985)**	(61,121)
Trade receivables written off during the year as uncollectible	**(1,307)**	(499)
As at 31 December	**401,845**	414,137

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

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

6. Trade payables

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

	2017	2016
	RMB'000	*RMB'000*
0 – 30 days	**852,855**	645,967
31 – 60 days	**258,212**	302,661
61 – 90 days	**15,238**	85,887
91 – 180 days	**7,059**	3,064
181 – 365 days	**6,621**	5,107
Over 365 days	**5,128**	4,637
	1,145,113	1,047,323

7. Expenses by nature

	2017	2016
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses and included in cost of sales	**4,598,262**	4,214,265
Depreciation on property, plant and equipment *(Note a)*	**322,030**	270,059
Amortisation of land use rights and intangible assets	**47,757**	47,567
Advertising and marketing expenses	**980,769**	983,086
Commission and trade fair related expenses	**158,088**	117,435
Staff costs, including directors' emoluments *(Note a)*	**903,509**	778,355
Operating lease rentals in respect of land and buildings and related expenses	**829,600**	771,091
Research and product development expenses *(Note a)*	**169,724**	125,682
Transportation and logistics expenses	**317,303**	302,221
Reversal of provision for impairment of trade receivables	**(10,985)**	(61,121)
Auditor's remuneration	**5,662**	5,357
– Audit services	**4,700**	4,400
– Non-audit services	**962**	957
Management consulting expenses	**55,348**	50,144
Travelling and entertainment expenses	**49,053**	40,139

Note:

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

8. Other income and other gains – net

	2017	2016
	RMB'000	*RMB'000*
Government grants	**31,939**	53,658
License fees income	**16,257**	18,591
Profit on disposal of Available-for-sale financial assets	**–**	1,479
Financial assets at fair value through profit or loss	**(4,560)**	319
	43,636	74,047

9. Finance income and expenses

	2017	2016
	RMB'000	*RMB'000*
Finance income		
Interest income on bank balances and deposits	**29,141**	7,460
Net foreign currency exchange gain	**3,216**	–
Reversal of accrued interest expenses on convertible bonds	**11,220**	–
	43,577	7,460
Finance expense		
Amortisation of discount – license fees payable	**(5,792)**	(9,146)
Interest expense on bank and other borrowings	**(6,876)**	(15,401)
Interest expense on convertible bonds	**(4,234)**	(59,792)
Net foreign currency exchange loss	**–**	(4,642)
Others	**(8,635)**	(26,054)
	(25,537)	(115,035)
Finance income/(expense) – net	**18,040**	(107,575)

10. Income tax expense

	2017	2016
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax *(Note b)*	**3,751**	2,223
– The PRC corporate income tax *(Note c)*	**32,712**	6,639
– Withholding income tax on interest income from subsidiaries in PRC *(Note d)*	**1,251**	4,867
	37,714	13,729
Deferred income tax	**(15,345)**	18,706
Income tax expense	**22,369**	32,435

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 2017 (2016: 16.5%).

(c) Provision for the PRC corporate income tax is calculated based on the statutory tax rate of 25% (2016: 25%) on the assessable income of each of the group companies.

(d) This mainly arose from the interests due by the Company's subsidiaries in the PRC to other group companies in Hong Kong during the years ended 31 December 2017 and 2016, which are subject to withholding tax at the rate of 7%.

11. Earnings per share

Basic

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

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company had completed the issuance of offer securities. The below market subscription price of these two events had effectively resulted in 57,690,000 ordinary shares (31 December 2016: 70,553,000 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 shares for the purpose of basic earnings per share. The shares issued for nil consideration arising from the issuance of offer securities have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2016.

	2017 ***RMB'000***	2016 *RMB'000*
Profit from continuing operations attributable to equity holders of the Company	**515,155**	255,511
Profit from discontinued operations attributable to equity holders of the Company	**–**	387,743
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,399,231**	2,216,001
Basic earnings per share – from continuing operations	**21.47**	11.53
Basic earnings per share – from discontinued operations	**–**	17.50
Basic earnings per share *(RMB cents)*	**21.47**	29.03

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential shares. The Company's dilutive potential shares comprise shares to be issued under convertible bonds, share option schemes and Restricted Share Award Scheme. In relation to shares issued under 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.

	2017 ***RMB'000***	2016 *RMB'000*
Profit from continuing operations attributable to equity holders of the Company, used to determine diluted earnings per share	**508,169**	255,511
Profit from discontinued operations attributable to equity holders of the Company	**–**	387,743
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,399,231**	2,216,001
Adjustment for the restricted shares *(in thousands)*	**14,295**	6,274
Adjustment for the convertible bonds *(in thousands)*	**14,052**	–
Adjustment for the share option schemes *(in thousands)*	**7,722**	–
Deemed weighted average number of shares for diluted earnings per share *(in thousands)*	**2,435,300**	2,222,275
Diluted earnings per share – from continuing operations	**20.87**	11.50
Diluted earnings per share – from discontinued operations	**–**	17.45
Diluted earnings per share *(RMB cents)*	**20.87**	28.95

Note:

As at 31 December 2017, there were 58 million share options that could potentially have a dilutive impact on continuing operations in the future but were anti-dilutive during the year ended 31 December 2017. As at 31 December 2016, there were 43 million share options and 169 million ordinary shares assuming conversion of convertible bonds that could potentially have dilutive impact on continuing operations in the future but were anti-dilutive during the year ended 31 December 2016.

12. Dividends

The Board did not propose final dividend for the years ended 31 December 2017 and 2016.

13. Discontinued operations

The assets and liabilities related to Double Happiness, a former 57.5% owned subsidiary of the Company, have been presented as held for sale following the approval of the Group's Management and shareholders to dispose 10% equity interest in Double Happiness to a wholly-owned subsidiary of Viva China at a consideration of RMB124,992,000 on 23 October 2015 and 4 December 2015, respectively. Given that Double Happiness was classified as discontinued operations before the completion of the disposal, a single amount is presented in the income statement for the year ended 31 December 2016. Further, to the extent the shares of Double Happiness has not been listed on any major stock exchanges within four years following the completion of the disposal, the Company has the right to call back the 10% equity interest and Viva China has the right to put back the 10% equity interest to the Company at a price of RMB124,992,000 plus 6.5% interest per annum after deducting the relevant cash dividends entitled. The disposal was completed in December 2016.

Analysis of the result of discontinued operations is as follows:

	2016 *RMB'000*
Revenue	700,181
Expenses	(527,273)
Profit before income tax	172,908
Income tax expense	(40,751)
Profit for the year	132,157
Gain on disposal of 10% equity interest in discontinued operations, net of income tax *(Note)*	313,201
Profit for the year from discontinued operations	445,358
Attributable to:	
– Equity holders of the Company	387,743
– Non-controlling interests	57,615
Profit for the year from discontinued operations	445,358

Note:

In December 2016, the Group completed the disposal of 10% equity interest in Double Happiness. Accordingly, Double Happiness has been accounted for as an associate company of the Group. The disposal transaction gave rise to a disposal gain of RMB330 million (before the income tax of RMB16 million). Details of the gain on disposal are as follows:

	2016 *RMB'000*
Non-current assets	684,041
Current assets	338,166
Total assets	1,022,207
Non-current liabilities	60,009
Current liabilities	375,547
Total Liabilities	435,556
Non-controlling interest	(211,414)
Net assets disposed	375,237
Cash consideration received	124,992
Less: derivative financial liability	(1,343)
Gain on disposal – remeasurement of remaining 47.5% equity interest	587,335
Total	710,984
Less: disposal cost	(6,135)
Gain on disposal	329,612

