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 2018

FINANCIAL HIGHLIGHTS

- Reported net profit attributable to equity holders increased by 39% to RMB715 million, net profit margin raised from 5.8% to 6.8%:
  - Revenue increased by 18% to RMB10,511 million
  - Gross profit margin expanded 1 percentage point
  - Enhanced operating leverage notwithstanding investment in new initiatives and increase of organization costs

- Operating cash flow increased by 44% to RMB1,672 million.

- Significant improvement in working capital continued:
  - Gross average working capital improved (reduced) by 12% while revenue increased by 18%
  - Cash conversion cycle further improved (shortened) by 9 days (2017: 49 days/2018: 40 days)

- The Board has recommended payment of a final dividend of RMB8.78 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2018 (2017: Nil).

OPERATIONAL HIGHLIGHTS

- The retail sell-through for the overall platform increased by mid-teens, including online and offline channels.

- Channel inventory turnover further improved.

- Overall Same-Store-Sales growth accelerate to low-teens.

- Offline channel new product sell-through increased by mid-teens with new product mix increased by 2 percentage points:
  - Direct retail new product gross margin improved over 1 percentage point

ANNUAL RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company" or "Li Ning Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018, together with comparative figures of 2017, as follows:

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	**2018**	2017
		RMB'000	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**830,085**	838,185
Land use rights		**74,092**	75,986
Intangible assets		**233,921**	257,947
Deferred income tax assets		**239,047**	234,327
Other assets		**132,491**	–
Available-for-sale financial assets		**–**	14,000
Investments accounted for using the equity method		**728,499**	689,071
Other receivables		**102,916**	–
Other receivables and prepayments		**–**	101,451
Total non-current assets		**2,341,051**	2,210,967
Current assets			
Inventories	*4*	**1,239,741**	1,102,538
Other assets – current portion		**508,536**	–
Trade receivables	*5*	**928,895**	1,138,034
Other receivables – current portion		**37,340**	–
Other receivables and prepayments – current portion		**–**	339,867
Restricted bank deposits		**200**	721
Cash and cash equivalents		**3,671,542**	2,529,222
Total current assets		**6,386,254**	5,110,382
Total assets		**8,727,305**	7,321,349

	Note	As at 31 December **2018** ***RMB'000***	 2017 *RMB'000*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**204,435**	203,347
Share premium		**3,249,389**	3,189,792
Shares held for Restricted Share Award Scheme		**(168,809)**	(69,600)
Other reserves		**1,314,569**	1,086,613
Retained earnings		**1,217,456**	660,895
		5,817,040	5,071,047
Non-controlling interests in equity		**2,550**	2,550
Total equity		**5,819,590**	5,073,597
LIABILITIES			
Non-current liabilities			
License fees payable		**27,565**	39,203
Derivative financial instruments		**14,274**	5,584
Deferred income tax liabilities		**34,730**	18,323
Deferred income		**53,675**	56,832
Total non-current liabilities		**130,244**	119,942
Current liabilities			
Trade payables	*6*	**1,133,314**	1,145,113
Contract liabilities		**97,979**	–
Other payables and accruals		**1,383,118**	929,263
License fees payable – current portion		**28,719**	33,392
Current income tax liabilities		**134,341**	20,042
Total current liabilities		**2,777,471**	2,127,810
Total liabilities		**2,907,715**	2,247,752
Total equity and liabilities		**8,727,305**	7,321,349

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	**2018**	2017
		RMB'000	*RMB'000*
Revenue	*3*	**10,510,898**	8,873,912
Cost of sales	*7*	**(5,458,124)**	(4,697,429)
Gross profit		**5,052,774**	4,176,483
Distribution expenses	*7*	**(3,708,446)**	(3,273,375)
Administrative expenses	*7*	**(679,873)**	(512,051)
Reversal of impairment losses on financial assets – net		**18,176**	10,985
Other income and other gains – net	*8*	**94,546**	43,636
Operating profit		**777,177**	445,678
Finance income	*9*	**23,376**	43,577
Finance expenses	*9*	**(13,865)**	(25,537)
Finance income – net	*9*	**9,511**	18,040
Share of profit of investments accounted for using the equity method		**63,633**	73,806
Profit before income tax		**850,321**	537,524
Income tax expense	*10*	**(135,058)**	(22,369)
Profit for the year		**715,263**	515,155
Attributable to:			
Equity holders of the Company		**715,263**	515,155
Non-controlling interests		**–**	–
		715,263	515,155
Earnings per share attributable to equity holders of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share	*11*	**29.63**	21.47
Diluted earnings per share	*11*	**29.19**	20.87

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Profit for the year	**715,263**	515,155
Other comprehensive income/(loss):		
Items that may be reclassified to profit or loss		
Currency translation differences	**1,320**	(3,850)
Items that may not be reclassified to profit or loss		
Changes in the fair value of equity investments at fair value through other comprehensive income	**(2,888)**	–
Total comprehensive income for the year	**713,695**	511,305
Attributable to:		
Equity holders of the Company	**713,695**	511,305
Non-controlling interests	–	–
	713,695	511,305

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 2019.

2. Basis of preparation and changes in accounting policies

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.

2.1 Basis of preparation

(a) 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.

(b) Historical cost convention

The financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) – measured at fair value.

(c) 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 2018:

IFRS 9	*Financial instruments*
IFRS 15	*Revenue from contracts with customers*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Annual improvements project	*Annual Improvements 2014-2016 cycle*
Amendments to IAS 40	*Transfers of investment property*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Annual improvements project	*Annual Improvements to IFRS Standards 2015-2017 cycle*

The Group had to change its accounting policies and to make certain adjustments following the adoption of IFRS 9 and IFRS 15. Most of the other amendments listed above did not have any impact on the amounts recognised in the prior periods and are not expected to significantly affect the current or future periods.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

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.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules IFRS 16. 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 RMB959,500,000. Of these commitments, approximately RMB121,077,000 relate to short-term leases which will be recognised on a straight-line basis as expense in consolidated income statement. For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB765,826,000 and lease liabilities of RMB765,826,000 on 1 January 2019.

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

Date of adoption by Group

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to 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.

2.2 *Changes in accounting policies*

This note explains the impact of the adoption of IFRS 9 and IFRS 15 on the Group's financial statements.

(a) Impact on the financial statements

IFRS 9 was generally adopted without restating comparative information. IFRS 15 was adopted using the modified retrospective approach that comparatives information was not restated. The reclassifications are not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

(b) IFRS 9 Financial Instruments

IFRS 9 replaces the provisions of International Accounting Standard 39 ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has adopted IFRS 9 from 1 January 2018. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories, the majority of the Group's financial assets include:

- investments in unlisted companies previously classified as available-for-sale financial assets was reclassified to financial assets at fair value through other comprehensive income ("FVOCI") under IFRS 9;
- loans and receivables previously measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9; and
- wealth management products was currently classified as at fair value through profit or loss ("FVPL") as a whole under IFRS 9.

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables, and
- other receivables.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings as at 1 January 2018 was immaterial and there was no adjustment in retained earnings as at 1 January 2018.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, no impairment loss was identified.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and aging analysis.

The expected loss rates are based on the payment profiles of sales over a period and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Other receivables

Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available, reasonable and supportive forwarding-looking information.

(c) *IFRS 15 Revenue from Contracts with Customers*

The Group has adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018. The Group has adopted the modified retrospective approach and the comparatives were not restated. The impact of the adoption of IFRS 15 was immaterial and there was no adjustment in retained earnings as at 1 January 2018.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that have been affected:

(i) Accounting for refunds

When the customer has a right to return the faulty product within a given period, the Group is obliged to refund the purchase price. The Group previously recognised a provision for returns which was measured on a net basis at the margin on the sale. Revenue was adjusted for the expected value of the returns and cost of sales were adjusted for the value of the corresponding goods expected to be returned. Under IFRS 15, a refund liability for the expected refunds to customers is recognised as adjustment to revenue in other payables and accruals. At the same time, the Group has a right to recover the product from the customer where the customer exercises his right of return and recognises an asset and a corresponding adjustment to cost of sales. The asset is recognised in other assets and measured by reference to the former carrying amount of the product. The costs to recover the products are not material because the customer usually returns the product in a saleable condition at the store.