Cash flows

	2016 *RMB'000*
Cash flows from operating activities	159,489
Cash flows from investing activities	(36,944)
Cash flows from financing activities	(96,391)
Net increase in cash and cash equivalents	26,154

DIVIDEND

The Board resolved not to distribute any final dividend for the year ended 31 December 2017 (2016: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

The key operating and financial performance indicators of the Group for the year ended 31 December 2017 are set out below:

	Year ended 31 December		Change
	2017	2016	***(%)***
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue *(Note 1)*	**8,873,912**	8,015,293	**10.7**
Gross profit	**4,176,483**	3,705,228	**12.7**
Operating profit	**445,678**	385,805	**15.5**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 2)*	**889,271**	713,147	**24.7**
Profit attributable to equity holders *(Note 3)*	**515,155**	643,254	**(19.9)**
Basic earnings per share *(RMB cents) (Note 4)*	**21.47**	29.03	**(26.0)**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**47.1**	46.2	
Operating profit *(%)*	**5.0**	4.8	
Effective tax rate *(%)*	**4.2**	11.3	
Margin of profit attributable to equity holders *(%)*	**5.8**	8.0	
Return on equity attributable to equity holders *(%)*	**11.4**	17.9	
Expenses to revenue ratios			
Staff costs *(%)*	**10.2**	9.7	
Advertising and marketing expenses *(%)*	**11.1**	12.3	
Research and product development expenses *(%)*	**1.9**	1.6	

	31 December 2017	31 December 2016
Balance sheet items		
(All amounts in RMB thousands unless otherwise stated)		
Total assets *(Note 5)*	**7,321,349**	6,780,494
Capital and reserves attributable to equity holders *(Note 6)*	**5,071,047**	3,994,599
Key financial ratios		
Asset efficiency		
Average inventory turnover *(days) (Note 7)*	**80**	82
Average trade receivables turnover *(days) (Note 8)*	**52**	64
Average trade payables turnover *(days) (Note 9)*	**83**	87
Asset ratios		
Debt-to-equity ratio *(%) (Note10)*	**44.3**	69.7
Interest-bearing debt-to-equity ratio *(%) (Note 11)*	**–**	19.2
Net asset value per share *(RMB cents)*	**234.65**	200.56

Notes:

1. Including revenue for the period from 1 January to 30 September 2017: RMB6,001,594,000.

2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of profit for the year from continuing operations, income tax expense, finance expenses – net, depreciation on property, plant and equipment, and amortisation of land use rights and intangible assets.

3. Including profit attributable to equity holders for the period from 1 January to 30 September 2017: RMB300,516,000.

4. The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year, divided by the weighted average number of shares in issue less ordinary shares held for Restricted Share Award Scheme.

5. Total assets at 30 September 2017: RMB7,165,048,000.

6. Capital and reserves attributable to equity holders at 30 September 2017: RMB4,873,454,000.

7. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year (excluding Double Happiness), divided by cost of sales and multiplied by the total number of days in the year.

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 (excluding Double Happiness), divided by revenue and multiplied by the total number of days in the year.

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 (excluding Double Happiness), divided by total purchases and multiplied by the total number of days in the year.

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

11. The calculation of interest-bearing debt-to-equity ratio is based on total interest-bearing borrowings and convertible bonds divided by capital and reserves attributable to equity holders of the Company at the end of the year.

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

Revenue

The Group's revenue for the year ended 31 December 2017 amounted to RMB8,873,912,000, representing an increase of 10.7% as compared to that of 2016.

Revenue breakdown by brand and product category

	Year ended 31 December				
	2017		2016		
	RMB'000	**% of total revenue**	*RMB'000*	% of total revenue	**Revenue change *(%)***
LI-NING brand					
Footwear	**4,146,021**	**46.8**	3,947,170	49.3	**5.0**
Apparel	**4,172,140**	**47.0**	3,514,339	43.8	**18.7**
Equipment/accessories	**501,027**	**5.6**	463,930	5.8	**8.0**
Total	**8,819,188**	**99.4**	7,925,439	98.9	**11.3**
Other brands*					
Total	**54,724**	**0.6**	89,854	1.1	**-39.1**
Total	**8,873,912**	**100.0**	8,015,293	100.0	**10.7**

* *Including Lotto, Kason, Aigle and Danskin.*

The Group's core brand, LI-NING brand, recorded revenue of RMB8,819,188,000, which accounted for 99.4% of the Group's total revenue, representing a year-on-year increase of 11.3%. The business of the Group has entered into a phase of steady growth, however, at a slightly slower rate of increase. Details of which are as follows: (a) the key categories of the Company (namely running and cross-training) maintained strong growth momentum, recording a significant increase in sales; (b) the Company made continuous efforts in developing mobile internet services, fostering rapid development of e-commerce channel with a relatively higher sales growth recorded for the third consecutive year. Although the growth of e-commerce channel slowed down under the increasingly competitive market environment, the channel remained the one with the highest growth rate among all business channels of the Company; (c) though the development of internet business might cannibalize some of the market share of the previous offline business and the Company further enhanced control over trade fair orders of self-operated stores, the sales from direct operation still recorded a steady growth as the retail operation efficiency gradually rose; (d) the Company further enhanced control over trade fair orders of distributors to ensure that the channel inventory can remain at a reasonable level, which led to a slowdown in the revenue growth of its franchised distributor business.

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

	Year ended 31 December		
	2017	2016	
	% of revenue of LI-NING brand	% of revenue of LI-NING brand	**Change (%)**
LI-NING brand			
PRC market			
Sales to franchised distributors	**47.8**	51.2	**(3.4)**
Sales from direct operation	**30.7**	31.9	**(1.2)**
Sales from e-commerce channel	**18.8**	14.3	**4.5**
International markets	**2.7**	2.6	**0.1**
Total	**100.0**	100.0	

Revenue breakdown of LI-NING brand by geographical location

		Year ended 31 December				
		2017		2016		
	Note	***RMB'000***	**% of revenue of LI-NING brand**	*RMB'000*	% of revenue of LI-NING brand	**Revenue change (%)**
LI-NING brand						
PRC market						
Northern region	*1*	**4,512,900**	**51.2**	3,889,212	49.1	**16.0**
Southern region	*2*	**4,066,402**	**46.1**	3,829,723	48.3	**6.2**
International markets		**239,886**	**2.7**	206,504	2.6	**16.2**
Total		**8,819,188**	**100.0**	7,925,439	100.0	**11.3**

Notes:

1. The Northern region includes provinces and autonomous regions covering Beijing, Tianjin, Shanxi, Shandong, Hebei, Inner Mongolia, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Gansu, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region and Qinghai.

2. The Southern region includes provinces and autonomous regions covering Guangdong, Guangxi, Fujian, Hainan, Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing, Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei and Anhui.

Cost of Sales and Gross Profit

For the year ended 31 December 2017, overall cost of sales of the Group amounted to RMB4,697,429,000 (2016: RMB4,310,065,000), and overall gross profit margin was 47.1% (2016: 46.2%). Among which, cost of sales of LI-NING brand amounted to RMB4,662,181,000 (2016: RMB4,257,717,000), with gross profit margin of 47.1% (2016: 46.3%). During the year, the tag-cost-ratio was improved as the Company exercised effective control on procurement costs. Meanwhile, as the inventory structure was optimized, there was improvement in sales of new products of all channels. Moreover, the aggregate proportion of sales from higher-margin direct operation and e-commerce channel grew up. These factors resulted in a year-on-year increase of 0.8 percentage point of LI-NING brand's gross profit margin.