(ii) Accounting for the customer loyalty programme

In previous reporting periods, the consideration received from the sale of goods was allocated to the points and the goods sold using the residual method. Under this method, a part of the consideration equalling the fair value of the points was allocated to the points. The residual part of the consideration was allocated to the goods sold. Under IFRS 15, the total consideration must be allocated to the points and goods based on the relative stand-alone selling prices. Using this new method, the amounts allocated to the goods sold are, on average, higher than the amounts allocated under the residual value method. After Group's management remeasurement, the impact was immaterial and there was no adjustments in retained earnings as at 1 January 2018.

(iii) Presentation of assets and liabilities related to contracts with customers

The Group has changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 and IFRS 9:

- Contract liabilities in relation to advances from customers were previously included in other payables and accruals.

- Contract liabilities in relation to the customer loyalty programme were previously presented as deferred income.

- Prepayments were previously presented together with other receivables as other receivables and prepayments are now presented as other receivables (receivables) and other assets (prepayments) in the balance sheet, to reflect their different nature.

3. **Segment information and revenue**

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

Management considers the business from a brand perspective, which included LI-NING brand and all other brands for the year ended 31 December 2017.

For the year ended 31 December 2017, the revenue from LI-NING brand and all other brands were RMB8,819,188,000 and RMB54,724,000 respectively. The revenue from all other brands was less than one percent of total revenue. From 1 January 2018, no segment information was presented for the Group's business segment as the Group was principally engaged in a single line of business of sporting goods.

Revenue breakdown by product category is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Footwear	**4,601,262**	4,159,221
Apparel	**5,316,033**	4,191,427
Equipment and accessories	**593,603**	523,264
Total	**10,510,898**	8,873,912

Geographical information of revenue

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
The PRC (including the Hong Kong Special Administrative Region)	**10,262,236**	8,634,026
Other regions	**248,662**	239,886
Total	**10,510,898**	8,873,912

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 2018 and 2017, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. **Inventories**

	2018	2017
	RMB'000	*RMB'000*
Raw materials	**1,112**	1,270
Work in progress	**3,101**	3,134
Finished good	**1,360,167**	1,228,486
	1,364,380	1,232,890
Less: provision for write-down of inventories to net realisable value	**(124,639)**	(130,352)
	1,239,741	1,102,538

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB5,312,201,000 for the year ended 31 December 2018 (31 December 2017: RMB4,598,262,000). 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 2018 and 2017.

5. **Trade receivables**

	2018	2017
	RMB'000	*RMB'000*
Accounts receivable	**1,213,288**	1,530,779
Notes receivable	**–**	9,100
	1,213,288	1,539,879
Less: allowance for impairment of trade receivables	**(284,393)**	(401,845)
	928,895	1,138,034

Customers are normally granted credit terms within 90 days. As at 31 December 2018 and 2017, ageing analysis of trade receivables based on invoice date are as follows:

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**551,193**	671,736
31 – 60 days	**247,090**	229,891
61 – 90 days	**99,029**	176,579
91 – 180 days	**87,835**	118,219
Over 180 days	**228,141**	343,454
	1,213,288	1,539,879

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

	2018	2017
	RMB'000	*RMB'000*
As at 1 January	**401,845**	414,137
Reversal of provision for impairment of trade receivables	**(22,227)**	(10,985)
Trade receivables written off during the year as uncollectible	**(95,225)**	(1,307)
As at 31 December	**284,393**	401,845

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, default or delinquency in payments, and the failure of a debtor to engage in a repayment plan with the Group.

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance decreased by RMB117,452,000 to RMB284,393,000 for trade receivables during the current reporting period.

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:

	2018	2017
	RMB'000	*RMB'000*
0 – 30 days	**758,434**	852,855
31 – 60 days	**310,259**	258,212
61 – 90 days	**57,309**	15,238
91 – 180 days	**1,947**	7,059
181 – 365 days	**1,857**	6,621
Over 365 days	**3,508**	5,128
	1,133,314	1,145,113

7. Expenses by nature

	2018	2017
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses included in cost of sales	**5,312,201**	4,598,262
Depreciation on property, plant and equipment *(Note a)*	**363,037**	322,030
Amortisation of land use rights and intangible assets	**48,375**	47,757
Advertising and marketing expenses	**1,090,608**	980,769
Commission and trade fair related expenses	**180,637**	158,088
Staff costs, including directors' emoluments *(Note a)*	**1,139,002**	903,509
Operating lease rentals and related expenses in respect of land and buildings	**898,440**	829,600
Research and product development expenses *(Note a)*	**228,798**	169,724
Transportation and logistics expenses	**395,775**	317,303
Auditor's remuneration	**6,490**	5,662
— Audit services	**5,200**	4,700
— Non-audit services	**1,290**	962
Management consulting expenses	**78,877**	55,348
Travelling and entertainment expenses	**62,386**	49,053

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

	2018	2017
	RMB'000	*RMB'000*
Government grants	**34,311**	31,939
License fees income	**16,299**	16,257
Interest income from wealth management products measured at fair value through profit or loss	**46,641**	–
Fair value losses on derivative financial instruments at fair value through profit or loss	**(8,690)**	(4,560)
Dividends	**5,985**	–
	94,546	43,636

9. Finance income and expense

	2018	2017
	RMB'000	*RMB'000*
Finance income		
Interest income on bank balances and deposits	**14,947**	29,141
Net foreign currency exchange gain	**8,429**	3,216
Reversal of accrued interest expenses on convertible bonds	**–**	11,220
	23,376	43,577
Finance expense		
Amortisation of discount – license fees payable	**(4,320)**	(5,792)
Interest expense on bank and other borrowings	**–**	(6,876)
Interest expense on convertible bonds	**–**	(4,234)
Others	**(9,545)**	(8,635)
	(13,865)	(25,537)
Finance income – net	**9,511**	18,040

10. Income tax expense

	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax *(Note b)*	**1,052**	3,751
– PRC corporate income tax *(Note c)*	**121,145**	32,712
– Withholding income tax on interest income from subsidiaries in PRC *(Note d)*	**1,174**	1,251
	123,371	37,714
Deferred income tax	**11,687**	(15,345)
Income tax expense	**135,058**	22,369

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 2018 (2017: 16.5%).

(c) Provision for the PRC corporate income tax is calculated based on the statutory tax rate of 25% (2017: 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 2018 and 2017, which are subject to withholding tax at the rate of 7%.

11. Earnings per share

Basic

Basic earnings per share are 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 period. 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 57,689,000 ordinary shares (31 December 2017: 57,690,000 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.

	2018	2017
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**715,263**	515,155
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,413,636**	2,399,231
Basic earnings per share *(RMB cents)*	**29.63**	21.47

Diluted

Diluted earnings per share are 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.

	2018	2017
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**715,263**	508,169
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,413,636**	2,399,231
Adjustment for the restricted shares *(in thousands)*	**22,603**	14,295
Adjustment for the share option schemes *(in thousands)*	**14,266**	7,722
Adjustment for the convertible bonds *(in thousands)*	**–**	14,052
Deemed weighted average number of shares for diluted earnings per share *(in thousands)*	**2,450,505**	2,435,300
Diluted earnings per share *(RMB cents)*	**29.19**	20.87

Note:

As at 31 December 2018, there were 1,420,000 share options that could potentially have a dilutive impact in the future but were anti-dilutive during the year ended 31 December 2018. As at 31 December 2017, there were 58,140,000 share options that could potentially have dilutive impact on continuing operations in the future but were anti-dilutive during the year ended 31 December 2017.

12. Dividends

	2018
	RMB'000
Proposed final dividend of RMB8.78 cents (2017: nil) per ordinary share	**214,579**
	214,579

On 21 March 2019, the Board proposed a final dividend of RMB8.78 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2018.

The proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 December 2019.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB8.78 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2018 (2017: nil). The proposed dividend payment is subject to approval by the shareholders of the Company at the forthcoming annual general meeting ("AGM") to be held on 14 June 2019 and is payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People's Bank of China on 14 June 2019. Such dividend will not be subject to any withholding tax. Upon shareholders' approval, the proposed final dividend will be paid:

(i) on 2 July 2019 to ordinary shareholders whose names shall appear on the register of members of the Company on 21 June 2019;

(ii) on 2 July 2019 to holders of convertible securities issued under the open offer of offer securities of the Company as set out in the listing document of the Company dated 9 January 2015 and remain outstanding on 21 June 2019;

(iii) on 5 July 2019 (i.e. the third business day after 2 July 2019) to holders of convertible securities issued under the open offers of convertible securities of the Company as set out in the listing documents of the Company dated 27 March 2013 and remain outstanding on 21 June 2019.

For the avoidance of doubt, any convertible securities subject to a conversion notice completed, executed and deposited on or before final dividend record date (being 21 June 2019) shall be entitled to the distribution of such final dividend of the Company. For details of calculation of distribution of the final dividend entitled to the convertible securities please refer to the listing documents of the Company dated 27 March 2013 and 9 January 2015 respectively.

The Company did not declare interim dividend for the six months ended 30 June 2018.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders of the Company who are entitled to attend and vote at the forthcoming AGM to be held on 14 June 2019 and qualifying for the proposed final dividend to be approved at the AGM, the register of members of the Company will be closed as set out below:

(i) For ascertaining eligibility to attend and vote at the AGM:

Latest time to lodge transfers	4:30 p.m. on 10 June 2019 (Monday)
Period of closure of register of members	11 June 2019 (Tuesday) to 14 June 2019 (Friday) (both days inclusive)
Record date	14 June 2019 (Friday)
AGM date	14 June 2019 (Friday)

In order to qualify for attending and voting at the AGM, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 10 June 2019.

(ii) For ascertaining entitlement to the final dividend:

Latest time to lodge transfers	4:30 p.m. on 19 June 2019 (Wednesday)
Period of closure of register of members	20 June 2019 (Thursday) to 21 June 2019 (Friday) (both days inclusive)
Final dividend record date	21 June 2019 (Friday)

In order to qualify for the proposed final dividend, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 19 June 2019.

CLOSURE OF REGISTER OF HOLDERS OF CONVERTIBLE SECURITIES

For the purpose of determining holders of outstanding convertible securities of the Company who qualify for the final dividend, the register of holders of convertible securities of the Company will be closed as set out below:

Latest time to lodge transfers	4:30 p.m. on 19 June 2019 (Wednesday)
Period of closure of register of holders of convertible securities	20 June 2019 (Thursday) to 21 June 2019 (Friday) (both days inclusive)
Final dividend record date	21 June 2019 (Friday)

In order to qualify for the proposed final dividend, all transfer documents must be lodged for registration with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 19 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Overview

The key operating and financial performance indicators of the Group for the year ended 31 December 2018 are set out below:

	Year ended 31 December		Change
	2018	2017	***(%)***
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue *(Note 1)*	**10,510,898**	8,873,912	**18.4**
Gross profit	**5,052,774**	4,176,483	**21.0**
Operating profit	**777,177**	445,678	**74.4**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 2)*	**1,252,222**	889,271	**40.8**
Profit attributable to equity holders *(Note 3)*	**715,263**	515,155	**38.8**
Basic earnings per share *(RMB cents) (Note 4)*	**29.63**	21.47	**38.0**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**48.1**	47.1	
Operating profit margin *(%)*	**7.4**	5.0	
Effective tax rate *(%)*	**15.9**	4.2	
Margin of profit attributable to equity holders *(%)*	**6.8**	5.8	
Return on equity attributable to equity holders *(%)*	**13.1**	11.4	
Expenses to revenue ratios			
Staff costs *(%)*	**10.8**	10.2	
Advertising and marketing expenses *(%)*	**10.4**	11.1	
Research and product development expenses *(%)*	**2.2**	1.9	

	31 December 2018	31 December 2017
Balance sheet items		
(All amounts in RMB thousands unless otherwise stated)		
Total assets *(Note 5)*	**8,727,305**	7,321,349
Capital and reserves attributable to equity holders *(Note 6)*	**5,817,040**	5,071,047
Key financial ratios		
Asset efficiency		
Average inventory turnover *(days) (Note 7)*	**78**	80
Average trade receivables turnover*(days) (Note 8)*	**36**	52
Average trade payables turnover *(days) (Note 9)*	**74**	83
Asset ratios		
Debt-to-equity ratio *(%) (Note 10)*	**50.0**	44.3
Interest-bearing debt-to-equity ratio *(%) (Note 11)*	**–**	–
Net asset value per share *(RMB cents)*	**269.79**	234.65

Notes:

1. Including revenue for the period from 1 January to 30 September 2018: RMB7,235,982,000.

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 2018: RMB470,075,000.

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 2018: RMB8,746,141,000.

6. Capital and reserves attributable to equity holders at 30 September 2018: RMB5,574,299,000.

7. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year, divided by cost of sales and multiplied by 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, 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, 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 2018 amounted to RMB10,510,898,000, representing an increase of 18.4% as compared to that of 2017, with a higher year-on-year increment. The growth in revenue was mainly attributed to: (a) the rapid development of e-commerce channel in recent years and thus the contribution to revenue continued to increase and the growth rate is still significantly higher than other business channels despite a slower pace of growth; (b) benefited from the all-rounded enhancement of products, control over channels and operation capability, the market recognition of LI-NING brand and its products has improved, and the satisfactory performance of terminal sales results in double-digit growth in both sales revenue from direct operation and revenue generated by the franchised distributors; and (c) the Company focused its investment in the basketball and sports casual categories, both of which have achieved excellent performance; while kidswear also gained positive market response with a significant year-on-year increment.

Revenue breakdown by product category

	Year ended 31 December				
	2018		2017		
	RMB'000	**% of total revenue**	*RMB'000*	% of total revenue	**Revenue Change (%)**
Footwear	**4,601,262**	**43.8**	4,159,221	46.9	**10.6**
Apparel	**5,316,033**	**50.6**	4,191,427	47.2	**26.8**
Equipment and accessories	**593,603**	**5.6**	523,264	5.9	**13.4**
Total	**10,510,898**	**100.0**	8,873,912	100.0	**18.4**

Revenue breakdown (in %) by sales channel

	Year ended 31 December		
	2018	2017	
	% of revenue	% of revenue	**Change (%)**
PRC market			
Sales to franchised distributors	**46.7**	47.8	**(1.1)**
Sales from direct operation	**29.8**	30.7	**(0.9)**
Sales from e-commerce channel	**21.1**	18.8	**2.3**
International markets	**2.4**	2.7	**(0.3)**
Total	**100.0**	100.0	

Revenue breakdown by geographical location

		Year ended 31 December				
		2018		2017		
	Note	**RMB'000**	**% of revenue**	RMB'000	% of revenue	**Revenue change (%)**
PRC market						
Northern region	*2*	**4,819,070**	**45.8**	4,532,328	51.1	**6.3**
Southern region	*3*	**4,181,177**	**39.8**	3,174,518	35.8	**31.7**
South China region	*4*	**1,261,989**	**12.0**	927,180	10.4	**36.1**
International markets		**248,662**	**2.4**	239,886	2.7	**3.7**
Total		**10,510,898**	**100.0**	8,873,912	100.0	**18.4**

Notes:

1. In 2018, the Group restructured and adjusted its sales system and related organizational structure to re-classify the original Southern region into two sub-regions, namely Southern region and South China region. The purpose of this was to cater to the changes in consumers' demand and the business environment, thereby facilitating strategy optimization as well as innovation and modification of operation model in a more precise manner. Comparative figures have also been restated for consistent presentation purpose.

2. The Northern region includes provinces, municipalities 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.

3. The Southern region includes provinces, municipalities and autonomous regions covering Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing, Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei and Anhui.

4. The South China region includes provinces and autonomous regions covering Guangdong, Guangxi, Fujian and Hainan.

Cost of Sales and Gross Profit

For the year ended 31 December 2018, the overall cost of sales of the Group amounted to RMB5,458,124,000 (2017: RMB4,697,429,000), and the overall gross profit margin was 48.1% (2017: 47.1%). During the year, the proportion of higher-margin e-commerce channel business increased continuously; and there was better sales discount in self-operated channel and an increase in the proportion of sales of new products; moreover, the tag-cost-ratio also improved (partially due to the increase of tag price). The aforesaid factors contributed to the increase of 1.0 percentage point in gross profit margin compared to last year.

Distribution Expenses

For the year ended 31 December 2018, the Group's overall distribution expenses amounted to RMB3,708,446,000 (2017: RMB3,273,375,000), accounting for 35.3% (2017: 36.9%) of the Group's total revenue.

The percentage of distribution expenses to revenue dropped significantly by 1.6 percentage point during the year, which is benefited from the Group's further effective control over advertising and marketing expenses and the decrease in the percentage of certain fixed expenses to revenue as a result of business growth. However, distribution expenses increased as compared to last year, which is mainly attributable to: (1) along with the development of the Group's business, both expenses that directly related to sales, as logistics expenses, variable rentals and commission and license fees that are linked to part of the income of particular products have all increased in accordance with the growth in revenue; (2) in order to optimize user experience, the Group has focused on launching large-scale stores with brand influence and experience functions during its channel layout to improve the user experience, in which results in the increase of the relevant staff costs and corresponding depreciation on the asset investment of points of sales ("POSs"); and (3) during the year, the Group tried new forms of promotion, such as participating in New York and Paris Fashion Week, and increased relevant online promotion expenses, all of which have received positive feedbacks from the public.