Distribution Expenses

For the year ended 31 December 2017, the Group's overall distribution expenses amounted to RMB3,273,375,000 (2016: RMB2,969,341,000), accounting for 36.9% (2016: 37.0%) of the Group's total revenue. Among which, distribution expenses of LI-NING brand amounted to RMB3,251,995,000 (2016: RMB2,961,481,000), accounting for 36.9% (2016: 37.4%) of LI-NING brand's revenue.

As all channels recorded sales growth, the relevant variable rentals, commission and logistics expenses increased while the rise in license fees was attributable to the sales growth in certain licensed product series. Meanwhile, the Company put continuous effort in optimizing its channels, intensified the investment in retail operation and devoted its resources mainly in user's shopping experience. As a result, the relevant staff costs and corresponding depreciation on the asset investment of points of sales ("POSs") recorded a significant year-on-year increase. However, the Group further strengthened the reasonable control over advertising and marketing expenses. Accordingly, although LI-NING brand's distribution expenses increased year-on-year, its percentage to revenue decreased by 0.5 percentage point.

The Group also made initial capital investments in new brands. Consequently, the percentage of the Group's total distribution expenses to total revenue remained basically flat as the percentage of LI-NING brand's distribution expenses to revenue decreased.

Administrative Expenses

For the year ended 31 December 2017, the Group's overall administrative expenses amounted to RMB501,066,000 (2016: RMB424,129,000), accounting for 5.6% (2016: 5.3%) of the Group's total revenue. Among which, administrative expenses of LI-NING brand amounted to RMB493,092,000 (2016: RMB418,856,000), accounting for 5.6% of LI-NING brand's revenue, which is 0.3 percentage point higher than the 5.3% in 2016. Administrative expenses of LI-NING brand mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses.

During the year, the Group had an active initiative in attracting talents for new businesses and the incentives for key personnel as the businesses gradually improved, contributing to an increase in related labor costs for the year; besides, the Group continuously increased the investment in product design and development, resulting in an increase of research and product development expenses; in addition, the corresponding provision for doubtful debts was reversed following the improvement of the distributors' business as in the previous year, but the amount reversed was apparently less than that of last year. Taking into account all the above factors, LI-NING brand's administrative expenses and its percentage to revenue of LI-NING brand increased year-on-year.

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

For the year ended 31 December 2017, the Group's EBITDA amounted to RMB889,271,000 (2016 (relating to continuing operations only): RMB713,147,000). Among which, EBITDA of LI-NING brand amounted to RMB817,728,000 (2016: RMB674,066,000), representing a year-on-year increase of 21.3%. This was mainly attributable to the increase in revenue and gross profit margin.

Finance Expenses

For the year ended 31 December 2017, the Group's net finance income amounted to RMB18,040,000 (2016: net expense of RMB107,575,000), representing 0.2% (2016: -1.3%) of the Group's total revenue. The decrease in finance expenses was mainly due to the net interest impact of the convertible bonds due to conversion, the increase in interest income on bank balances and deposits, as well as the decrease in interest expense on bank and other borrowings. The net interest impact of the convertible bonds was an income amounting to RMB6,986,000 (2016: expense of RMB59,792,000).

Income Tax Expense

For the year ended 31 December 2017, income tax expense of the Group amounted to RMB22,369,000 (2016: RMB32,435,000) and the effective tax rate was 4.2% (2016: 11.3%). The lower effective tax rate is due to the utilization of tax losses of prior years for some subsidiaries of the Group, and recognition of certain deferred income tax assets.

Profit for the year from Discontinued Operations

In December 2016, the Group completed the disposal of 10% equity interest in Double Happiness to a wholly-owned subsidiary of Viva China. Accordingly, Double Happiness is accounted for as an associate company of the Group as of 31 December 2016. For the year ended 31 December 2016, the profit for the year from discontinued operations attributable to equity holders of the Company amounted to RMB387,743,000, which included the net profit from Double Happiness amounting to RMB74,542,000 and the gains relating to the equity transfer amounting to RMB313,201,000.

Overall Profitability Indicators

The overall profitability indicators of the Group improved significantly during the year ended 31 December 2017, which was attributable to the increase in both the sales revenue and gross profit margin, and the decrease in finance expenses of the Group during the year. During the year, the Group's profit attributable to equity holders amounted to RMB515,155,000 (2016: RMB643,254,000, and RMB330,053,000 when excluding the net gain on disposal of 10% equity interest in discontinued operations); the corresponding margin of profit attributable to equity holders was 5.8% (2016: 8.0%, and 4.1% when excluding the net gain on disposal of 10% equity interest in discontinued operations); return on equity attributable to equity holders was 11.4% (2016: 17.9%, and 9.2% when excluding the net gain on disposal of 10% equity interest in discontinued operations).

Provision for Inventories

The Group's policy in respect of provision for inventories for 2017 was the same as that in 2016. Inventories are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy to be adequate in ensuring appropriate provision for inventories is made by the Group.

As at 31 December 2017, the accumulated provision for inventories was RMB130,352,000 (31 December 2016: RMB143,203,000). The gross value of inventories at the end of the year increased as compared with that at the beginning of the year, while the structure of inventory ageing was improved, with a slight decrease in the balance of the overall provision for inventories.

Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for 2017 was the same as that in 2016.

As at 31 December 2017, the accumulated provision for doubtful debts was RMB401,845,000 (31 December 2016: RMB414,137,000). As the business of our channel distributors improved, the balance of long aged trade receivables gradually decreased, the Group therefore reversed certain provision for doubtful debts during the year.

Liquidity and Financial Resource

The Group's net cash from operating activities for the year ended 31 December 2017 amounted to RMB1,159,143,000 (2016: RMB995,476,000, including RMB835,987,000 from continuing operations and RMB159,489,000 from discontinued operations). As at 31 December 2017, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB2,529,222,000, representing a net increase of RMB575,634,000 as compared with the position as at 31 December 2016. The increase was due to the following items:

Item	**Year ended 31 December 2017** *RMB'000*
Operating activities:	
Net cash from operating activities	1,159,143
Investing activities:	
Net capital expenditure	(423,997)
Dividends received	52,784
Net cash from other investing activities	28,697
Financing activities:	
Net repayment of borrowings	(200,000)
Net cash used in other financing activities	(32,493)
	584,134
Add: Exchange loss on cash and cash equivalents	(8,500)
Net increase in cash and cash equivalents	575,634

As the overall performance of our channel partners demonstrated a steady upward trend, the recovery of trade receivables increased significantly, leading to significant improvement in the Group's cash flow.

As at 31 December 2017, the Group's available banking facilities amounted to RMB1,065,000,000, without outstanding borrowings or convertible bonds; as at 31 December 2016, the ratio of outstanding borrowings and convertible bonds to equity attributable to equity holders (i.e. the gearing ratio) was 19.2%.

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

Foreign Exchange Risk

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

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

Pledge of Assets

As at 31 December 2017, the Group had no pledged assets. As at 31 December 2016, buildings and land use rights with net book value of RMB369,121,000 and RMB77,804,000 respectively were secured for acquiring the Group's borrowings.

Contingent Liabilities

As at 31 December 2017, the Group had no significant contingent liabilities.