Administrative Expenses

For the year ended 31 December 2018, the Group's overall administrative expenses amounted to RMB679,873,000 (2017: RMB512,051,000), accounting for 6.5% (2017: 5.8%) of the Group's total revenue with a year-on-year increase of 0.7 percentage point. Administrative expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes and other miscellaneous daily expenses.

During the year, the Group recorded substantial increase in labor costs, which is mainly attributable to the Group's dedication to enhancing product competitiveness and improving supply chain management. Since the second half of last year, the Group has successively employed various experts in related field and provided incentives to personnel from key positions at the end of last year. Consequently, the Group's administrative expenses and its percentage to revenue increased year-on-year.

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

For the year ended 31 December 2018, the Group's EBITDA amounted to RMB1,252,222,000 (2017:RMB889,271,000), representing a year-on-year increase of 40.8%. This was mainly attributable to the increase in revenue and gross profit margin, control over expense ratio and growth in interest income from wealth management products.

Finance Income

For the year ended 31 December 2018, the Group's net finance income amounted to RMB9,511,000 (2017:RMB18,040,000), accounting for 0.1% (2017: 0.2%) of the Group's total revenue. The decrease in net finance income was mainly due to the investment in wealth management products with floating interest rate by the Group, and its income was classified as other income and other gains instead of bank deposit interest income during the year. For the year ended 31 December 2017, the net interest impact of convertible bonds was an income amounting to RMB6,986,000.

Income Tax Expense

For the year ended 31 December 2018, the income tax expense of the Group amounted to RMB135,058,000 (2017: RMB22,369,000) and the effective tax rate was 15.9% (2017: 4.2%). The effective tax rate remained at a lower level, which was attributable to the utilisation of previously unrecognised tax losses of some subsidiaries of the Group from prior years, and recognition of certain deferred income tax assets during the year.

Overall Profitability Indicators

The sales revenue and gross profit margin of the Group were both improved, while expense ratio decreased and other income and other gains increased during the year, thus the overall profitability indicators of the Group for the year ended 31 December 2018 improved substantially. During the year, the Group's profit attributable to equity holders amounted to RMB715,263,000 (2017: RMB515,155,000), representing a year-on-year increase of 38.8%; the margin of profit attributable to equity holders was 6.8% (2017: 5.8%); and the return on equity attributable to equity holders was 13.1% (2017: 11.4%).

Provision for Inventories

The Group's policy in respect of provision for inventories for 2018 was the same as that in 2017. Inventories of the Group 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 2018, the accumulated provision for inventories was RMB124,639,000 (31 December 2017: RMB130,352,000). During the year, despite the increase in gross value of inventories, the growth rate was lower than that of the revenue, coupled with the improvement of inventory ageing structure, the balance of provision for inventories has decreased.

Provision for Doubtful Debts

The Group adjusted the policy in respect of provision of doubtful debts for 2018 under requirements of IFRS 9 effective since 1 January 2018. The provision of doubtful debts was recorded at an amount equal to the lifetime expected credit losses of the trade receivables that do not contain a significant financing component, and 12 months expected credit losses or lifetime expected credit losses of other receivables, depending on whether there has been a significant increase in credit risk since initial recognition.

As at 31 December 2018, the accumulated provision for doubtful debts was RMB288,444,000 (31 December 2017: RMB401,845,000), among which the accumulated provision for doubtful debts of trade receivables was RMB284,393,000 (31 December 2017: RMB401,845,000) and the accumulated provision for doubtful debts of other receivables was RMB4,051,000 (31 December 2017: nil). The trade receivables written off during the year as uncollectible amounted to RMB95,225,000 (2017: RMB1,307,000). Meanwhile, as the operating conditions of our channel distributors improved continuously, a portion of provision for doubtful debts of trade receivables was reversed.

Liquidity and Financial Resource

The Group's net cash from operating activities for the year ended 31 December 2018 amounted to RMB1,671,869,000 (2017: RMB1,159,143,000). As at 31 December 2018, 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 RMB3,671,542,000, representing a net increase of RMB1,142,320,000 as compared with the position as at 31 December 2017. The increase was due to the following items:

Item	**Year ended 31 December 2018** *RMB'000*
Operating activities:	
Net cash from operating activities	1,671,869
Investing activities:	
Net capital expenditure	(596,912)
Dividends received	51,452
Interest received	61,588
Loan repayment from a joint venture	11,085
Payment for investment in associates and joint ventures	(10,150)
Financing activities:	
Net cash used in financing activities	(65,643)
Add: Exchange gains on cash and cash equivalents	19,031
Net increase in cash and cash equivalents	**1,142,320**

As the Group's cash flow from operating activities improved significantly year-on-year and reasonable investment arrangement has been made simultaneously, the use and operation of funds of the Group become more reasonable and efficient.

As at 31 December 2018, the Group's banking facilities amounted to RMB1,065,000,000, without outstanding borrowings.

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 certain 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, sponsorship fees and consultation fees in United States Dollars or Euros.

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

Pledge of Assets

As at 31 December 2018 and 31 December 2017, the Group had no pledged assets.

Contingent Liabilities

As at 31 December 2018, the Group had no significant contingent liabilities.

BUSINESS REVIEW

In recent years, against the backdrop of supportive government policies and steady improvement of the national economy, the domestic sports market has expanded continuously and entered into a stage of rapid development. Meanwhile, the enhanced national consumption structure has promoted sports consumption upgrade, resulting in more refined and sophisticated sports consumption demand and increasing attention to and demand for more professional, high-quality and innovative products. Catering to the increasingly personalized and refined consumption demand, during the year, we continued to focus on creating and enhancing LI-NING's experience value. We have enhanced the communication and interactive experience with consumers through digitalization whilst accurately capitalizing on the hot topics to attract more young consumers and enhance the brand recognition among consumers. During the year, key operational indicators of the Group have been optimized continuously, the Group's revenue has maintained steady growth and the Group's profitability has been improved continuously.

During the year, we supported and deepened LI-NING's experience value in full swing with products, channels and retail capability, and supply chain management as our main business focuses. In terms of products, we continued to highlight the professional sports attributes, at the same time placing more emphasis on sports research and investment in research and development as well as design of professional products, thereby constantly launching new products for athletes and sports enthusiasts. Meanwhile, strong creativity enabled us to achieve breakthrough from traditional model and closely integrate professional sports with fashion trends and creative culture, hence providing more consumption choices and more accurate consumption experience for consumers. During the year, we further expanded our consumer groups and enhanced our brand and product competitiveness through our debut at international fashion weeks and cross-sector crossover collaborations. In terms of sales channels, we actively optimized our structure of sales channels with a focus on diversified development and continued to implement the strategy of stores with high efficiency, so that to enhance the efficiency of various sales channels. In terms of retail operation, we continued to optimize the retail operation platform, aiming to improve the retail operation standards of stores and hence improve the retail efficiency of stores. During the year, the overall retail sell-through registered a mid-teens growth.

Latest trade fair orders and operational update

In terms of tag price, trade fair orders for LI-NING brand products (excluding LI-NING YOUNG) from franchised distributors, which from the latest trade fair held in December 2018 for the third quarter of 2019 registered a low-teens growth on a year-on-year basis.

For the fourth quarter ended 31 December 2018, in respect of LI-NING 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 mid-teens growth on a year-on-year basis. In terms of channels, both retail (direct operation) and wholesale (franchised distributors) channels registered a mid-single-digit growth, while the e-commerce virtual stores business registered a mid-fifties growth on a year-on-year basis.

For the fourth quarter ended 31 December 2018, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform increased by high-teens on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a low-teens growth, with retail channel increased by high-single digit and wholesale channel increased by low-teens, while the e-commerce virtual stores business registered a mid-fifties growth.

As at 31 December 2018, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 6,344, representing a net decrease of 1 POS since the end of previous quarter and a net increase of 82 POS since the beginning of this year. Among the net increase of 82 POS, direct retail accounts for a net decrease of 35 POS, and wholesale accounts for a net increase of 117 POS.

As at 31 December 2018, the total number of LI-NING YOUNG POS in China amounted to 793, representing a net increase of 116 POS since the end of previous quarter and a net increase of 620 POS since the beginning of this year (took over 361 POS from distributors of the third party on 1 January 2018).

Implementing the strategy of "Single Brand, Multi-categories, Diversified Channels" to optimize retail business model

Further integrating professional performance of products with fashion culture to comprehensively raise product competitiveness

In 2018, in order to further enhance the brand and product competitiveness, we continued to focus on our core categories, namely basketball, running, training, badminton and sports casual. We set professionalism and functionalism as the foundation, and emphasized on the brand's feature of professional sports, while constantly go beyond convention and explore the room for integration of sports with fashion, entertainment and leisure in our various products based on its differentiated features, in order to create more advanced product experience.

For professional products, we continued to improve the knowledge and research of sports science during the year and further enhanced the exploration and application of new technology and materials. With the application of such knowledge to our product design, we offered exclusive and highly professional experience to sports players in tandem with the more customized products to fit the sports demand, thereby enhancing product competitiveness as well as LI-NING brand's competitiveness with more contribution and engagement in mainstream mass sports in China.

– During the year, we introduced a new generation of "Yushuai XII" (馭帥XII) products under the top basketball series. The shoe face uses a soft and comfortable seamless weaving material, while the shoe soles perfectly integrates LI-NING Cloud technology with DRIVE FOMA shock-absorbing technology to fully upgrade the sports and wearing experience of the products. We also launched limited colour editions under three themes, namely "Dunhuang" (敦煌), "Gambling City" (賭城) and "City of Roses" (玫瑰之城). These products closely integrate their stories with event marketing, which have received positive feedbacks from domestic and overseas basketball shoe lovers.

– Professional basketball uniforms were frequently exposed throughout the CBA League, while professional and functional basketball products were created based on regional characteristics. We have developed "metal wire" fabric, which is anti-bacterial and breathable, according to the characteristics of basketball games and adopted such material in the equipment of CBA team so as to provide the athletes with more professional sport wearing experience. Moreover, we launched the "Champion Edition" (冠軍版) competition uniforms, which not only provided professional products for the players but also contributed to the building of basketball spirit of China.

– “Super Light 15th” (超輕十五代) running shoes are inspired by the story of “Fish-turned Dragon” (魚化龍). The product adopted super light flat knit shoe face technology, which is lighter than the traditional seamless weaving shoe face and more breathable. Meanwhile, cordula fiber with ultra-high intensity was added to the soft weaving shoe face to enhance strength and tightness. The lite midsole of LI-NING Cloud combined light materials with shock-absorbing functions, which foster a better feeling of well-fitting footwear.

– In terms of training gears, we focused on functional sports and continued to promote the innovation of technological platforms. We categorised sport environments and offered exclusive products to consumers that cater to different sport environments so as to improve their product experience. The “Dynamic Technology” (隨動科技) series was equipped with two-way mobile zipper to provide a wider vision to the wearers, thereby increasing its safety and practicality for outdoor activities. The professional compression garments under “POWER SHELL” series provides precise and proper compression for the easily fatigue part of prime mover muscles to support the active movement of the prime mover muscles and mitigate exercise fatigue. The “Quick-warming Velvet” (速暖絨) adopted superfine fabric and jacquard craft. With fluffy and soft surface, it effectively captured more air to keep the body warm.

– In respect of badminton shoes, with the experience accumulated from previous products, together with the market response and fashion trend, we have created the new lightweight and all-rounded product named “Ambush” (突襲). The product adopted a short/medium length socking structure and combined the technology of mono yarn with seamless weaving. All functional areas are hidden inside, which has ensured that the product is equipped with all functions while keeping the appearance simple and easy for matching, at the same time effectively reducing the weight of the shoes. “DRIVE FOAM”, a new technology platform, was adopted for the sole, which has effectively enhanced the kick-off ability of the fore part and the shock-absorbing and rebounding ability of the heel. “Ambush” (突襲) has been well-received by and gained a good reputation among consumers since its launch in the market.

– In the second half of the year, LI-NING badminton apparel products adopted seamless 3D cutting and put the perfect fitting technique into extensive use to minimize the friction of apparel. Together with the undercut design on the collar, exclusive functional area for sweat drying, and fabric with moisture-absorption ability used exclusively for the national team, the products are more breathable and less sticky to the body. The products have adopted the technology of moisture-absorption, fast drying, anti-bacterial and anti-odour, as well as anti-static to ensure excellent wearing experience on different occasions.

In addition to developing professional products, we reflected and proactively sought ways to enable our professional products to be more closely linked with cultural life by capturing the fashion trend and market movement. During the year, we continued to cooperate with sports stars and integrated elements of their personality and lifestyle into our product, which are popular among fans and sports enthusiasts. Meanwhile, we kept up with the trends amongst young consumers and attracted more attention from young consumers and increased our brand competitiveness by launching hot sale items such as products for Fashion Week shows and cross-over collaboration.

– In respect of basketball culture footwear¸ riding on the exposure during New York Fashion Week, the “Essence” (悟道) series has become a hot item in the basketball footwear market and achieved a huge success. With its daring product innovation and breakthroughs, the “Essence” (悟道) series accurately captured the consumer demand for fashionable and cultural products and recorded phenomenal performance as products under domestic brands.

– As the high-end product series of LI-NING basketball, the WADE series focused on high quality, simple functions and fans culture. This product style has received high recognition from the general consumers. “BADFIVE” apparel products continued to focus on the pragmatism of street basketball in China. We provided a diversified street chic style for consumers through the creation of unique China street basketball apparel which incorporates Chinese culture, street fashion and basketball attitude.

– Inspired by “Furious Rider 4th” (烈駿4代), “Furious Rider Ace” (烈駿ACE) is a new interpretation of professional running shoes. Taking together with the current fashion trend in the market, the product integrated functions with fashion, classic and trendy elements, and added new vitality to traditional professional running shoes. The groundbreaking debut of this sturdy steed with its brand new look has attracted great attention in Paris Fashion Week and the market, ushering LI-NING professional running shoes into a new design era.

– After the debut in two Fashion Weeks, the clunky sneaker with the unique brand story of LI-NING has been gaining popularity gradually and become one of the most preferred personality labels among young fashionistas. Hot items were launched frequently under different themes and various cross-over series such as “Butterfly” (蝴蝶), “Aurora” (極光), “001 R-I” (001啓程). The eye-catching visionary effect was well-liked by trend-setting people, demonstrating the successful integration of the DNA of LI-NING brand and classic shoes styles in the history.

– By launching collaborative products such as cross-over with Disney, “BMW X2”, “XLARGE” and “EDG”, we have further increased our popularity among young consumers and enriched our product lines. In particular, the collaboration with “EDG” was the first e-sports cross-over product since LI-NING brand officially entered into the e-sports sector. The series not only helped to attract more young consumers, but also activated the potential consumption power of customers in the e-sports sector.

Allocating marketing resources in multiple categories to create comprehensive value experience

During the year, our strategy of resources investment remained focused on the five major categories, including basketball, running, training, badminton and sports casual. We adhered to more precisely-oriented consumer demand and allocated both sports and fashion resources to different areas based on category features. Our marketing coverage has been expanded to multiple levels from professional events to grassroots leagues. Meanwhile, by accurately capturing the fashion trends and the use of digital marketing, we have established strong recognition and resonation among consumers. We have also utilized innovative and diversified approaches to explore new consumer groups while further reinforcing the brand recognition of existing consumers, thereby consolidating our brand image and enhancing our brand competitiveness in all domains.

– LI-NING basketball continued to integrate resources from professional events, such as CBA, and players. During the year, CBA underwent a competition system reform, which has helped LI-NING brand and its products to gain more exposure. On the NBA front, LI-NING brand successfully renewed the contracts with Wade and his brand, which is the first brand in China to establish a life-long collaboration with a NBA star. We have also launched “Way of Wade 7” during Wade’s China trip in July and aroused much market attention. Moreover, we joined hands with C.J. McCollum, a star player from Portland Trail Blazers, to carry out sales activities for basketball footwear in Las Vegas and Portland, drawing massive attention from domestic and international consumers on LI-NING brand and its products. Meanwhile, LI-NING basketball continued to organize “3+1” street basketball league. The event represented the personality, culture and attitude of the basketball community, hence 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.