BUSINESS REVIEW

Driven by favorable national policies and continual steady growth of macro sports demands, domestic sports market sustained its robust growth momentum. In particular, the enhanced consumption structure resulted in more sophisticated demands in the sports market, while consumer demands were growingly explicit and mature. Tournaments and events stemming from healthcare, entertainment and athletic competition demands are increasing rapidly. Under the expanding market demand and the refined and mature consumption structure, the Company will continue to focus on creating LI-NING's experience value as its focused efforts. During the year, the revenue of the Group maintained stable growth and its profitability improved steadily. Key operational indicators have been improved significantly.

During the year, we continued to create LI-NING's experience value in full swing through three major pillars, namely the enhanced products, channels and retail capability. Our innate sports DNA has impelled us to place more emphasis on sports research and investment in product research and development (R&D) to constantly design and provide professional products to athletes and sports enthusiasts. Incessant imagination, on the other hand, is driving LI-NING brand to be more trend-setting by integrating fashion, entertainment and leisure elements with professional sports, therefore creating more professional and stylish products and sports experience for sports enthusiasts and ones who enjoy life. To enhance retail capability, we are dedicated to enhancing the precision of our product planning and optimizing the supply model so as to satisfy end-user demands in a "swift + precise" way. As for retail stores, we upheld the consumer-oriented approach to enhance and re-shape retail experience at stores constantly. In parallel, we have taken initiatives to refine channel structure and improve channel efficiency by implementing various measures including closing down and renovating the inefficient and loss-making stores and opening highly efficient and profitable key experience-concept stores. During the year, the overall retail sell-through registered a high-single digit growth, with product discount and sell-out rate further improved.

Latest trade fair orders and operational update

In terms of tag price, trade fair orders for LI-NING brand products (exclude LI-NING YOUNG) from franchised distributors registered a year-on-year growth for seventeen consecutive quarters. The orders from the latest trade fair for the third quarter of 2018, held in December 2017 registered a low-teens growth on a year-on-year basis.

For the fourth quarter ended 31 December 2017, in respect of LI-NING Point-of-Sales (POS) which have been in operation since the beginning of the same quarter last year, the same-store-sales for the overall platform registered a low-teens growth on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a low-teens growth; wholesale (franchised distributors) channel registered a high-single-digit increase, while the e-commerce virtual stores business registered a high-teens growth on a year-on-year basis.

For the fourth quarter ended 31 December 2017, the retail sell-through of LI-NING POS (excluded LI-NING YOUNG) for the overall platform increased by mid-teens on a year-on-year basis. In terms of channels, offline channel (included retail and wholesale) registered a low-teens growth, with retail increased by mid-teens and wholesale increased by low-teens, while the e-commerce virtual stores business registered a low-thirties growth on a year-on-year basis.

As at 31 December 2017, excluding LI-NING YOUNG POS, the total number of LI-NING POS in China amounted to 6,262, representing a net decrease of 84 POS since the end of previous quarter and a net decrease of 178 POS since the beginning of this year. Among the net decrease of 178 POS, direct retail and wholesale accounts for 70 and 108 POS respectively. As at 31 December 2017, LI-NING YOUNG business newly opened 173 POS.

LI-NING BRAND

Create more professional and unique products through creativity and innovation

During the year, in order to enhance the brand influence, we continued to focus on products related to five core categories, including basketball, running, training, badminton and sports casual. With the target to improve the competitiveness of LI-NING products, we emphasized on the brand's feature of professional sports, while constantly explore the room for integration of sports with fashion, entertainment and leisure in our various products based on its differentiated features

On professional products, we continued to accumulate the knowledge of sports during the year and apply such knowledge to our product design. We offered exclusive and highly professional experience to sports players in tandem with the innovation of functional material and scientific technology, thereby enhancing LI-NING brand's competitiveness with more contribution and engagement in mainstream mass sports in China.

– During the year, the "Eleventh Generation of YuShuai" basketball shoes were nominated for International Compasso d'Oro Award, the globally most influential design award. The shoe soles adopted dual density of LI-NING Cloud technology, with slightly higher density in the upper sole to provide good support and relatively lower density in the lower sole for cushioning and rebounding effect, which are designed to weather challenges and score a victory. Midsole maintained the classic Synchro-adjustment System (SAS) of the YuShuai series to integrate whole foot TPU with wrapping shoe face TPU, enabling good and consistent coordination during sports exercises. Transparent rubber outsoles with pattern design offer powerful grip, anti-slip and abrasion resistance functions.

– "Way of Wade 6" basketball shoes adopted Drive Foam rebounding technology jointly developed with BASF in Germany for the first time, which offers satisfactory rebounding function. The simple color mix delivers a sense of simplicity and leisure. The shoe face uses a lightweight elastic and seamless weaving material that is light, soft, comfortable and perfect fitting. Multi-layer is applied to strengthen the shoe according to different functional requirements and degree of pressure exerted on different parts to deliver a good sense of wrapping and a lightweight experience. The shoes also feature breathing holes to maintain good breathability.

– Using the lite midsole of LI-NING Cloud, “Super Light 14th” Running Shoes are 30% lighter than LI-NING Cloud with rebounding effect 25% higher than that of FOAMEVAlite. Tuff RB durable rubber is used to provide outstanding abrasion resistance, heel TPU renders further support and stability; while 3M reflection technology helps ensure safety during night-time running.

– “Cloud IV Dual Density Cloud” running shoes is designed for runners with normal gaits and mild valgus heel to prevent leg tilt and overpressure on knee joints and reduce the likelihood of sport injuries by ensuring the smooth transition during heel-to-toe walking. High and low-density materials were allocated scientifically based on running motion, which can provide more dynamic protection for runners during sports exercises. By applying high function plastic materials to shoe faces, foot injuries arising from swinging of legs in intense sports activities can be avoided. The design of hollow loop structure can reduce weight while satisfying the functional demands and hence delivers a lightweight running experience.

– We continued to launch new badminton racket products based on the “Visual Technology Platform” and achieved outstanding market performance. The 72-gram super light product launched in June chiefly featured “72-Gram Super Light + 30-Pound String Tension”. In addition to being ultra-light, the product also demonstrated brand’s excellent racket craftsmanship.

– “RANGER-Chameleon”, an uniquely-designed high-end badminton shoe product, was developed based on the understanding of the sport functions of badminton by Li Ning Brand and the concept of product innovation. “Chameleon” applied ground-breaking “Transparent Crystal Rubber” as professional biomimetic outsoles with pattern and structure simulating the feet of reptiles to deliver stronger grip. The product also featured precise bending gap of shoe soles to facilitate flexible change of direction. “Chameleon” is capable to fully satisfy the on-court needs of professional athletes in terms of functional performance with the application of various new materials and craftsmanship.

– 2017 is the first year of LI-NING’s badminton apparel featuring the “All-in-one Weaving Design”. The 3-Dimension cut of the all-in-one weaving design is a new function catering for the needs of badminton players developed by LI-NING, which can reduce the weight and friction brought by joined pieces. The “All-in-one Weaving Body Technology + TPU Protection” can enhance the professional attributes, which exhibit a charming outlook and offer functional protection for the apparel. In 2017, we launched four models of uniquely designed all-in-one weaving uniform that employed various yarns and dye processes in All England Open Badminton Championships, Sudirman Cup tournaments, World Tournament and China Open. Not only exhibited a charming and stylish outlook, the uniform also won recognition from the national team players and market consumers for the comfortability it delivered.