– In respect of LI-NING basketball marketing, we carried out integrated marketing for footwear and apparel under Way of Wade series, which has aroused resonation with basketball fans and gained high recognition from the market. Many of these integrated footwear and apparel products, such as "Announcement" (宣告), "Sleepless" (無眠) and "Dragon Boat" (端午), were in short supply as they have successfully attracted sneakerhead, who obsessed in basketball footwear culture, and have therefore generated revenue and enhanced the brand value. Furthermore, we collaborated with intellectual properties ("**IPs**") including "Chinese Culture", "GAI (the Great Wall)", regional culture "Shao Bu Ru Chuan" (少不入川), "VICE Youth Cultural Community" (VICE青年文化社區) and our products were launched in trendy freestanding boutiques, which has aroused heated discussion among young consumers. Our products also debuted under the theme of "Essence" (悟道) and "China LI-NING" (中國李寧) in New York Fashion Week and Paris Fashion Week, further expanding our presence among young consumer groups.

– Since the debut of top-notch professional running shoes products named "Wind Chaser" (追風) and "Battle Axe" (戰斧) at Wuxi Marathon, LI-NING brand has started to establish the matrix for professional running shoe products. In the second half of 2018, LI-NING signed up with and sponsored various top marathon events, including Hangzhou International Marathon, Beijing Women's Half Marathon and Zhuhai Hengqin Marathon. Through these professional sports events and product experience, we have built up our reputation in the industry and encouraged more runners to affirm LI-NING brand's status as premium running products. Meanwhile, we have opened up our premium sports resources reserve and sponsored professional gears for around 100 top marathon runners. We have sponsored a total of 15 marathon champions during the year, turning a new chapter of LI-NING professional running products and enhancing the professional image and influence of LI-NING running products.

– After tapping into the e-sports sector, we joined hands with "EDG" and launched the cross-over "Bullet Screen" (彈幕) running shoes titled "V8 EDG". The designers adopted a unique and colorful approach to pay tribute to the fascinating history of the e-sports giants, which also signified a positive outlook for the new game season. The content of the "Bullet Screen" (彈幕) on the shoes was designed to communicate with e-sports fans by using their humorous e-sports jargons. The in-depth knowledge about the fans' language and culture would create strong resonation with the team fans. Meanwhile, the fans may DIY the "Bullet Screen" (彈幕) on their shoes anytime as they wish according to their personal preference. The collaboration with the e-sports sector has enabled closer communication between LI-NING brand and the young generation, at the same time arousing great attention in the e-sports sector.

– In respect of badminton resources, LI-NING brand continued to work diligently towards the goal of internationalization with focuses on sports marketing and product endorsement and tournaments as the key marketing platform, thereby realizing high-frequency and high-quality exposure of products. During the year, we launched products as planned and pushed forward the communication and replacement of customised player products. We have also launched promotional campaigns for potential champion players in Tokyo Olympics so as to gain multiple exposure for key products, such as Dragon Wing Blade 900 (諶龍風刃 900), Shi Yuqi Blast 9000 (石宇奇風動9000), Zheng Siwei Blast 9000C (鄭思維風動9000C), Huang Yaqiong Blast 7000I (黃雅瓊風動7000I) and Li Junhui Blast 9000D (李俊慧風動9000D). These potential players were also our focus when we generate creative output, create hot topics online and carry out offline campaigns with an aim to reaching out to more audience and getting well prepared for Tokyo Olympics. Furthermore, as a ten-year sponsor for national team and champions, LI-NING brand has created pop-up stores as showrooms at Sudirman Cup tournaments, Fuzhou China Open, Guangzhou Finals. Combined with online promotion, these pop-up stores integrated showroom illustration, awards review and onsite product sales under a unified brand image, which has become hot topics in town.

– During the year, we have achieved more effective communication with young consumers through the incorporation of entertainment elements. We explored the fan economy with the product endorsements of showbiz artists and key opinion leaders (KOL), which in turn effectively explored more potential customers. By making our brand more fashionable, we provided existing users with more fashionable product choices. With the influence of the Fashion Weeks, the scope of our cooperative artists has expanded rapidly. Famous artists such as Jolin Tsai (蔡依林), Vic Chou (周渝民), Huang Jingyu (黃景瑜), Joe Chen (陳喬恩), Angela Chang (張韶涵), Qi Wei (戚薇), Li Chen (李晨), Wei Daxun (魏大勛), Timmy Xu (許魏洲), Qin Lan (秦嵐) and Wu Jinyan (吳謹言) wore our products during shooting or their daily lives. Our products also received positive feedbacks from cooperative media, artists and fans. The model of collaboration has become more diversified. We have increased the exposure of our products and expanded the potential consumer groups by means of print advertisement, snapshot of celebrities in their personal street fashion, collaboration with variety shows and styling for celebrity activities, etc.. Meanwhile, we have enhanced the brand's popularity among target consumer groups through the influence of the huge fans base of young celebrities.

– We strived to make our brand more fashionable and trendy via cross-over collaboration, through which we have boosted the product sales by leveraging the influence of the cooperative brand(s) and our own brand. We also cooperated with Disney IP to launch crossover products under different themes. Moreover, we integrated online and offline marketing to explore more potential consumers via the IPs. We joined hands with "XLARGE" and worked with the film crews from Japan to create Japanese street fashion catalogue and video that cater to the current fashion culture, which will be used for dissemination online. Meanwhile, we organised sales activities for limited edition at the pop-up store in Sanlitun during the National Day holiday to promote this cross-over collaboration. We also cooperated with various trendy and fashion media, as well as popular KOL in the fashion industry to form a media matrix to formulate long term and systematic media plan for cross-over collaborative products and offline pop-up activities in a comprehensive manner.

Seeking diversified sales channels development

In 2018, the Company actively optimized the structure of sales channels and improved their efficiency. It has strengthened the sales network coverage by continuing the closure of loss-making stores and reform of inefficient stores, at the same time opening and renovating stores with high efficiency and profitability. During the year, with the debut of LI-NING's product at New York and Paris Fashion Week, LI NING brand leads the national fashion trend by taking advantage of the product innovation and brand transformation. Meanwhile, catering to young customers who are more sensitive to high-end fashion trends, the Company launched China LI-NING store channel in China, which was a phenomenal event in the industry. Furthermore, in order to better operate in the southern market, the Company has developed a precise and swift operation model for the southern China market and established the Southern China region.

As at 31 December 2018, the number of conventional stores, flagship stores, China LI-NING stores, factory outlets and discount stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 7,137 (LI-NING YOUNG took over 361 stores from distributors of the third party on 1 January 2018), representing a net increase of 702 POS as compared to 31 December 2017. The number of distributors was 46 (including sales channels of China LI-NING stores), representing a net increase of 14 as compared to 31 December 2017. The number of POS breakdown as at 31 December 2018 is as follows:

LI-NING Core Brand	**31 December 2018**	31 December 2017	**Change**
Franchised	**4,838**	4,721	2.5%
Directly-operated retail	**1,506**	1,541	-2.3%
LI-NING YOUNG*	**793**	173	358.4%
Total	**7,137**	6,435	10.9%

* *LI-NING YOUNG took over 361 stores from distributors of the third party on 1 January 2018.*

Number of LI-NING Brand POS by geographical location

	31 December 2018			31 December 2017			
Regions	**LI-NING Core Brand**	**LI-NING YOUNG**	**Total**	LI-NING Core Brand	LI-NING YOUNG	Total	**Change**
Northern Region *(Note 1)*	**3,269**	**549**	**3,818**	3,110	110	3,220	18.6%
Southern Region *(Note 2)*	**2,351**	**212**	**2,563**	2,396	52	2,448	4.7%
Southern China Region *(Note 3)*	**724**	**32**	**756**	756	11	767	-1.4%
Total	**6,344**	**793**	**7,137**	6,262	173	6,435	10.9%

Notes:

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

2 The Southern region includes provinces, municipalities and autonomous regions covering Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi, Hubei, Hunan, Chongqing, Sichuan, Yunnan, Guizhou and Tibet;

3 The Southern China region includes provinces and autonomous regions covering Guangdong, Guangxi, Fujian and Hainan.

Enhancing Retail Capability and Improving Efficiency of Sales Channels

In 2018, the Company has continued to focus on enhancing its retail operation management capability and improving retail efficiency of stores.

– During the year, we further deepened the transformation of product planning and operation. We have formulated differentiated product planning and assortment according to regional characteristics, and strengthened differentiated product supply for segmented markets such as regions with extremely cold or extremely warm climate as well as high-end and low-end markets with a view to satisfying the demand with regional characteristics in terms of material, style, design and pricing. We continued to deepen the single store order management by establishing standardized single store order management tools that cater to the demand of store consumers. We have established a project team for quick response products, which enables the Company to rapidly create popular products through their market insights. We have also established a rolling replenishment platform for stores with long life cycle based on popular products. By calculating the demand forecast and flexibility of the supply chain, we have extended the continuous selling cycle and increased the total sales volume of popular products, and realised replenishment of popular products.

– In respect of store display, the Company promoted and demonstrated the professional and functional features of its basketball, running and training products through promotional materials and campaigns with stronger sense of technology. In the fashion zone at store, we showcased our product with story-packs under the theme of New York Fashion Week and Paris Fashion Week, which has enhanced the shopping experience of our fashionable products. During the year, the Company continued to innovate the matrix of the store image. "China LI-NING Stores" were launched with a brand new image upon research and development. These stores were mainly located in high-end business districts in metropolises to second-tier cities with a view to attracting young and trendy consumer groups.

– We have upgraded the retail operation standards of stores in accordance with the store type and features of consumer profile in various business districts, so as to improve the experience of consumers. As for major stores, such as flagship stores and benchmarking stores, dedicated project teams were established for management with a view to improving and enhancing the operation of such stores. Moreover, optimizing the standard and procedure of sales services has also been a continuous focus of the Company. We have launched the "China LI-NING Service +" project with an aim to improving the terminal services by providing training in all stores. The upgrade and application of the store management system has improved our store management on a continuous basis, and facilitated the accomplishment of standardised store operation.

– In 2018, the Company accelerated the development of its membership business and established an operational value chain with "membership" as the core, hence both number of members and their sales contribution have increased. During the year, we further integrated online and offline omni-channel membership system and established multi-channel portals for stores, WeChat, official website and Taobao and integrated the relevant data. We also gained insight into consumption characteristics through data collected from multiple channels, thereby realising accurate analysis and marketing and all-rounded member profiles. This multi-dimensional analysis will provide a basis for marketing decision when making recommendations for guided shopping. Looking forward, the Company will continue to put great efforts in building the one-stop membership service platform to enhance the loyalty and engagement of members, as well as enrich member activities and enhance member satisfaction through point malls and offline experience activities.

In 2018, various retail indicators of the Company's sales channels including the overall sell-through growth, new product sales mix, the same store sales growth and sales per transaction continued to increase; inventory turnover has improved significantly.

Application of big data to achieve synergy between online and offline operation and enhance brand competitiveness

In 2018, the e-commerce of Li Ning Company continued to record steady growth in terms of revenue and profitability.

– During the year, the e-commerce of Li Ning Company continued to invest resources in content marketing and event marketing. At the beginning of the year, the e-commerce of Li Ning Company successfully organised a China LI-NING project during New York Fashion Week in collaboration with Tmall. The project not only provided a new interpretation for the Chinese fashion culture, but also attained remarkable business returns and recognition from consumers, thereby laying a solid foundation for outstanding market performance of China LI-NING in subsequent periods. Meanwhile, the e-commerce of Li Ning Company continued to step up its efforts in aspects such as visual presentation, marketing and store experience, which has greatly enhanced the visual presentation and store experience of different products targeting various user groups. For marketing campaigns, the Company has achieved satisfactory results from Tmall Day under the theme of "China Fresh Youth" (中國新"輕"年) and the Single's Day.

– The e-commerce of Li Ning Company continued to improve and develop the relevant data operating systems for its digital operation and the development of a data model for commodity flow management has started to bear fruits. For supply chain, the Group has established a separate footwear supply center for new businesses with a view to redeveloping the supply chain system of the e-commerce platform in response to the accelerated development of e-commerce business.

– In 2018, the e-commerce of Li Ning Company made its preliminary attempt in the independent product line and developed the "Counterflow-溯" series, a product line with specific offerings on the e-commerce platform and comprises middle- to high-priced sports footwear and apparel featuring both street fashion and Chinese culture elements. The Company made its operational decisions and built up the supply chain under the e-commerce data-based operation model, striving to develop the "Counterflow-溯" series into an independent product line with the richest cultural background and strongest story-telling capabilities in the industry.

– Looking forward, the e-commerce of Li Ning Company will continue to focus on developing its product line with specific offerings on the e-commerce platform. In addition, it will continue to devote great efforts in enhancing data operation and management, improving the store experience value and carrying forward its corporate culture with a view to building a professional team with both business capabilities and profitability.

Meanwhile, the Company also strenuously promoted coordinated sales efforts of online and offline operations through digitalization during the year, which has in turn enhanced the overall efficiency.

– In 2018, the Company refined and optimised the procedure regarding product launch planning for running, basketball, sports causal and other product lines in terminal stores. Through the integration of social media and store display, together with the communication and interactions with consumers for promotion of new products on the omni-channel platform both online and offline, the sales of the new products has increased. In the second half of the year, through launch of "NING SPACE" pop-up events in high-end business districts in cities such as Shenzhen, Beijing and Guangzhou, the Company interacted with young consumers who are sensitive to fashion trends by engaging customers from both online and offline and delivered excellent sales performance.

– The Company has strengthened cooperation with platforms such as Alibaba and Tencent. Taking advantage of e-commerce festivals such as 618 and the Single's Day, the Company has introduced an innovative integrated online and offline retail experience to interact with consumers, which greatly boosted its business growth. The Company also encouraged the application of innovative technology in payment method and brought the "Scan-to-Buy" function into use in terminal stores.

Looking ahead, we will continue to boost the efficiency and accuracy of online and offline businesses with the help of big data and the application of various digitalization tools. Meanwhile, we will be more open-minded in strengthening and enhancing cooperation with external resources. Our goal is to take brand operation and business development to the next level by means of digitalization.

Strengthening Construction of Logistics Supporting Capacity

In 2018, the Company continued to focus on enhancing its wholesale, retail and omni-channel logistics operation capabilities and customer service capabilities.

– The Company has established a precise and swift logistics supporting system, through which it has achieved direct delivery from the central warehouse to over 800 stores across China and rolling replenishment of evergreen products for over 1,500 stores across China on a weekly basis. By enhancing the synergy between the collection and delivery plan of goods, the Company has shortened the storage period of new products, improved the utilisation efficiency of inventory resources and accelerated its product turnover.

– The Company supported the rapid development of O2O business. Currently, all warehouses are equipped with operation capacity for B2B and B2C models, and are hence able to satisfy the sales demand online and offline simultaneously in various peak seasons and holidays. Meanwhile, we continued to improve the online and offline integrated operation model, and continued to enhance the omni-channel coverage of directly-operated retail system and wholesale network, thereby enhancing inventory utilization of the end products whilst better catering to consumers' demand, and thus created benefits for the Company.

– In 2018, on one hand, the Company continued to enhance the operational capacity and operational efficiency of each warehouse, continued to optimize operating costs and facilitate growth of the Company's results performance; on the other hand, the Company managed and controlled its logistics costs, rationalised the efficiency of resources input and utilisation, at the same time remaining highly sensitive to and embracing the wide array of changes in the logistics industry, so as to comprehensively plan, manage and utilize various emerging logistics resources in the society and constantly improve the service capabilities for both stores and consumers.

Enhancing the supply chain management centering on business needs

In 2018, in response to the changes arising from the shift to the retail business model, we implemented a "Demand-driven" (因需而動) supply model to continuously improve the responsiveness and elasticity of the supply chain. We developed a precise and swift business-oriented supply model to accurately capture market demand, rapidly develop new models, prepare raw materials with flexible production capacity, make detailed production plans and promptly settle payment for orders. In the meantime, we also identified suppliers who are capable of rapid replenishment and new product launch. By adopting new models such as production by stages and rolling replenishment of all-time popular products, the Company has reasonably lowered the proportion of trade fair orders and strengthened the rapid replenishment of existing stock of products/rapid development and production of popular products to meet consumer demand for the Company's popular products and explore business opportunities.

The Company continued to intensify its efforts in product innovation and research and development to improve the professional features and sports performance of its products. It has also strengthened the management of product quality with a focus on enhancing product workmanship and details and improving wearing comfortability to enhance wearing experience of products. Apart from establishing the supplier monitor department, the Company maintained the vitality of the supply chain through survival of the fittest and exploration of new suppliers. Meanwhile, it continued to tighten the requirements on labour, occupational health and environmental protection to ensure sustainable development.

To ensure rapid growth of new businesses, the Company has established a footwear supply center for new businesses to focus on e-commerce and kidswear business. During the year, the new supply center have developed and introduced premium suppliers and new factories to nurture and enhance our production capacity, and comprehensively enhance our production efficiency. We have also implemented stringent cost control measures, through which the delivery speed and quality management of product, research and development for product innovation and differentiation, as well as innovation of development models have been improved. Moreover, the delivery punctuality and quality management during the "Single's Day" have been improved to a certain extent.

In order to enhance its supply chain capabilities, the Company progressively consolidated upstream resources and tapped into the manufacturing sector. We have leased a footwear production plant in Nanning, Guangxi Province, with the aims of instilling core industrial capabilities to the Group over time and strengthening supply chain management and application of research and development knowhow.

NEW BUSINESS

LI-NING YOUNG

2018 is a year for business expansion and strengthening of refined management for LI-NING YOUNG, during which it has developed a retail business model with products satisfying consumer needs as the core aspect, driven by retail profitability and maintaining sound development. Furthermore, it has achieved steady development in aspects such as brand influence, product reputation and expansion of retail sales channels.

– For products, we continued to invest and drive product innovation in terms of themes and technological features. During the year, LI NING YOUNG successively launched various fashion trend-related products, including Fashion Week Parent-Child Model, BADFIVE Model, Disney Collaboration Model, thereby further enriched its product lines. Meanwhile, it focused on technological innovation and continued to launch seasonal products with technological features, such as single-way moisture diffusion fabric technology for summer, windproof and waterproof fabric technology for autumn, and ATworm thermal technology for winter. For footwear products, we continued to focus on high-end, fashion trend and product values, and have gained wide market recognition. At the same time, for functionality and comfortability of products, we successively introduced innovative shoe technology such as refit stretchable midsole and lite LI-NING Cloud, which has enhanced the professional feature of our products.

– For supply chains, we have established a footwear supply center for new businesses to re-rationalize and re-develop the supply chain system from the research, development and production perspectives, thereby significantly enhancing the quality and competitiveness of our footwear products and optimizing the smoothness of production process.

– For channel retailing, we continued to expedite the expansion of channel customers and stores, and consistently carried out works such as upgrade of store image, systemization of retail works, standardization of execution of retail sales, normalization of policies and procedures, etc.. Meanwhile, we have accelerated the expansion of online channels. During the year, we commenced strategic cooperation with JD.com for self-operated channels and opened a self-operated flagship store for LI-NING kidswear on JD.com. We have also established distribution channels with various We Media platform and created a popular sports shoe model for infant and children named "Little Bean Bun" (小豆包).

– For marketing, LI-NING YOUNG has gradually established its own digital marketing matrix including Weibo, WeChat and Douyin (抖音) official accounts. Meanwhile, leveraging various promotional channels such as KOL in maternity and childcare field, sportsman, celebrities, partners and others media, we have delivered real-time information on brand news and new product launch and interacted with our consumers with a view to enhancing customer loyalty. Apart from online promotion, LI-NING YOUNG also organized opening ceremonies, festival discounts and membership activities in key stores nationwide, thereby facilitating brand and product promotion through participation in events such as "Way of Wade Tour China" (韋德中國行), "Family Fun Run" (家庭趣跑節), "Hangzhou Marathon" (杭州馬拉松) and CBA cheer halftime performance.

As of 31 December 2018, LI-NING YOUNG business covered 30 provinces with a total of 793 stores. The competition for domestic kidswear market is still intense. Looking forward, we will continue to devote consistent efforts in channels, retail operations, and supply chains with products as the core aspect, aiming to form a closed-loop ecosystem from product planning to consumer purchase. We are confident that we will bring our business to a new level, laying a solid foundation for continuous business expansion and further enhancement of our profitability in the future.

DANSKIN Brand

In October 2016, Li Ning Company announced the cooperation with Danskin, a 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.

With the accumulation of experience in 2017, Danskin brand focused mainly on carrying out various market tests and attempts in terms of regional differentiation and channel diversification in 2018. As of 31 December 2018, it has opened 14 stores, which are mainly located in the first- and second-tier cities and adopted directly-operated retail model.

In terms of products, based on preliminary preparation, the brand focused on women sports products with attractive appearance. Meanwhile, it highlighted the professional sports attributes of the products and offered products with better styles and designs targeting women consumer groups. During the year, the brand optimized product design, research and development, completed another round of selection and matching of suppliers, thereby laying a solid foundation for the brand's development in the long run.

In 2019, Danskin brand will adopt a practical approach and regard enhancing single store profitability as the core of its development.

HUMAN RESOURCES

Based on its strategic focus, the Company continued to improve the organisation, incentive and talent management system in 2018, thereby developing the organisation capacity and talent team to support its strategic goal.

- Regarding organisational optimisation, the Company enlarged the authority delegated to employees at all levels by flattening the product, supply chain and sales organisation, aiming to improve the business operating efficiency.

- In terms of talent management, the Company continued to implement the retail and product talents development system, and allocated more human resources in design, product innovation, product research and development, retail management and new business development to strengthen employees' planning, design as well as research and development capacity.

- In terms of remuneration package, the Company continued to optimize the incentive mechanism for retail front and various business units and improve the assessment incentive model based on product categories. We also implemented long-term incentive schemes for our senior management team and core personnel and newly added various timely and short-term incentive measures so as to encourage employees to achieve excellent performance, 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 was awarded various employer brand awards such as the "2018 Best Practice Enterprise" (2018年度最佳實踐企業) and "Top 100 Best Employer in China" (中國最佳卓越雇主百強).

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 will 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 strategic goals of the Company.

As at 31 December 2018, the Group had 2,412 employees in total (30 June 2018: 2,256 employees), including 2,233 employees at the Group's headquarters and retail subsidiaries (30 June 2018: 2,074 employees), and 179 employees at the Group's other subsidiaries (30 June 2018: 182 employees).

OUTLOOK

Looking into 2019, we will continue to promote the strategy of "Single Brand, Multi-categories, Diversified Channels", strengthen and improve the following core business focuses, remain devoted to create LI-NING's experience value, and focus on enhancing efficiency in order to achieve healthy and sustainable profit growth for the Company in the future:

– In respect of products, we will continue to closely integrate professional sports with pop culture, so as to enhance our influence among consumers and further underpin our brand competitiveness. We will enhance the professional sports attributes with innovative technology by strengthening our research and development in relation to sports science. Meanwhile, we will incorporate the current fashionable elements with the creative DNA of the brand and continue to create popular products, further expand our consumer base and enhance interactive experience, thereby enhancing our brand recognition and loyalty and increasing our brand value;

– In terms of sales channels, we will continue to increase the efficiency of our sales channels, pursue diversified development and implement the strategy of stores with high efficiency. Meanwhile, with a view to refining the structure of sales channels, we will continue to close down and reform loss-making and inefficient stores;

– Continuous establishment and optimization of retail operation-supported platform will remain as one of our major tasks. We will constantly optimize the retail experience in stores, promote standardization of store operation, improve store management ability and optimize consumption experience in stores. Meanwhile, we will carry on our exploration of new retail businesses, and improve the online and offline integrated operation mode;

– We will continue to promote the development of digitalization strategy so as to further strengthen the comprehensive marketing layout. Capitalizing on the latest hot topics and trends, we will procure more business opportunities by flexibly conducting multi-channel marketing campaigns both online and offline;

– In respect of new business, on the basis of continuing to enhance single store profitability, we will 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.

In view of the frequent promulgation of reform policies regarding national consumption and the rising living standard of people, the upgrade of consumption structure in China will become a long-term trend. Along with the progress of optimization of consumption structure, the consumption demand of people will become more refined and diverse, which will bring forth more opportunities and challenges to the consumption industry. In order to align with such trend of the industry and create successful business opportunities amid the ever-changing market environment, we will continue to focus on our products to reinforce brand competitiveness and develop LI-NING's experience value, thereby unveiling more vitality and creativity for the Company's long-term growth. In the future, we will continue to devote main resources into gaining sports knowledge, technological research and development and development of LI-NING brand experience, as well as proactively explore and broaden room for business 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 2018. Except for the purchase of shares by the trustee of the Restricted Share Award Scheme of the Company pursuant to the trust deed and the rules of Restricted Share Award Scheme 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 2018, 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 ("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 2018, 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 2018 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 2018.

ANNUAL GENERAL MEETING

The AGM of the Company will be held at 11:00 am on Friday, 14 June 2019.

The notice of the AGM will be despatched to the shareholders together with the 2018 annual report of the Company on or around 11 April 2019 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 2019

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning 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.