In addition to developing professional products, we also reflected and proactively sought ways to enable our professional products more closely linked with cultural life. During the year, we cooperated with sports stars. By delivering and integrating elements of their personality and lifestyle into the product designs, we developed a number of commemorative products, which were widely popular. Meanwhile, we also had in-depth collaboration with fashion trend related media so as to integrate fashion elements into our products and create fashion sports experience.

– We launched the “BADFIVE” series, a trendy product line catering to young street basketball players, receiving market recognition. Moreover, the NBA player Wade himself endorsed the “WADE” series products with an avant-garde design. With the support of sales channels such as “WADE STORE” and “WADE CORNER”, the products achieved satisfactory sales performance.

– The brand-new “Wu Kong” was launched, which is a product under the “Fit” series. By applying the exclusive Re-fit sustainable technology of LI-NING, the product enables simultaneous horizontal and vertical expansion of soles to increase the comfortability. With the elastic and seamless weaving upper technology applied, the surfaces are integrated into the trendy design and look. Cooperating with Zhang Chi, a pioneer fashion designer in China, we created newly co-branded and limited packages inspired by Zhang Chi’s iconic mask patterns under his personal brand CHI ZHANG, and launched limited edition products featuring “Zhang Chi You Do”. This was also the first time for Zhang Chi to apply his iconic mask logo under CHI ZHANG brand to develop crossover products. Moreover, the special edition of the tailor-made shoes was presented at the CHI ZHANG 2018 S/S fashion show in Beijing.

– As our sports fashion series products were more aligned with the current trendy style and popular trend, we created vivacious and competitive fashion products. While satisfying the market demand of public fashion consumers, we extensively cooperated with Disney Marvel Studios, famous stars and pioneer fashion designers. With breakthrough design styles, the new products aroused new focuses among consumers and drew a number of young consumers into the stores. During the year, we focused on female consumers. From the perspective of current popular themes and female consumer demands, we launched female focused products including fashionable recon packs and flower printed packs, receiving great market recognition from female consumers. In the second and third quarter, we continued the cooperation with Marvel Studios and launch packs featuring “Guardians of the Galaxy Vol. 2” and “Marvel Classic”. Coupled with the popular trend of related movies, these products drew keen interest from young consumers and gained relatively high market attention.

– Following the Olympics limited collection “EXCEED”, we launched the ordinary edition of Exceed product. The product launched in 2017 also applied LI-NING Cloud shock-absorbing technology and elastic and seamless weaving upper technology. Featured with the delicate design of TPU sword logo on upper and topped with popular color themes, the footwear product is frequently exposed inside and outside China Fashion Week Show as well as Celebrity Sole Watch. Together with the launch of pro edition of LN x Marvel Guardians of the Galaxy, all these have laid a foundation for developing Exceed into the classic evergreen product embedded with the DNA of LI-NING brand.

Developing LI-NING experience value through multi-level and multi-dimensional marketing campaigns

During the year, our strategy of resources investment remained focused on the five major categories, including basketball, running, training, badminton and sports casual. On the basis of category features and consumer demand, we were dedicated to consolidating our resource advantages in sports events while constantly exploring new consumer groups, further enhancing and reinforcing our brand recognition from the existing consumer groups via digital means. Through allocating sports resources to different areas, our marketing coverage has been expanded from international events to grassroots leagues and achieved the cross-over exposure from professional sports to fashion, thereby consolidating our brand image in all domains.

Consolidate professional brand image by integrating with resources of professional sports events

– In 2017, the Company continued to sponsor China Basketball Association (CBA) Professional League, China Junior & high school Basketball League and China University Basketball League. LI-NING brand and the underlying products firmly dominated China’s professional and collegiate basketball leagues at all levels. Meanwhile, the LI-NING basketball segment exclusively organized “3+1” street basketball league, attracting more teenage basketball lovers to participate in and experience the unique basketball culture that is absolutely of street chic style and creating opportunities for product experience.

– On the NBA front, the LI-NING brand successfully signed up C.J. McCollum, the player of Portland Trail Blazers and the Most Improved Player for NBA season 2015-16. With C.J. McCollum's brilliant performance, a series of professional basketball products such as "Sonic", "YuShuai", "Speed" and "Power" have been made known and loved by more NBA fans.

– In respect of badminton resources, LI-NING brand is committed to the goal of internationalization. In March 2017, LI-NING brand signed up with the Indonesian pair Natsir and Ahmad, the champions of badminton mixed-doubles at the Olympics, the Indonesian player Hendra, the gold medalist at the Olympics as well as the world champion Ahsan. This further diversified the top-notch sports resources of the badminton segment under LI-NING brand. In the BWF World Championships held in August 2017, the Indonesian pair Natsir and Ahmad won the championship of mixed-doubles group and the Ahsan pairs won the runner-up of men's doubles group, which further enhanced LI-NING brand's professionalism and authority in badminton as well as the brand's global influence.

– For the marketing of badminton products, we continued to conduct promotion via tournaments as key marketing platform to realize high-frequency and high-quality exposure of products. In 2017, the uniform for AEOBC games, Sudirman Cup, BWF World Championships and Open Badminton Championships, Chameleon Ranger shoes, Fu Haifeng N92 Memorial Pack as well as various new sponsored rackets for the National Badminton Team including Chen Long N90IV were taken as product story-pack. Through players' performance and via CCTV-5 broadcast, reports by top 4 web portals and reproduction by other media, we have achieved outstanding propagation effect of over hundreds of million times.

– In 2017, LI-NING 10K Running League was held in 14 cities including Guangzhou, Kunming, Chongqing, Shanghai, Ningbo, Xi'an and Shenzhen, with nearly 40,000 participants. In the marathon event of the National Games held this year, the team members of Yunnan and Bayi, which were sponsored by LI-NING, ranked the top two with LI-NING professional marathon gears. Such achievements have greatly improved the influence and recognition of LI-NING professional running products among mass runners.

– LI-NING IRUN Club has gradually evolved into a phase of large-scale development in 2017. Adhering to the main goal of building up triple-experience in stores, we developed the communication and interactive experience platform for LI-NING running product fans and running enthusiasts throughout China, and successfully commenced our own certification course on running consultant covering 33 IRUN stores. Throughout the year, we have planned and organized running consultants to take part in 500 meet-up running events, 10 themed running events, 60 marathon training camps and sharing sessions, attracting nearly 20,000 running enthusiasts into stores.

– For the "Super Light 14th" running shoes, LI-NING has effectively integrated various differentiated and innovative advertisements and creative crossover ideas with promotion on "Moments" through WeChat platform based on different customer groups, the overall engagement rate increased by 2.75 times as compared with that of "Super Light 13th" running shoes for the same period last year. Meanwhile, we created a craze for "Super Light" pop-up stores in prime commercial zones of Chongqing, Changsha, Shenzhen and Shenyang, further closely engaging with end consumers and thus further enhancing the brand influence of "Super Light" series.

Integrating with fashionable trends to accelerate brand rejuvenation

– In 2017, LI-NING brand made continuous efforts in brand rejuvenation to enrich brand connotation by quickly tracking various fashionable entertainment which marks the street pop culture. We signed up popular entertainment resource, driving the marketing and promotion for the street basketball series, BADFIVE.

– In August, we officially signed up Yao Xingtong (姚星彤), a celebrity with strong sports image, as the endorser for LI-NING running products in the related endorsement and promotion activities for our stores nationwide. In the future, we will bring together the advantageous resources of each other for further promotion of running and training products.

– We have maintained more effective communication with young consumers through the incorporation of entertainment elements. We explored the fan economy with the product endorsements by showbiz artists and Key Opinion Leaders (KOL), which in turn effectively attracted and explored additional potential customers. By making our brand more fashionable, we provided the consumers with more fashionable product offerings. During the year, through our cooperation with Keenyhouse, a cartoon image developed by Wang Likun (王麗坤), a actress in China who is well known as 'goddess' without makeup, and her working team, we have launched trendy T-shirts and caps. In the future, the business model of crossover products will become the main initiative of entertainment marketing campaigns.

– We maintained in-depth cooperation with fashion media and realized product placement during media shooting of artists. Meanwhile, we interacted with the media to have access of the circles of media fans and artist fans. Actors including Chen Bolin (陳柏霖), Zhang Yishan (張一山), Ou Hao (歐豪), Zhang Binbin (張彬彬), Zhang Yunlong (張雲龍) and Yang Xuwen (楊旭文) put on LI-NING products during the shootings. Besides, our products were well recognised by media partners, artists and fans.

– At the end of 2017, we sponsored "May The Dance Be With You", the premier and top class street dance competition show in China produced by Beijing Television Station. Our sponsorship of apparel products under sports fashion series to the participating dance teams has earned us recognition from the related dance troupes and increased the exposure of seasonal best-selling products, gaining keen attention of young consumers.

Sales Channel Expansion and Management

As at 31 December 2017, the number of conventional stores, flagship stores, factory outlets and discount stores under LI-NING brand (including LNG, “ ” label) amounted to a total of 6,262, representing a net decrease of 178 POS as compared to 31 December 2016. The number of distributors was 32, representing a net decrease of 7 as compared to 31 December 2016. POS breakdown as at 31 December 2017 is as follows:

Number of franchised and directly-operated POS

LI-NING Brand	**31 December 2017**	31 December 2016	**Change**
Franchised	**4,721**	4,829	**-2.2%**
Directly-operated retail	**1,541**	1,611	**-4.3%**
Total	**6,262**	6,440	**-2.8%**

Number of POS by geographical location

Regions	**31 December 2017**	31 December 2016	**Change**
Northern Region *(Note 1)*	**3,110**	3,151	**-1.3%**
Southern Region *(Note 2)*	**3,152**	3,289	**-4.2%**
Total	**6,262**	6,440	**-2.8%**

Notes:

1. The Northern region includes provinces and autonomous regions covering Beijing, Gansu, Hebei, Henan, Heilongjiang, Jilin, Liaoning, Inner Mongolia, Ningxia, Qinghai, Shandong, Shanxi, Shaanxi, Tianjin and Xinjiang.

2. The Southern region includes provinces and autonomous regions covering Anhui, Fujian, Guangdong, Guangxi, Guizhou, Hainan, Hubei, Hunan, Jiangsu, Jiangxi, Shanghai, Sichuan, Tibet, Yunnan, Zhejiang and Chongqing.

Structural Adjustment and Quality Improvement of Sales Channels

In 2017, through measures such as closing down and reforming inefficient and loss-making stores, pushing forward the optimization of the location, expansion and revamp of stores in shopping malls, as well as opening large stores with experience-concept and high cost-effectiveness and profitability, the Company actively optimized the structure of sales channels and improved their efficiency. We continued to strengthen the channel construction and operation management of outlets and cost-effective factory stores as well as facilitate the opening of new factory outlets, and upgrade and revamp the existing cost-effective ones. With the continuous optimization of channel inventory, we commenced to increase the supply of exclusive products for factory stores.

Transformation of Product Operation Model

In 2017, the Company continued to push forward the transformation of its product operation model and made dedicated efforts in developing a product portfolio based on long and short product life cycles. We also developed a business model focusing on trade fair orders as the major business segment, complemented by Quick Response (QS) products that can capture market opportunities. We performed sales forecast, batch production, supply-chain synergy for trade fair products, thereby extending the sales cycle of popular products, reducing the supply of unsaleable products, better capturing business opportunities arising from the market trend and enhancing sales performance of stores accordingly.

We continued to optimize our single store order management. For retail and distributors, the implementation of single store product assortment based on product locations, store classification and market segments were pushed forward. We continued to review and explore the link between the product assortments of stores and consumers demand, enhanced the precision of single store order and developed a more effective assortment model; for flagship stores and large stores with high cost-effectiveness, we emphasized more on aligning consumers' demands with product offerings precisely.

During the year, we continuously pushed forward the improvement of the supply model. With accurate forecast on demand, we have been able to rapidly and precisely satisfy demands of stores. As the order model was optimized, the efficiency of product delivery increased. The direct product delivery from National Distribution Centre (NDC) to stores was implemented. As of the end of 2017, there were already more than 300 stores participating in the aforesaid direct product delivery scheme. We developed a multi-dimensional demand forecast model, which enhanced the forecast of the total amounts of key products at the beginning of quarter and the rolling forecast at mid of quarter. Moreover, we implemented a product supply policy and developed a rolling replenishment system for stores.

Transformation of Logistics System

In 2017, the Company made continuous efforts in establishing a flexible and highly efficient retail logistics system. In line with the transformation of its product operation model, the Company developed various ways of delivering products to stores: to accelerate the new product launch, the directly delivery of products from NDC to stores. We have developed a fast delivery and distribution procedure from factories to stores. The procedure significantly shortened the time taken for goods delivery, which is conductive to enhancing the overall operation efficiency of the supply chain. In 2017, in line with the Company's omni-channel, all warehouses were equipped with the operation capacity for B2B and B2C in order to provide delivery guidance and courier support to stores simultaneously.

We developed a logistics resources platform, with an aim to support and satisfy the demand for logistics services resulting from the business growth of various divisions and sales channels. Providing customized logistics services and comprehensively utilizing internal and external resources, this platform can enhance the Company's overall logistics efficiency at a lower operating cost.

In line with its establishment of "swift + precise" product operation model, the Company developed an informational and intelligent logistics support system, optimized its information system and developed the capability in comprehensively processing information in digital manner. Moreover, we enhanced our ability to manage retail logistics plan, as well as the overall operation efficiency of the supply chain.

Improving Retail Operation Standards of Stores and Enhancing Retail Efficiency of Sales Channels

In 2017, the Company continued to strengthen the establishment of the retail operation platform from headquarter to various regions. The operating standards of stores were updated according to the store types such as full category stores, professional sports stores and sports casual stores. Certain operational and management systems including the store management system and store information platform have commenced their operations, which strengthened the retail operation management of single stores. Meanwhile, through the establishment of online training system, we continued to increase the training coverage of self-operated and franchised stores and enhance the product knowledge and customer service standard of staff. Moreover, we continued to put more efforts in the investigations by way of mystery shoppers so as to improve the store operation standards.

Subsequently, based on the development of various cities and business districts in which our stores are located, we will continue to segment the service standards of our operations, expand and strengthen the position training of our sports advisors and fashion advisors for the operations of our full category stores, professional sports stores and sports casual stores, providing more professional sports and shopping experience to our consumers and members.

In 2017, various retail indicators of the Company including the retail efficiency of sales channels, associated purchase rate and sell-out rate of new products continued to increase; inventory turnover and inventory structure were improved significantly.

Enhancing Store Image and Visual Promotion

In 2017, the Company continued to strengthen commercial zone market analysis on the business structure at all market levels and integrate with the change of consumer structure, which enhanced the overall matrix of our store images and categories and in turn further aligned with the store images at different market levels. Through enhancing the displaying space, product experience of different categories and interactive area of full category stores, the sports experience and interaction of professional products were improved.. We successfully opened sports casual stores that centrally exhibit the performance of LI-NING's sports fashion products, which better promoted the sales growth of fashionable products and enhanced the sports trendiness of LI-NING brand, thereby attaining high popularity among youth consumer groups.

In 2017, according to the market development, the Company updated the management of store display system and created the position of store visual merchandising (VM) assistant, with an aim to enhance the overall planning of VM, retail marketing presentation (RM) and visual identity (VI) by adding visual applications such as electronic display. Hence, the shopping experience of consumers was enhanced in terms of brand and product promotions as well as consumer communication.

Strengthening Membership Recruitment and Membership Marketing

In 2017, the Company continued to strengthen membership development in respect of stores and online marketing while improving the social communication system for members and optimize membership rights and event frequency to expand members' interactive experience at both online and offline platforms. We successfully integrated brand marketing with membership activities through the marketing of quarterly launch of new products, launch of limited edition products events as well as China Tour (中國行)marketing events of international stars such as Wade and NBA players, which offered excellent experience to our member groups and enhanced loyalty of VIP members. Meanwhile, we gradually utilize member information to develop customized services catering to personal demands of members, thus realizing significant growth as compared with previous year in terms of number of members and sales contribution from members.

Enhancing Omni-channel Service Experience

In 2017, the Company continued to develop the integrated business model with omni-channel strategy. In further developing the omni-channel system, we developed close ties in cooperation with top e-commerce and logistics enterprises and enhanced omni-channel sales services of online and offline stores. In 2017, various performance indicators including the orders responsivity, precise delivery, delivery punctuality and customer satisfaction have outperformed the industry. With the constant upgrade of the establishment of omni-channel system, the Company will further promote omni-channel cooperation across physical stores including franchised channel in the coming year. It is expected that we can make more efficient use of the omni-channel platform to enhance the utilization rate of inventory and enable consumers to experience LI-NING omni-channel services on all categories and channels at all time.

E-Commerce

In 2017, the e-commerce of Li Ning Company further attained steady growth and enhancement in terms of revenue and profitability.

Meanwhile, the e-commerce of Li Ning Company achieved further breakthroughs in digital operation and the efforts of “We Media” in stores. Through developing a more complete system for digital operation model and mass content, e-commerce stores has, apart from a sales platform of simply selling products, evolved into an omni-experience platform enabling users to interact with the brand’s products, marketing activities, stars and tournaments through online platforms.

Looking forward, the e-commerce business will continue to improve the development of its own digital operation while gradually applying this business model to physical channel, with an aim to promote strong digital operation capacity in various aspects such as product planning and marketing. Meanwhile, Li Ning Company will further integrate the marketing resources of more brands and launch in e-commerce platform, thereby fostering the resultant drive from the store matrix + We Media matrix.

Supply Chain Management

In 2017, the Company continued to enhance the management of product quality with a focus on enhancing product workmanship and details and improving wearing comfortability to enhance wearing experience of products, thus gaining positive feedbacks and good reputation among consumers. In respect of cost management, the Company implemented stringent cost control measures and practiced the concept of cost management on all areas ranging from product design and development to various production processes, by which the procurement costs have been effectively controlled. As such, consumers are directly benefited with products of enhanced cost-effectiveness.

In response to the Company’s change of business model from wholesale to retail, the Company improved the responsiveness and elasticity of supply chain to assure precise and swift product delivery with the aim to cater to the demands of various business sectors for product supply. Regarding supply chain development, the Company continued to tighten the requirements on labour, career health and environmental protection to ensure sustainable development.

NEW BUSINESS

DANSKIN Brand

In October 2016, Li Ning Company announced the cooperation with Danskin, the professional dance sports brand in the United States, for the exclusive licensing right to operate the brand's businesses in the Mainland China and Macao region. Established in New York in 1882, Danskin brand is a professional dancewear brand for women in the United States and emphasises the pursuit of lifestyle and cherishes the elegant and healthy attitude to life.

In China, the sportswear market is huge and the consumer base is broad. Excluding the sectors relating to sports competition, there is still enormous potential to be explored in the female-themed fitness market. It can be expected that with the continual penetration of healthcare concept and the upgrade of middle-class consumption, the sports market will be showing a tendency of segmentation, and the women's sports market shall become the new growth driver of the sports market.

In 2017, Danskin brand focused on brand building, testing and promotion of market channels as its core businesses.

The brand positioned itself as products of differentiation and showcased its style themed as fashionable lifestyle capitalizing on the brand's dance DNA, its origin New York and its century-old brand history. Meanwhile, the brand refined its product lines, including the STUIDO series featuring the sports fitness concept, the U-RHYTHM series positioning with fashion and stylishness and the O-LEISURE series catering for the daily needs of white-collars and offering diverse and simple choices to wear for various occasions. The brand further introduced the American DANCE series, its origin DNA and the Japanese mid-and-high-end yoga series, thereby contributing to the "3+2" product line coverage.

The brand's channel expansion is basically on trial run at the current stage. Two stores were opened in Shanghai MIXc and K11 in 2017 and a store was newly opened in Yaohan Shanghai in January 2018. The brand also launched pop-up events in Shanghai Raffles City and Baoshan Wanda Plaza. Coupling with digital promotion and in-store marketing by offering members with interactive experience, the brand sought to provide consumers with more diverse and precise consumer experience, receiving favourable consumer responses.

In the future, the brand will focus on digital channel in its marketing activities, with an aim to promote its brand value and strengthen the communication with consumers through day-to-day engagement. The brand will maintain the trial-run channel expansion that focuses on prestigious landmark shopping malls located in Beijing, Guangdong and other developed first-tier cities.

"" Label

In 2017, the "" label brand focused on the idea of voguish and creative lifestyle and further refined the product's strategic direction and quality so as to enhance brand value through fashion sense and increase in product quality. Besides, the brand ensured distinctiveness of each series in the design process and diversified the product applications catering to different occasions based on the theme of fashionable sports lifestyle, including the series of travel vacation and high street sports. Meanwhile, the "" label brand has put consistent efforts in core categories and has closely followed the seasonal differences while focusing on the development of evergreen products.

In respect of channels, we pursued more diverse development strategies by adopting the integrated retail model of shopping malls, department stores and outlets at the same time. Further, we endeavoured to refresh and upgrade store images to align with products, enhance brand features and improve in-store experience of consumers.

As of 31 December 2017, 11 "" label brand concept POS were opened in cities including Beijing, Shanghai, Hangzhou, Hefei, Qingdao and Dalian based on the adjusted and optimized brand concept.

The competition for sports casual segment is still intense. Therefore, we kept on the prudent expansion plan for the development of “”label business. In the future, we will continue to steadily expand the market for “” label based on the brand’s development progress as well as varied external market environment; we will constantly deepen the research and exploration in aspects including operation model and channels.

LI-NING YOUNG

In 2017, the Company re-branded the existing LI-NING KIDS catering to the kidswear market and upgraded it to LI-NING YOUNG. In the meantime, targeting teenagers aged between 3 to 14, the brand has set up two product lines for different age groups: curious kids aged between 3 to 6 and vivacious adolescents aged between 7 to 14. The apparel and footwear under the brand cover various categories including running, basketball and sports fashion.

During the year, we focused on the product positioning, formulation of channel sales strategies and team building to initiate the related preparation for the product, channel and other aspects and conduct testing accordingly. LI-NING YOUNG gradually developed a retail business model with products satisfying consumer needs as the core aspect, driven by retail profitability and maintaining sound development. The Company stepped up efforts in customer service and support in three areas such as channel, product and retail capability. While developing the brand’s unique execution standards for store operations, the Company has launched the centralized management with such retail operation standards.

As of the end of 2017, LI-NING YOUNG opened 173 stores across 26 provinces in China. The brand covers an array of channels including, among others, on-street stores, department stores, sports complexes, shopping malls and outlets. In the meantime, the brand conducted detailed analysis on differential market and optimized channel structure in order to improve product performance in various channels and regions.

In 2017, digital marketing was the primary promotion channel of LI-NING YOUNG. On 1 June 2017, the official WeChat account of LI-NING YOUNG was officially launched which mainly publishes information relating to product and brand introductions and interaction events. Meanwhile, LI-NING YOUNG actively participated in certain major events including LI-NING Wade’s China Tour • Hangzhou and Xi’an as well as LI-NING 10K Running League • Beijing, facilitating brand and product promotion in a more effective way.

The competition for domestic kidswear market is still intense. In 2018, we will keep on the steady development with focus on store profitability as the key, continue to develop a retail business model with products satisfying consumer needs as the core, driven by retail profitability and maintaining sound development whilst creating values in terms of product experience, shopping experience and sports experience.

HUMAN RESOURCES

Based on the strategic focus of the Company, our human resources team continued to improve the organization, incentive and talent management system in 2017, thereby providing support to strategic transformation and development of the organisation capacity building of the Company.

– Regarding organisational optimisation, we developed an efficient synergistic mechanism for the retail and supply-chain through organisation and integration. In addition, the Southern Product Center was established to enhance the operating efficiency of products in Southern region. The Company also enhanced the operating efficiency of various product categories through their organisational segmentation while allocating more organisational and human resources for new business such as LI-NING YOUNG;

– In terms of talent management, the Company continued to implement the retail and product talents development system so as to screen and motivate key talents;

– In terms of remuneration package, the Company continued to improve the incentive mechanism for retail front and various business units. We also implemented long-term incentive schemes for our core team so as to motivate core talents and enhance the market competitiveness of core talents' remuneration;

– Regarding the brand-building of employer side, an official WeChat account "LI-NING Recruitment" was launched as a window to showcase the Company's results in this area through a series of events organised or participated in by it. During this year, the Company once again won the "2017 Top 100 Most Attractive Employers in China" and "2017 the Best Working Environment" awards. Also, it was awarded various employer brand awards such as the "2017 Excellent Award of Human Resources Management", "Top 10 Excellent Employer in China" and "WeChat Public Platform Award".

In the future, pursuing the goal of establishing efficient operation system, we will continue to accomplish the goal of better product experience, sports experience and shopping experience as well as new business development goals in strengthening our management on the organisational performance and our talent team building. We wish to effectively manage the human resources, while continuing to strengthen our organisation capacity and enhance the overall performance of staff in order to give full support to the Company's strategic goal and develop the organisation capacity and talent team supporting the change of the Company.

As at 31 December 2017, the Group had 2,182 employees in total (30 June 2017: 2,007 employees), including 2,008 employees at the Group's headquarters and retail subsidiaries (30 June 2017: 1,825 employees), and 174 employees at the Group's other subsidiaries (30 June 2017: 182 employees).

OUTLOOK

Looking forward, we will continue to strengthen and improve the following business focuses in 2018. Meanwhile, we will focus on building up and consolidating LI-NING's experience value, adhere to the principle of "business-oriented as the key overall", and place focused efforts on enhancing efficiency in order to steadily improve our profitability:

– In respect of products, we will better integrate professional sports with fashion, entertainment and leisure. Innovative designs will be made to enhance product competitiveness based on various sport features. By constantly accumulating our knowledge on sports and leveraging the use of functional materials and innovations of science and technologies, we will develop our brands to be more competitive in China's mainstream public sports categories. With the support of sports resources, we can enhance our interactive experience with consumers, thereby producing truly competitive products and enhancing our brand value;

– In respect of channels, we will continue to focus on improving single-store efficiency and constantly improve the efficiency and image of LI-NING's channels. Taking a retail-efficiency approach, we will conduct effective upgrades for the key stores. Moreover, we will continue to close down or upgrade inefficient stores and expand the floor areas of stores with high cost-effectiveness;

– Continuous establishment and improvement of retail operation-supported platform will remain as one of our major tasks. We will constantly improve the retail experience at our stores. The retail efficiency of our stores will be improved and enhanced with the support of data technology platform. Meanwhile, we will continue to focus on developing the order management capability so as to further enhance the effectiveness of our precise product planning.

– We will continue to make additional investment in the upgrading of digital operation. Through big data analysis, we can capture online and offline business opportunities and develop methods and measures for bundled sales as well as an interactive retail service model;

– For new business, we will continue to make reasonable and prudent use of resources to explore business opportunities and potential market in order to foster new opportunities for the Company's profit growth in the long run.

Not only does the robust increase of market demands brings about new opportunities to the development of the whole sports industry, it also poses challenges to the development and enhancement of brand competitiveness. With the impact of consumption upgrade, the consumption structure of consumers will be shifted to a more refined and mature dimension. This will be accompanied by further demands on certain aspects including the brand influence and brand value attribution of various brands. Our innate sports DNA of LI-NING brand has impelled us to place more emphasis on sports research and the development of LI-NING's omni-experience value. In the future, we will continue to devote major resources into gaining sports knowledge, technological research and development and development of LI-NING brand experience, proactively exploring and broadening room for business development. Creating more professional and unique LI-NING brand value will remain as the theme of the Company's long-term development.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its shares during the year ended 31 December 2017. Except for the purchase of shares by the trustee of the Restricted Share Award Schemes of the Company pursuant to the trust deed and the rules of Restricted Share Award Schemes of the Company, neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company is committed to upholding a high standard of corporate governance by continued review and enhancement of its corporate governance practices, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in a timely and effective manner. During the year ended 31 December 2017, the Company has complied with the code provisions of the Corporate Governance Code ("Code Provisions") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following deviation with considered reason as explained below.

According to paragraph A.2.1 of the Code Provisions, the roles of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. As the Company has not yet identified a suitable candidate to be the chief executive officer ("CEO") during the year of 2017, Mr. Li Ning, the Executive Chairman and Interim CEO of the Company, assumed the role of chief executive officer during the year. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles are currently undertaken by Mr. Li Ning. Notwithstanding the above, the Board is of the view that the assumption of the roles of Executive Chairman and Interim CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group's business strategies. The Board also believes that the current arrangement is in the interest of the Company and its Shareholders as a whole.

Details of the corporate governance practices of the Company will be set out in the Corporate Governance Report contained in the 2017 annual report of the Company.

AUDIT COMMITTEE

The Audit Committee of the Company, consisting of three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2017.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at 11:00 am on Friday, 15 June 2018.

The notice of the AGM will be despatched to the shareholders together with the 2017 annual report of the Company on or around 12 April 2018 and published on the website of the Company (http://ir.lining.com) and the "HKExnews" website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

By order of the Board of
Li Ning Company Limited
Li Ning
Executive Chairman and
Interim Chief Executive Officer

Hong Kong, 21 March 2018

As at the date of this announcement, the executive director of the Company is Mr. Li Ning. The non-executive directors of the Company are Mr. Chen Yue, Scott, Mr. Wu, Jesse Jen-Wei and Mr. Li Qilin. The independent non-executive directors of the Company are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Dr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel.