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 2020

FINANCIAL HIGHLIGHTS

- Net profit attributable to equity holders increased by approximately 13.3% and the net profit margin raised from 10.8% to 11.7%;

- On a comparative basis (excluding the one-off profit and loss not related to operation for the corresponding period last year), the net profit attributable to equity holders increased by approximately 34.2% to RMB1,698 million, and the net profit margin raised from 9.1% to 11.7%.

- Notwithstanding the impact of novel coronavirus disease ("COVID-19") leading to a very challenging retail environment during most time of the year:
  - Revenue increased by approximately 4.2% to RMB14,457 million
  - Gross profit margin maintained flat to last year
  - The operating leverage has been enhanced continuously, while the operating profit margin has been driven to 15.2% and increased by 410 basis points
  - Operating cash flow decreased by 21.1%, yet still achieved positive amount of RMB2,763 million
  - Continued improvement in working capital:
    - ➢ Gross average working capital improved (reduced) by 11% while revenue increased by approximately 4.2%
    - ➢ Cash conversion cycle further improved (shortened) by 6 days (2019: 26 days/2020: 20 days)

- The Board has recommended payment of a final dividend of RMB20.46 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2020 (2019: RMB15.47 cents).

OPERATIONAL HIGHLIGHTS

- Continued operation improvement mitigated certain extent of the negative impact from the COVID-19.
- The retail sell-through for the overall platform recorded low-single-digit increase, including online and offline channels.
- Channel inventory recorded mid-single-digit increase, while Company inventory decreased mid-single-digit.
- Offline channel new product sell-through down low-single-digit driven by sales volume decline:
  – Average selling price (ASP) registered a mid-single-digit increase notwithstanding a very promotional retail environment
  – Sell-out rate: 6-month declined over 4 percentage points, 3-month declined approximately 1 percentage points

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 2020, together with comparative figures of 2019, as follows:

CONSOLIDATED BALANCE SHEET

	Note	**As at 31 December 2020** *RMB'000*	2019 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,065,058**	1,038,588
Right-of-use assets		**1,065,979**	981,422
Investment properties		**115,200**	119,278
Land use rights		**166,377**	72,233
Intangible assets		**190,746**	193,261
Deferred income tax assets		**590,635**	431,715
Other assets		**138,518**	83
Investments accounted for using the equity method		**1,101,116**	1,056,866
Other receivables		**128,714**	114,712
Bank deposits with the maturity over one year		**254,966**	–
Total non-current assets		**4,817,309**	4,008,158
Current assets			
Inventories	*4*	**1,345,539**	1,407,257
Other assets – current portion		**518,902**	443,406
Trade receivables	*5*	**658,796**	686,606
Other receivables – current portion		**65,196**	39,476
Restricted bank deposits		**1,084**	1,126
Cash and cash equivalents		**7,187,039**	5,961,445
Total current assets		**9,776,556**	8,539,316
Total assets		**14,593,865**	12,547,474

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**228,285**	214,300
Share premium		**4,037,767**	3,547,682
Shares held for Restricted Share Award Scheme		**(148,995)**	(276,664)
Other reserves		**874,574**	1,153,645
Retained earnings		**3,695,232**	2,482,676
		8,686,863	7,121,639
Non-controlling interests in equity		**2,554**	2,554
Total equity		**8,689,417**	7,124,193
LIABILITIES			
Non-current liabilities			
License fees payable		**23,395**	24,581
Derivative financial instruments		**10,181**	25,806
Lease liabilities		**688,642**	557,451
Deferred income tax liabilities		**102,738**	45,002
Deferred income		**64,435**	53,821
Total non-current liabilities		**889,391**	706,661
Current liabilities			
Trade payables	*6*	**1,227,129**	1,348,206
Contract liabilities		**286,134**	293,926
Lease liabilities – current portion		**360,895**	336,870
Other payables and accruals		**2,500,991**	2,173,658
License fees payable – current portion		**39,494**	31,349
Current income tax liabilities		**591,860**	530,635
Derivative financial instruments – current portion		**8,554**	1,976
Total current liabilities		**5,015,057**	4,716,620
Total liabilities		**5,904,448**	5,423,281
Total equity and liabilities		**14,593,865**	12,547,474

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2020 *RMB'000*	2019 *RMB'000*
Revenue	*3*	**14,456,971**	13,869,630
Cost of sales	*7*	**(7,362,627)**	(7,064,168)
Gross profit		**7,094,344**	6,805,462
Distribution expenses	*7*	**(4,424,718)**	(4,445,070)
Administrative expenses	*7*	**(805,058)**	(968,264)
(Provision for)/reversal of expected credit loss allowance for financial assets – net		**(30,466)**	12,258
Other income and other gains – net	*8*	**361,867**	138,823
Operating profit		**2,195,969**	1,543,209
Finance income	*9*	**34,658**	28,873
Finance expenses	*9*	**(66,249)**	(59,005)
Finance expenses – net	*9*	**(31,591)**	(30,132)
Share of profit of investments accounted for using the equity method		**83,487**	343,469
Profit before income tax		**2,247,865**	1,856,546
Income tax expense	*10*	**(549,381)**	(357,403)
Profit for the year		**1,698,484**	1,499,143
Profit is attributable to:			
Equity holders of the Company		**1,698,484**	1,499,139
Non-controlling interests		**–**	4
		1,698,484	1,499,143
Earnings per share attributable to equity holders of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share	*11*	**69.21**	61.94
Diluted earnings per share	*11*	**67.62**	60.13

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Profit for the year	**1,698,484**	1,499,143
Other comprehensive (loss)/income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(25,273)**	2,641
Total comprehensive income for the year	**1,673,211**	1,501,784
Attributable to:		
Equity holders of the Company	**1,673,211**	1,501,780
Non-controlling interests	**–**	4
	1,673,211	1,501,784

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 18 March 2021.

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 consolidated financial results 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 the year commencing 1 January 2020:

Amendments to IAS 1 and IAS 8	*Definition of Material*
Amendments to IFRS 3	*Definition of a Business*
Amendments to IFRS 7, IFRS 9 and IAS 39	*Interest Rate Benchmark Reform*
Revised Conceptual Framework for Financial Reporting	

The Group also elected to adopt the following amendments early:

Amendment to IFRS 16	*COVID-19-Related Rent Concessions*

The amendments stated above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future reporting periods, except for the amendment to IFRS 16 on COVID-19-Related Rent Concessions as set out in Note 2.2 below.

(d) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published but are not mandatory for 31 December 2020 reporting period and have not been early adopted by the Group. These standards are not 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

The Group has early adopted the amendment to IFRS 16 on COVID-19-Related Rent Concessions retrospectively from 1 January 2020. The amendment provides an optional practical expedient allowing lessees to elect not to assess whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if there were not lease modifications.The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease preceding the change;
- any reduction in lease payments affects only payments due before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

The Group has applied the practical expedient to all rent concessions that meet the above conditions in respect of all lease arrangements for which lease liabilities are recognised. Rent concessions totalling RMB35,615,000 have been recognised in profit or loss as negative variable lease payments with a corresponding adjustment to the lease liabilities. There is no impact on the opening balance of owners' equity at 1 January 2020.

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 results and allocate resources. Management has determined the operating segments based on these reports.

The Group was principally engaged in a single line of business of sporting goods and Management reviewed the performance of the Group as a whole, thus there was only one reportable segment and no segment information was presented.

(a) Disaggregation of revenue from contracts with customers

Revenue breakdown by product category is as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Footwear	**6,338,157**	6,085,402
Apparel	**7,365,173**	7,109,763
Equipment and accessories	**753,641**	674,465
Total	**14,456,971**	13,869,630

Geographical information of revenue

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
The PRC (including the Hong Kong Special Administrative Region and the Macau Special Administrative Region)	**14,237,428**	13,600,230
Other regions	**219,543**	269,400
Total	**14,456,971**	13,869,630

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 2020 and 2019, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

(b) Liabilities related to contracts with customers

	Year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Contract liabilities – advances from customers	**256,119**	263,030
Contract liabilities – customer loyalty programme	**30,015**	30,896
Total	**286,134**	293,926

The Group applied the practical expedient of not to disclose the transaction price allocated to the unsatisfied performance obligations as contract terms less than 12 months.

Revenue recognised in relation to contract liabilities

All of the Group's contract liabilities were recognised as revenue within 12 months upon recognition of the respective contract liabilities.

4. Inventories

	2020	2019
	RMB'000	*RMB'000*
Raw materials	**8,078**	7,087
Work in progress	**9,345**	5,930
Finished goods	**1,441,249**	1,526,927
	1,458,672	1,539,944
Less: provision for write-down of inventories to net realisable value	**(113,133)**	(132,687)
	1,345,539	1,407,257

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB7,131,928,000 for the year ended 31 December 2020 (31 December 2019: RMB6,842,827,000). 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 2020 and 2019.

5. Trade receivables

	2020	2019
	RMB'000	*RMB'000*
Accounts receivable	**939,233**	944,799
Less: expected credit loss allowance for trade receivables	**(280,437)**	(258,193)
	658,796	686,606

Customers are normally granted credit terms within 90 days. As at 31 December 2020 and 2019, ageing analysis of trade receivables based on invoice date is as follows:

	2020	2019
	RMB'000	*RMB'000*
0 – 30 days	**437,604**	431,286
31 – 60 days	**193,041**	211,047
61 – 90 days	**44,213**	40,096
91 – 180 days	**35,026**	41,497
Over 180 days	**229,349**	220,873
	939,233	944,799

The movement in the expected credit loss allowance for trade receivables is shown as follows:

	2020	2019
	RMB'000	*RMB'000*
Opening balance	**258,193**	284,393
Provision for/(reversal of) expected credit loss allowance for trade receivables	**31,856**	(17,529)
Trade receivables written off during the year as uncollectible and exchange rate impact	**(9,612)**	(8,671)
Closing balance	**280,437**	258,193

6. Trade payables

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

	2020	2019
	RMB'000	*RMB'000*
0 – 30 days	**967,798**	1,125,045
31 – 60 days	**241,063**	191,812
61 – 90 days	**9,253**	23,777
91 – 180 days	**3,048**	1,717
181 – 365 days	**1,374**	1,725
Over 365 days	**4,593**	4,130
	1,227,129	1,348,206

7. Expenses by nature

	2020	2019
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses and included in cost of sales	**7,131,928**	6,842,827
Depreciation on property, plant and equipment *(Note a)*	**533,902**	419,881
Amortisation of land use rights and intangible assets	**42,119**	40,666
Depreciation on right-of-use assets	**432,717**	360,424
Depreciation on investment properties	**4,078**	–
Impairment of goodwill	**–**	36,394
Impairment of intangible assets	**14,910**	–
Advertising and marketing expenses	**1,279,541**	1,327,013
Commission and trade fair related expenses	**351,864**	268,430
Staff costs, including directors' emoluments *(Note a)*	**1,311,123**	1,518,565
Short-term lease rentals and variable lease payments not included in lease liabilities and rental related expenses	**482,377**	628,125
Research and product development expenses *(Note a)*	**322,904**	362,494
Transportation and logistics expenses	**564,009**	497,343
Auditor's remuneration		
– Audit services	**5,660**	5,550
– Non-audit services	**2,224**	1,878
Management consulting expenses	**97,411**	107,443

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

	2020	2019
	RMB'000	*RMB'000*
Government grants	**229,684**	63,893
License fees income	**22,032**	10,202
Interest income from wealth management products measured at fair value through profit or loss	**108,905**	78,236
Fair value gains/(losses) on derivative financial instruments measured at fair value through profit or loss	**1,246**	(13,508)
	361,867	138,823

9. Finance income and expenses

	2020	2019
	RMB'000	*RMB'000*
Finance income		
Interest income on bank balances and deposits	**34,621**	24,655
Net foreign currency exchange gain	**37**	4,218
	34,658	28,873
Finance expenses		
Amortisation of discount – license fees payable	**(2,817)**	(3,197)
Amortisation of discount – lease liabilities	**(53,972)**	(45,400)
Others	**(9,460)**	(10,408)
	(66,249)	(59,005)
Finance expenses – net	**(31,591)**	(30,132)

10. Income tax expense

	2020	2019
	RMB'000	*RMB'000*
Current income tax		
– Corporate income tax *(Note b)*	**618,815**	539,088
– Withholding income tax on interest income and dividends from subsidiaries in the PRC *(Note c)*	**31,750**	711
	650,565	539,799
Deferred income tax	**(101,184)**	(182,396)
Income tax expense	**549,381**	357,403

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) For the year ended 31 December 2020, provision for the corporate income tax of Mainland China is calculated based on the statutory tax rate of 25% (2019: 25%) on the assessable income of each of the Group companies. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong (2019: 16.5%).

(c) This mainly arose from the dividends and interests due by the Company's subsidiaries in Mainland China to other group companies in Hong Kong during the years ended 31 December 2020 and 2019, which are subject to withholding tax at the rate of 5% and 7% respectively.

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 year. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company had completed the issuance of offer securities which included the issuance of both ordinary shares and convertible securities. The below market subscription price of these two events had effectively resulted in 286,000 ordinary shares (31 December 2019: 38,372,000 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 year ended 31 December 2020 for the purpose of basic earnings per share. The shares issued for nil consideration arising from the issuance of convertible securities have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2019.

	2020	2019
Profit attributable to equity holders of the Company *(RMB'000)*	**1,698,484**	1,499,139
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,454,086**	2,420,222
Basic earnings per share *(RMB cents)*	**69.21**	61.94

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 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.

	2020	2019
Profit attributable to equity holders of the Company, used to determine diluted earnings per share *(RMB'000)*	**1,698,484**	1,499,139
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,454,086**	2,420,222
Adjustment for the restricted shares *(in thousands)*	**20,632**	27,505
Adjustment for the share option schemes *(in thousands)*	**37,029**	45,279
Deemed weighted average number of shares for diluted earnings per share *(in thousands)*	**2,511,747**	2,493,006
Diluted earnings per share *(RMB cents)*	**67.62**	60.13

Note:

As at 31 December 2020, there were no share options that could potentially have a dilutive impact in the future but were anti-dilutive during the year ended 31 December 2020. As at 31 December 2019, there were 4,356,000 share options that could potentially have a dilutive impact in the future but were antidilutive during the year ended 31 December 2019.

12. Dividends

	2020	2019
	RMB'000	*RMB'000*
Proposed final dividend of RMB20.46 cents (2019: RMB15.47 cents) per ordinary share	**509,545**	379,682

On 18 March 2021, the Board proposed a final dividend of RMB20.46 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2020.

The proposed dividend is not reflected as a dividend payable in the consolidated financial results, but will be reflected as an appropriation of distributable reserves for the year ending 31 December 2021.

13. Events after the balance sheet date

On 31 December 2020, the Group entered into an equity and creditor's rights transfer agreement (the "Transfer Agreement") with two independent third parties (collectively, the "Transferors"), pursuant to which the Group has conditionally agreed to acquire (1) the entire share capital of Matsunichi Communications (Hong Kong) Limited (the "Target Company", a company incorporated under the laws of Hong Kong with limited liability) (the "Target Shares") and (2) the rights of the Transferors in the loans extended to the Target Company and its subsidiary respectively (collectively, the "Transferred Creditor's Rights").

Pursuant to the Transfer Agreement, the Group has completed the acquisitions of the Target Shares and the Transferred Creditor's Rights (collectively, the "Acquisition") on 28 January 2021. The Target Company is an investment holding company and its principal asset is the entire equity interest in its subsidiary, which owns certain properties located in the Greater Bay Area of the PRC.

Up to the approval date of the consolidated financial statements, the Group is in the process of determining the accounting treatment for the Acquisition in accordance with IFRS 3.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB20.46 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2020 (2019: RMB15.47 cents). 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 11 June 2021 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 11 June 2021. Such dividend will not be subject to any withholding tax. Upon shareholders' approval, the proposed final dividend will be paid:

(i) on 29 June 2021 to ordinary shareholders whose names shall appear on the register of members of the Company on 21 June 2021;

(ii) on 29 June 2021 to holders of convertible securities issued under the open offer of offer securities of the Company as set out in the listing documents of the Company dated 9 January 2015 which will remain outstanding on 21 June 2021; and

(iii) on 5 July 2021 (i.e. the third business day after 29 June 2021) 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 which will remain outstanding on 21 June 2021.

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 2021) shall be entitled to the distribution of such final dividend of the Company. For details of calculation of distribution of the final dividend entitled under 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 2020.

CLOSURE OF REGISTER OF MEMBERS AND HOLDERS OF CONVERTIBLE SECUERITIES

For the purpose of determining shareholders of the Company who are entitled to attend and vote at the forthcoming AGM to be held on 11 June 2021 and shareholders and holders of convertible securities of the Company qualifying for the proposed final dividend to be approved at the AGM, the register of members and register of holder of convertible securities 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 transfer documents	4:30 p.m. on 7 June 2021 (Monday)
Period of closure of register of members	8 June 2021 (Tuesday) to 11 June 2021 (Friday) (both days inclusive)
Record date	11 June 2021 (Friday)
AGM date	11 June 2021 (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 for registration not later than 4:30 p.m. on Monday, 7 June 2021.

(ii) For ascertaining entitlement to the proposed final dividend to be approved at the AGM:

Latest time to lodge transfer documents	4:30 p.m. on 17 June 2021 (Thursday)
Period of closure of register of members and register of holders of convertible securities	18 June 2021 (Friday) to 21 June 2021 (Monday) (both days inclusive)
Final dividend record date	21 June 2021 (Monday)

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 for registration not later than 4:30 p.m. on Thursday, 17 June 2021.

During the above closure periods, no transfer of shares or convertible securities of the Company will be registered.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial overview

The key operating and financial performance indicators of the Group for the year ended 31 December 2020 are set out below:

	Year ended 31 December		Change
	2020	2019	*(%)*
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue *(Note 1)*	**14,456,971**	13,869,630	**4.2**
Gross profit	**7,094,344**	6,805,462	**4.2**
Operating profit	**2,195,969**	1,543,209	**42.3**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 2)*	**3,292,272**	2,707,649	**21.6**
Adjusted EBITDA *(Note 3)*	**3,292,272**	2,474,118	**33.1**
Profit attributable to equity holders *(Note 4)*	**1,698,484**	1,499,139	**13.3**
Basic earnings per share *(RMB cents) (Note 5)*	**69.21**	61.94	**11.7**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**49.1**	49.1	
Operating profit margin *(%)*	**15.2**	11.1	
Effective tax rate *(%)*	**24.4**	19.3	
Margin of profit attributable to equity holders *(%)*	**11.7**	10.8	
Return on equity attributable to equity holders *(%)*	**21.5**	23.2	
Expenses to revenue ratios			
Staff costs *(%)*	**9.1**	10.9	
Advertising and marketing expenses *(%)*	**8.9**	9.6	
Research and product development expenses *(%)*	**2.2**	2.6	

	31 December 2020	31 December 2019
Balance sheet items		
(All amounts in RMB thousands unless otherwise stated)		
Total assets *(Note 6)*	**14,593,865**	12,547,474
Capital and reserves attributable to equity holders *(Note 7)*	**8,686,863**	7,121,639
Key financial ratios		
Asset efficiency		
Average inventory turnover (days) *(Note 8)*	**68**	68
Average trade receivables turnover (days) *(Note 9)*	**17**	21
Average trade payables turnover (days) *(Note 10)*	**65**	63
Asset ratios		
Debt-to-equity ratio *(%) (Note 11)*	**68.0**	76.2
Net asset value per share *(RMB cents)*	**351.24**	311.15

Notes:

1. Including revenue for the period from 1 January to 30 September 2020: RMB10,052,019,000.

2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on profit for the year, excluding income tax expense, finance (expenses)/income – net, depreciation on property, plant and equipment, depreciation on investment properties, amortisation of land use rights and intangible assets and depreciation on right-of-use assets.

3. The calculation of the adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA) is based on earnings before interest, tax, depreciation and amortization excluding the one-off profit and loss not related to operation (such as the Group's share of profit of an associate in relation to the disposal of a parcel of land in 2019, and the provision for goodwill impairment due to strategy realignment in 2019).

4. Including profit attributable to equity holders for the period from 1 January to 30 September 2020: RMB1,242,699,000.

5. 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.

6. Total assets at 30 September 2020: RMB14,466,523,000.

7. Capital and reserves attributable to equity holders at 30 September 2020: RMB8,222,691,000.

8. 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.

9. 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.

10. 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.

11. 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.

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

* *The Group adopted the aforesaid non-GAAP financial indicators such as EBITDA, Adjusted EBITDA, margin of profit attributable to equity holders, return on equity attributable to equity holders, staff costs / advertising and marketing expenses / research and product development expenses to revenue ratio, average inventory / trade receivables / trade payables turnover days, debt-to-equity ratio and net asset value per share because (1) comparable companies in the industry in which the Group operates use the aforesaid common indicators as a supplementary measurement for results of operation, which are also widely used by investors to measure the results of operation of the comparable companies; and (2) it is not uncommon to use the adjusted EBITDA as a supplementary measurement for results of operation and the Group believes that such information is useful for investors to make comparison between the comparable results of the Group for the respective years.*

Revenue

The Group's revenue for the year ended 31 December 2020 amounted to RMB14,456,971,000, representing an increase of 4.2% as compared to that of 2019, with a rather stable increment. In 2020, the COVID-19 pandemic posed high risks to the world. The Group's overall sales revenue also failed to meet the expected target as a result of this special public health emergency. In light of the sudden outbreak of the pandemic, the Chinese government adopted a series of stringent prevention and control measures, resulting in a gradual recovery from the epidemic nationwide starting from March 2020 with orderly resumption of work and production. The Group seized the opportunities arising from the continuous recovery under the Chinese government's efforts in promoting various work in relation to economic development and continued to develop products featuring our unique sports DNA and Chinese elements with a focus on the needs of the end-consumers. As a result, the growth rate of omni-channel sell-through turned positive in the second half of the year, demonstrating a healthy post-pandemic recovery, among which: (a) as retail sell-through was impacted by the COVID-19 pandemic, the Group focused on cost control and inventory management and reduced the amount of orders in some of the trade fair orders after comprehensive negotiations with franchised distributors to avoid backlog in channel inventory, resulting in a small increase in the revenue of franchised distributors during the year as compared with that of last year; (b) as majorities of the directly-operated stores of the Group were located in metro and high-tier cities which were more severely impacted by drop in offline physical traffic, a decrease of 9.7% in sales revenue from direct operation was recorded. As the pandemic abated in the second half of the year, the desire to buy of end-consumers increased and the Group vigorously launched various promotional events, which led to a recovery of sales from directly-operated stores; and (c) the e-commerce channel is an important channel of the Group to solicit business. The investments in online product development and efforts made in strengthening online interaction with consumers in recent years have generated promising returns, which significantly outperformed the offline channel. During the COVID-19 pandemic, the Group has stepped up the efforts in transforming offline traffic to online channels and improving the efficiency of online channels, contributing to a growth in revenue of 29.9% from the e-commerce channel. The Company will continue to monitor the situation of the COVID-19 pandemic around the world and the economic policies adopted by the Chinese government in the post-pandemic era and adjust the Group's operating strategies in a timely manner so as to better respond to the severe challenges brought by the COVID-19 pandemic and the complicated and ever-changing environment in China and overseas.

Revenue breakdown by product category

	Year ended 31 December				
	2020		2019		**Revenue**
		% of total		% of total	**Change**
	RMB'000	**revenue**	*RMB'000*	revenue	*(%)*
Footwear	**6,338,157**	**43.8**	6,085,402	43.9	**4.2**
Apparel	**7,365,173**	**51.0**	7,109,763	51.2	**3.6**
Equipment and accessories	**753,641**	**5.2**	674,465	4.9	**11.7**
Total	**14,456,971**	**100.0**	13,869,630	100.0	**4.2**

Revenue breakdown (in %) by sales channel

	Year ended 31 December		
	2020	2019	
	% of	% of	**Change**
	revenue	revenue	*(%)*
PRC market			
Sales to franchised distributors	**47.9**	49.5	**(1.6)**
Sales from direct operation	**22.6**	26.1	**(3.5)**
Sales from e-commerce channel	**28.0**	22.5	**5.5**
International markets	**1.5**	1.9	**(0.4)**
Total	**100.0**	100.0	

Revenue breakdown by geographical location

		Year ended 31 December				
		2020		2019		**Revenue**
			% of		% of	**Change**
	Note	***RMB'000***	**revenue**	*RMB'000*	revenue	*(%)*
PRC market						
Northern region	*1*	**7,589,864**	**52.6**	6,886,570	49.7	**10.2**
Southern region	*2*	**4,847,796**	**33.5**	4,954,877	35.7	**(2.2)**
South China region	*3*	**1,799,768**	**12.4**	1,758,783	12.7	**2.3**
International markets		**219,543**	**1.5**	269,400	1.9	**(18.5)**
Total		**14,456,971**	**100.0**	13,869,630	100.0	**4.2**

Notes:

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

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

3. The South China region includes provinces, autonomous regions and special administrative region covering Guangdong, Guangxi, Fujian, Hainan and Macau.

Cost of Sales and Gross Profit

For the year ended 31 December 2020, the overall cost of sales of the Group amounted to RMB7,362,627,000 (2019: RMB7,064,168,000), and the overall gross profit margin was 49.1% (2019: 49.1%). Affected by the COVID-19 pandemic during the year, the Group increased the discounts offered due to the very promotional retail environment. Meanwhile, the decreased percentage of sales revenue from direct operation also brought adverse impact on the overall gross profit margin. This negative impact was offset by new retail product tag price markup. Therefore, the gross profit margin for the year maintained flat to last year due to the aforesaid factors.

Distribution Expenses

For the year ended 31 December 2020, the Group's overall distribution expenses amounted to RMB4,424,718,000 (2019: RMB4,445,070,000), accounting for 30.6% (2019: 32.0%) of the Group's total revenue.

Despite the online channels achieved satisfactory performance in general during the outbreak of the COVID-19 pandemic and the related commissions and logistics expenses have increased accordingly, as well as the increase of depreciation charges in relation to assets of points of sale in recent years as a result of the Group's effort in building up trendy and efficient stores, the percentage of distribution expenses to revenue dropped by 1.4 percentage points during the year, which is mainly attributable to: (1) bonuses of direct sales staff and outsource fees for human resources in stores have decreased in accordance with the decrease in revenue of offline stores; (2) variable rentals have decreased in accordance with the decline in sales revenue from retail terminal during the outbreak of the COVID-19 pandemic, while certain stores enjoyed rent concessions, which has effectively reduced the rental expenses; and (3) the Group has also effectively controlled advertising and marketing expenses and daily expenses for sales staff. In view of the above, the overall distribution expenses have decreased by RMB20,352,000 as compared to last year.

Administrative Expenses

For the year ended 31 December 2020, the Group's overall administrative expenses amounted to RMB805,058,000 (2019: RMB968,264,000), accounting for 5.6% (2019: 7.0%) of the Group's total revenue with a year-on-year decrease of 1.4 percentage points. Administrative expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, technological development fees, taxes and other miscellaneous daily expenses.

The decrease in administrative expenses is mainly attributable to: (1) as affected by the COVID-19 pandemic, in order to minimise the pressure currently facing and will be faced by the Group in the future due to the pandemic, the Group focused on various costs and expenses control during the year. Through effective management measures, the Group has reduced the expenses in relation to bonuses of officers, consultation fee expenses, travel costs and other expenses, achieving overall profitability indicators; (2) as affected by the COVID-19 pandemic, the Group has also controlled its investment in research and development during the year, resulting in an overall decrease in relevant technological development expenses; and (3) the Group has made provision for the one-off goodwill impairment not related to operation of RMB36,394,000 in aggregate resulting from the realignment of the Group's overall channel structure last year, while there was no such provision during the year. Consequently, the Group's overall administrative expenses have decreased.

Share of Profit of Investments Accounted for Using the Equity Method

For the year ended 31 December 2020, the Group's share of profit of investments accounted for using the equity method amounted to RMB83,487,000 (2019: RMB343,469,000). The Group shared the one-off gain of RMB269,925,000 in relation to the resumption of a land parcel held by Shanghai Double Happiness Co., Ltd. ("Double Happiness", an associate of the Group) last year.

Significant Investment

As of 31 December 2020, the significant investment held by the Group is the 47.5% equity interest in Double Happiness (31 December 2019: 47.5%). The cost of the Group's investment in Double Happiness is RMB587,335,000 (31 December 2019: RMB587,335,000). As of 31 December 2020, the carrying value of the interest in Double Happiness held by the Group calculated using the equity method is RMB933,478,000 (31 December 2019: RMB916,959,000), representing a percentage of approximately 6.4% (31 December 2019: 7.3%) of the Group's total assets.

Double Happiness is principally engaged in manufacturing and sales of sports products. As a world-renowned brand of table-tennis related products, the Double Happiness brand owned by it is the supplier of equipment and gears for use in various major tournaments in the PRC or globally. The Double Happiness brand products are mainly sold by means of wholesale and integrated sports goods shops. Double Happiness has relatively stable customer base in nearly 30 provinces and municipalities in the PRC. It has put more resources in expanding its business presence in online sales in recent years. Leveraging its excellent product R&D and design capabilities and long-established brand popularity, the Double Happiness brand manages to maintain its leading position in the domestic market of similar products consistently. The investment in Double Happiness will create synergy with Li Ning brand in terms of sales and marketing of brand products, tournament sponsorship and channel expansion.

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

For the year ended 31 December 2020, the Group's EBITDA amounted to RMB3,292,272,000 (2019: RMB2,707,649,000), representing a year-on-year increase of 21.6%.

For the year ended 31 December 2020, the adjusted EBITDA amounted to RMB3,292,272,000 (2019: RMB2,474,118,000), representing a year-on-year increase of 33.1%. Despite the impact of the COVID-19 pandemic, the Group actively adopted the measures of controlling costs and expenses, coupled with the increased subsidies received from the government, therefore the Group has achieved relatively satisfactory results performance.

Reconciliations of EBITDA and the Adjusted EBITDA to profit for the year are as follows:

	2020	2019
	RMB'000	*RMB'000*
Reconciliation of profit for the year to EBITDA:		
Profit for the year	**1,698,484**	1,499,143
Income tax expense	**549,381**	357,403
Finance income	**(34,658)**	(28,873)
Finance expenses (including amortisation of discount on lease liabilities)	**66,249**	59,005
Depreciation on property, plant and equipment	**533,902**	419,881
Amortisation of land use rights and intangible assets	**42,119**	40,666
Depreciation on right-of-use assets	**432,717**	360,424
Depreciation on investment properties	**4,078**	–
EBITDA	**3,292,272**	2,707,649
Reconciliation items:		
Share of profit of an associate in relation to the disposal of a parcel of land *(1)*	**–**	(269,925)
Provision for goodwill impairment *(2)*	**–**	36,394
Adjusted EBITDA	**3,292,272**	2,474,118

(1) In 2019, the Group's profit for the year increased by RMB269,925,000 due to the share of gains in relation to the disposal of a land parcel held by its associate Double Happiness.

(2) In 2019, the Group made provision for goodwill impairment of RMB36,394,000 due to the realignment of the overall channel structure.

Finance Expenses- Net

For the year ended 31 December 2020, the Group's net finance expenses amounted to RMB31,591,000 (2019: RMB30,132,000). The slight increase in net finance expenses was mainly due to the increase in the Group's interest expenses recognised on lease liabilities as a result of the increase in the average number of stores capitalised as compared to last year. However, the aforesaid impact was partially offset by the increase in interest income arising from the increase in the capital balance of the Group.

Income Tax Expense

For the year ended 31 December 2020, the income tax expense of the Group amounted to RMB549,381,000 (2019: RMB357,403,000) and the effective tax rate was 24.4% (2019: 19.3%). Currently, the Group's income tax expense is almost in line with the standard level.

Overall Profitability Indicators

During the year, the Group's sales revenue slightly improved and gross profit margin remained flat as compared to last year, while expense ratio decreased through its effective control over costs and expenses, thus the overall profitability indicators for the year ended 31 December 2020 improved significantly. During the year, the Group's profit attributable to equity holders amounted to RMB1,698,484,000 (2019: RMB1,499,139,000; and RMB1,265,608,000 after excluding the one-off profit and loss not related to operation), representing a year-on-year increase of 13.3% (a year-on-year increase of 34.2% after excluding the one-off profit and loss not related to operation). The margin of profit attributable to equity holders was 11.7% (2019: 10.8%; and 9.1% after excluding the one-off profit and loss not related to operation). The return on equity attributable to equity holders was 21.5% (2019: 23.2%; and 19.9% after excluding the one-off profit and loss not related to operation).

Provision for Inventories

The Group's policy in respect of provision for inventories for 2020 was the same as that in 2019. 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 that this policy can ensure appropriate provision for inventories made by the Group.

As at 31 December 2020, the accumulated provision for inventories was RMB113,133,000 (31 December 2019: RMB132,687,000). During the second half of the year, in order to minimise the impact of the COVID-19 pandemic, the Group focused on the inventory turnover of old products and made timely adjustments on new products inventory to reduce the number of orders. The balance of the provision for inventories decreased along with the decrease in gross value of inventories. The Group will continue to monitor the changes in inventory ageing so as to improve the inventory ageing structure.

Expected Credit Loss Allowance

The Group's policy in respect of expected credit loss allowance for 2020 was the same as that in 2019. The expected credit loss allowance 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 2020, the accumulated expected credit loss allowance was RMB287,344,000 (31 December 2019: RMB267,315,000), among which the accumulated expected credit loss allowance for trade receivables was RMB280,437,000 (31 December 2019: RMB258,193,000) and the accumulated expected credit loss allowance for other receivables was RMB6,907,000 (31 December 2019: RMB9,122,000). The trade receivables and other receivables written off during the year as uncollectible and the effect of exchange rate amounted to RMB10,437,000 (2019: RMB8,871,000). The overall settlements from franchised distributors were satisfactory, while the gross value of trade receivables remained stable with a slight increase in revenue. Nevertheless, due to the uncertainty resulting from COVID-19 pandemic, the expected credit loss allowance increased. The Group will continue to strengthen its cooperation with franchised distributors in response to the negative impact may be brought by the pandemic in the future.

Liquidity and Financial Resource

The Group's net cash generated from operating activities for the year ended 31 December 2020 amounted to RMB2,763,336,000 (2019: RMB3,503,469,000). As at 31 December 2020, 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 RMB7,187,039,000, representing a net increase of RMB1,225,594,000 as compared with the position as at 31 December 2019. Adding back the capital which was recorded in the long-term fixed term deposits, cash balance amounted to RMB7,442,005,000. The increase in cash balance was due to the following items:

Item	**Year ended 31 December 2020** *RMB'000*
Operating activities:	
Net cash generated from operating activities	2,763,336
Investing activities:	
Net cash used in investing activities	(991,555)
Financing activities:	
Net cash used in financing activities	(513,491)
Add: Exchange losses on cash and cash equivalents	(32,696)
Net increase in cash and cash equivalents	**1,225,594**
Add: Bank deposits with the maturity over one year	254,966
Net increase in cash balance	**1,480,560**

The overall settlements from franchised distributors were satisfactory during the year. However, as the retail sell-through has slowed down due to the sales events in the physical stores were severely affected by the pandemic, the overall cash flow from operating activities recorded a year-on-year decrease. In the meantime, the Group has completed acquisition of land use rights of a parcel of land in Nanning, Guangxi, in 2020 in preparation for establishing production base (details of which were set out in the announcement of the Company dated 8 November 2019) and paid partially for the investments, resulting in an increase in cash outflow from investing activities.

As at 31 December 2020, the Group's banking facilities amounted to RMB1,265,000,000, 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 a small amount of cash and bank deposits denominated in Hong Kong Dollars, United States Dollars, Euros and South Korean Won. The Company also pays dividends in Hong Kong Dollars. In addition, the Group pays certain license fees, 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 Renminbi may have had financial impact on the Group.

Pledge of Assets

As at 31 December 2020 and 31 December 2019, the Group had no pledged assets.

Contingent Liabilities

As at 31 December 2020, the Group had no significant contingent liabilities.

BUSINESS REVIEW

2020 was an extraordinary and unforgettable year. Affected by the COVID-19 pandemic, the world has undergone significant changes in many aspects, including the global economy, politics and livelihood as well as operating modes of enterprises. With the endeavor of the Chinese government and the general public in the past year, the Chinese economy was the first economy to recover from the worldwide COVID-19 pandemic with its economic aggregate exceeding RMB100 trillion, which indicates a new level of social productivity. Although the sports industry was under short term pressure during the pandemic, the sports consumption market in the PRC remained active under the support and promotion of national policies and governments at all levels. Further, the COVID-19 pandemic has enhanced public awareness of fitness and health across China, resulting in an increase in consumption demand for sports and health products and in turn provided an additional boost to sports consumption. Against such backdrop, we continued to focus on LI-NING's experience value and optimized our marketing strategies based on the individual needs of consumers, thereby enhancing consumer experience continuously. Meanwhile, we strengthened the core values of our brand and products with a focus on creating professional reputation of our products, and strived to keep ourselves abreast of fashion trends. During the year, in conjunction with the prevention and control measures for the COVID-19 pandemic, the Group strictly implemented effective internal and external control and stepped up its efforts in increasing revenue and reducing cost. By seizing every potential business opportunity, the Group has realized positive revenue growth and continuous improvement of profitability and maintained positive growth momentum in this extraordinary year.

During the year, adhering to the core strategy of "Single Brand, Multi-categories, Diversified Channels", we supported and deepened LI-NING's experience value comprehensively through consistent efforts in optimizing and upgrading our products, channels and retail capability, as well as supply chain. In terms of products, we placed emphasis on the professional aspects and highlighted the professional sports attributes of our products. Extra efforts have been made in research and development of sports technology with an aim to optimize product performance continuously. Meanwhile, we paid close attention to the aspect of cultural creativity and latest fashion trends in an attempt to inject new vitality into our professional sports products through fashionable elements and diversified styles, which has not only offered diversified consumption experience to consumers, but also enhanced our brand value. In terms of channels, we continued to optimize the structure of channels and stressed on enhancing the retail efficiency of our stores with diversifying development in various channels as our main focus. In the post-pandemic era, we accelerated the deployment of new retail businesses and consolidated the advantages of our online and offline platforms, which has effectively strengthened differentiated consumption interaction and services. In terms of supply chain, we perfected the supply chain management system which is driven by business needs and continuously established our own supply chain system to increase flexibility of our supply. We also advanced changes to our supply chain system from passive production to proactive production.

Latest operational update for the fourth quarter of 2020

For the fourth quarter ended 31 December 2020, in respect of LI-NING point of sale ("POS") (excluding LI-NING YOUNG) which have been in operation since the beginning of the same quarter of last year, the same-store-sales for the overall platform registered a low-teens growth on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a high-single-digit growth and wholesale (franchised distributors) channel registered a mid-single-digit growth, while the e-commerce virtual stores business registered a low-thirties growth on a year-on-year basis.

For the fourth quarter ended 31 December 2020, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform increased by mid-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 mid-single-digit and wholesale channel increased by low-teens, while the e-commerce virtual stores business registered a mid-thirties growth.

As at 31 December 2020, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 5,912, representing a net decrease of 140 POS since the end of previous quarter and a net decrease of 537 POS since the beginning of this year. Among the net decrease of 537 POS, direct retail accounts for a net decrease of 143 POS, and wholesale accounts for a net decrease of 394 POS.

As at 31 December 2020, the total number of LI-NING YOUNG POS in China amounted to 1,021, representing a net decrease of 31 POS since the end of previous quarter and a net decrease of 80 POS since the beginning of this year.

Extensively implementing the strategy of "Single Brand, Multi-categories, Diversified Channels" to enhance the efficiency of products and channels

To attract consumers with our professional products with a view to deepening the product and brand influence

During the year, we stayed focus on our five core categories, namely basketball, running, training, badminton and sports casual. Placing emphasis on the scientific research of sports, we developed the professional attributes of our products to further evolve the brand's DNA of sports. We also conveyed our unique brand value by delving into elements of both the Chinese culture and popular culture.

For professional products, with a strong focus on technological features, we strengthened the knowledge and research of sports science and consistently invested and dedicated our efforts in the exploration and application of new technologies and new materials. Emphasizing on the complementary effect of our products and technology, we leveraged on our professional products to build up customer recognition, thereby enhancing LI-NING brand's core competitiveness in the field of professional sports.

– To create professional star IP products of the running category, we independently developed the "LI-NING 弜" (李寧弜), an anti-shock and rebounding technology, which was used in conjunction with the "LI-NING 䨻" (李寧䨻) technology platform to launch the brand-new "Shadow" (絕影) running shoes. It surpassed the performance threshold by integrating material and structure technologies, hence offering a double rebounding experience to runners. The newly upgraded premium racing shoes, namely "Boom 2.0" (飛電2.0), were released, adopting a compound boost system, once again setting a new high standard for the professional features of racing shoes, thereby facilitating runners to enhance competition performance.

– In terms of professional basketball shoes, we continued to develop the line-up of four core star IPs, namely "Sonic" (音速), "Yushuai" (馭帥), "Power" (空襲) and "Speed" (閃擊) through enriching colour palette and design, as well as enhancing performance for competition use. Professional competition shoes, such as "Speed VII PRM" (閃擊VII PRM) and "Sonic VIII LOW" (音速VIII LOW) were launched and their performance has been recognized by professional players. We released a new "Yushuai XIV" (馭帥XIV) series which continued to adopt the "LI-NING 䨻" (李寧䨻) technology, with a view to reinforcing the professional image of LI-NING basketball. In terms of apparels, we focused on various sports scenarios for professional basketball, and offered comprehensive basketball gear for both competition and training purposes. We also strived to continuously enhance players' performance on the court by making use of technological functions to cater to actual demands, including sports comfort and protection.

– In constant pursuit of improvements in product features and wearing experience of our products of training category, we upgraded the windproof and waterproof technology to develop high performance gears that are appropriate for a wide range of weather conditions. The upgraded speed drying feature, namely "AT DRY", has brought to consumers an extremely comfortable sporting experience. Committed to the research and development of more professional running products, we provided more professional running apparels to runners, with a focus on catering to their running needs in relation to both races and daily running. Under the scenario of races, we provided runners with professional products featuring performance enhancement and protection features. For the purpose of daily running, we offered runners apparel products with lighter and thinner material, as well as improved speed drying and thermal functions to accommodate their needs under different seasons and temperature conditions.

– We carried on enhancing and upgrading our badminton category in terms of its professional attributes. For our badminton rackets, we gained widespread recognition from consumers soon after launching the "Ambush 7" (突襲7) series rackets through the "Tectonic" (蓄力突襲) technology platform. We also released the "WindStorm 74" rackets under the Super Light series, which can withstand a pressure of up to 30 pounds despite weighing only 74g. This product is lightweight and easy to manoeuvre. For our shoes products, we pursued better sports performance by extending and improving our classic series with star badminton shoes products, including the "Ambush III" (突襲III), "Cool Shark II" (酷鯊II) and "Gyrfalcon III" (鶻鷹III) series.

In respect of sports fashion, we continued to create the unique sports culture of our brand by diversifying our product image and pop culture attributes, so as to demonstrate more vitalized sports value with a younger image. We continued our cooperation with sports stars and fashion icons to expand brand influence. We also gained insight of the cultural and fashion trend, and explored the unique charisma of traditional culture, thereby developing a diversified sports culture system to consolidate and enhance our brand influence among young consumer groups.

– As our high-end basketball product line, the WADE series is always popular and the centre of consumers' attention. During the year, we launched our best ever masterpieces, namely the "Way of Wade 8" (韋德之道8) and "Way of Wade ∞" (韋德之道∞) series, which is the proof of continuous pursuit and exploration of higher goals by the LI-NING brand and WADE series. As a top-class product, every limited release of the "Way of Wade" series aroused heated discussions and products were sold out almost instantly. This time, the "Way of Wade 8" series also adopted our classic "cotton candy" colour of the WADE series to signify Wade's sweet life, where he builds a wonderful world for his children and takes good care of them with wholehearted fatherly love.

– Our "BADFIVE" street basketball series commenced city series projects one by one. Through ongoing engagement in key cities of Chinese's youth culture, it maintained brand popularity and vitality while establishing consumer and market confidence. To pay tribute to Wuhan and all the heroes with our street-style products, we launched the "Heroes" (江湖好漢) series, which was a limited edition for Wuhan under the city series. We also extended the classic and limited city series, namely the "Chang An Young n Rich" (長安少年) and "Too Young To Stay" (少不入川) series, and intensely developed the IP of the "BADFIVE" city series. We applied the concept of "BADFIVE LAB" (反伍實驗室) in an innovative way, so as to share with consumers the most creative, attitude-laden and unconventional street culture and create a highly-valued and attitude-filled product combination.

– In terms of our basketball culture products, we continued to develop our classic basketball culture shoes. Inspired by the works of our designers and product team, our "Essence 2 Sample For Sale" (悟道2 Sample For Sale) series demonstrated a bold and experimental design style. The whole product made full use of the design technique of deconstruction and reorganization and adopted different materials for the three-colour heels. Our new "2020 ACE LOW" series used the abrasion-proof and slip-resistant soles supplied by the renowned Italian rubber manufacturer Vibram, which provided a comfortable wearing experience and practical outdoor style to consumers. In addition, we have cooperated with the Italian fashion brand Neil Barrett in our "Essence 2.3" (悟道2.3) series, which was showcased in its Fashion Week stage. The series achieved good order and sales volume generated in domestic and overseas sales channels.

– As for sports casual products, we continued to reach the young and mainstream consumer groups with intriguing stories and unique styles, while creating products with a good reputation and sales performance. We collaborated with "XLARGE" and "X-girl", both are well-known street style brands, to release two sets of new-wave skateboards products. We called on the new generation with imagination and creativity to come together and release new energy through skateboarding. Besides, we worked with "UPanda" (有熊貓) to jointly develop the "MARS WITH YOU" crossover series, which perfectly integrated the Mars scene and the space version of "A Pu" (阿璞), conveying the young attitude of facing future life.

Improving the allocation of diverse marketing resources with a focus on characteristics of professional and sports casual category

With a focus on the characteristics of professional and sports casual category, we strengthened the comprehensive allocation of marketing resources on an ongoing basis. Continuous exposure of our professional products through sports stars and professional events as well as promotional efforts in tandem with hot topics have further scaled up our consumer groups. Besides, we drew the attention of young consumer groups by continuously enriching our marketing resources with entertainment elements allocated to the sports casual category and deploying for flexible and diversified crossover and digital marketing resources. Under the guidance of fashion opinion leaders, we have gained more recognition from mainstream consumers and enhanced our brand image and value.

– In terms of professional basketball, with Fred VanVleet and Jimmy Butler signing deals with LI-NING basketball, our NBA spokesperson line-up expanded and enjoyed widespread attention and expectation from basketball fans. During the year, given the reduced number of international sports games, Chinese basketball fanatics turned to the CBA League. Centering on the All-Star Game, playoffs, the Finals and other key marketing events, we created topics for our brand to encourage interaction between our products and sports fans, so as to enhance the emotional recognition of the LI-NING brand among basketball consumers.

– In regard to the basketball culture, against the backdrop of the pandemic, we held the LI-NING "3+1" Street Basketball League in 8 cities from August to December 2020, where we attracted approximately 30,000 participants in total. Integrating the street basketball value conveyed by "BADFIVE", we nurtured the hip-hop culture with the same cultural origin. We cooperated with famous domestic hip-hop groups in product promotion and launching, thereby turning more hip-hop fans into consumers of LI-NING. To drive the business of our women's products, we joined hands with Dragon Style, which is a well-known street dance group in China, to hold the "Women's Street Dance Contest". By incorporating cultural elements, we injected unique brand culture into our "BADFIVE" series.

– For our running products, we offered the innovative experience of our "LI-NING䨻" (李寧䨻) technology and full-matrix products to core runners in Hangzhou Marathon, which raised their direct awareness of our brand. We interacted with nearly 10,000 users, proving the effectiveness of the high conversion model "precise target + innovative experience + professional products". During the event, we launched the themed promotion of "Say Hi to Hangzhou Marathon" (杭馬來嗨). Through product promotion efforts and the support of popular key opinion leaders ("KOLs") and celebrities, the themed promotion received 523 million views, which further enhanced the recognition and excellent reputation of LI-NING running among core runners.

– As to our badminton products, the LI-NING brand endorsed its professional products with sports resources. With a view of enriching LI-NING badminton's layout of internationalization on an ongoing basis, it sponsored the national badminton teams of Indonesia, Singapore and Australia, and signed up with a number of international top-notch players, including women's singles player P.V. Sindhu and men's singles player Srikanth Kidambi from India, mixed doubles players Chan Peng Soon (陳炳順) and Goh Liu Ying (吳柳瑩) from Malaysia, and men's doubles player Watanabe Yuta (渡邊勇大) from Japan. During the year, LI-NING badminton launched the promotion of the "Waiting for You" (等你) series in phases. We focused on two dimensions, namely sports promotion and market promotion, with a combination of offline events to achieve marketing goals.

– In regard to our sports casual products, we launched a crossover series with LINE FRIENDS, an international creative studio. We combined product design stories and selling points to create "Best Friend" (最佳萌友) as our marketing keyword. Leveraging the outstanding resources from the creative team of LINE FRIENDS, we centred on this marketing keyword and created China's first creative 3D animated short film customized for the crossover brands and a set of creative illustrations. On top of our skateboard products from the collaboration with famous street style brands "XLARGE" and "X-girl", we produced a number of short videos with eye-catching themes from men's and women's perspectives. Meanwhile, we promoted the topic of "Today is Suitable for Fist Bump" (今日宜結猿) on Weibo, where we invited skateboarders and KOLs with strong street style to the brands' "Fist Bump" event to build momentum for the product launch.

– For marketing campaigns with entertainment, in the first half of the year, as artists had fewer schedules during the pandemic, we paid more attention to collaboration with variety shows and the promotion through online entertainment content. We commenced multi-dimensional cooperation with artists on Hunan Satellite TV and other major platforms. In the second half of the year, we focused on offline campaigns such as China LI-NING pop-up stores. Tapping the influence of artists visiting our stores, we enhanced the popularity and sales of our offline stores. Furthermore, we worked with selected media and artists to increase the exposure of products under the same series. During the year, we cooperated with over 200 artists and placed embedded advertisements in 38 variety shows to diversify our marketing models within the entertainment industry.

Promoting the in-depth development of quality channels to upgrade channel structure and efficiency

In 2020, the Company remained focused on the multi-channel strategy and enhanced the cooperation with high-quality retailers, which optimized the efficiency of retail channel and improved the quality of market coverage. During the year, in order to mitigate the effect of the pandemic promptly, the Company negotiated with major domestic commercial real estate partners closely for the rent reduction, and accelerated the closing down of underperforming and loss-making stores. As the pandemic stabilized gradually, we clearly defined key cities for the directly-operated business in line with the existing channel strategy. Taking into account efficiency and customer preferences, we advanced market transition to reduce market overlap.

Capitalizing on the expedited commencement of China businesses after the pandemic, the Company sped up the establishment of big stores in high-tier markets and shopping malls. It also initiated intense collaboration with China's renowned commercial property groups and set up full-category model stores at prime locations in shopping centres, which resulted in rapid growth in the total operating area of all stores in China and operating area per store. In addition, the Company built comprehensive and close cooperation with China's leading outlet groups. Through the consistent development of high-quality big stores in outlets, we facilitated the rapid business growth of the outlet channel.

As at 31 December 2020, the number of conventional stores, flagship stores, China LI-NING stores, factory outlets and multi-brand stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 6,933, representing a net decrease of 617 POS as compared to 31 December 2019. The number of distributors was 65 (including sales channels of China LI-NING stores), representing a net increase of 2 as compared to 31 December 2019. The number of POS breakdown as at 31 December 2020 is as follows:

LI-NING Brand	**31 December 2020**	31 December 2019	**Change**
Franchised	**4,763**	5,157	-7.6%
Directly-operated retail	**1,149**	1,292	-11.1%
LI-NING YOUNG	**1,021**	1,101	-7.3%
Total	**6,933**	7,550	-8.2%

Number of LI-NING Brand POS by geographical location

	31 December 2020			31 December 2019			
Regions	**LI-NING Core Brand**	**LI-NING YOUNG**	**Total**	LI-NING Core Brand	LI-NING YOUNG	Total	**Change**
Northern Region *(Note 1)*	**2,989**	**678**	**3,667**	3,226	727	3,953	-7.2%
Southern Region *(Note 2)*	**2,243**	**304**	**2,547**	2,448	336	2,784	-8.5%
Southern China Region *(Note 3)*	**680**	**39**	**719**	775	38	813	-11.6%
Total	**5,912**	**1,021**	**6,933**	6,449	1,101	7,550	-8.2%

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, autonomous regions and special administrative region covering Guangdong, Guangxi, Fujian, Hainan and Macao.

Optimising product operation model and enhancing product operational efficiency continuously

In 2020, the Company kept its focus on the transformation and optimisation of its product operation model, with a view of further improving product operational efficiency.

– During the pandemic, the Company strictly managed and controlled inventory risk. On one hand, we maintained a reasonable level of total inventory and optimised the inventory ageing structure. On the other hand, we set out a systematic target for inventory turnover with reference to sales forecasts. Through the synergy between online and offline channels, the Company accelerated the sales of slow-moving and obsolete products, thereby keeping the total inventory level and the inventory ageing structure healthy and reasonable.

– The Company established a standard modularised order model designed for different types of stores and products, so as to standardise the order structure for all types of stores and implement the consumer-oriented single store order model. By promoting product depth management, we also enhanced the order depth of major and popular products. Based on the single store model, we pushed forward the direct delivery of products at stores which at the same time made our sales forecast more precise. This not only allowed us to replenish and deploy products more accurately, but also facilitated the efficiency upgrade of store and product operation.

– The Company built the management system for monthly sales planning, through which it has strengthened the management over product sales plans by specifying the product sales targets and pace for each product in each store. This served as the basis for its comprehensive and synergistic sales planning system that covered plans for marketing, product launch, inventory at stores, product showcasing, staff training and selling at stores. At the same time, we promoted the process control over the follow up of plans and improvement actions to increase operational efficiency of product.

– The Company explored the product operation model for big stores to upgrade product management capability of these stores. It set precise business targets for big stores and laid out sales plans for diverse product dimensions including categories, series, sub-categories and key products. Meanwhile, it implemented single store management for big stores and demonstrated the full-categories and professional attributes of products from the products breadth. It also ensured sufficient inventory of individual products from the products depth, hence seizing every business opportunity.

– The Company built the management mechanism for the whole product chain, which improved the visibility of the entire chain from supply to sales. It also enabled more precise product planning for warehousing, delivery and in-store placement. A trial scheme was launched in the directly-operated business unit. In parallel to the above, we established the digital product analysis platform for a standardised and unified product cross-analysis system, which has enhanced our analysis of product data, enabled the identification of problems and countermeasures for business in time, and increased our product operational efficiency.

Strengthening retail operation capability of single store to ensure implementation of retail execution standards

In 2020, the Company continued to explore the efficient and replicable profit model for single store, with the view to enhancing its single-store retail operation capability and store operational efficiency.

– The Company maintained its efforts on advancing the efficient and replicable profit model for single store. Based on the single-store profit and loss structure, the Company aimed at increasing the sell-through of single store, optimising the inventory structure of stores, and controlling the launch and turnover of products, thereby achieving higher store operational efficiency. At the same time, it refined showcasing, marketing, staff scheduling and training arrangements of stores for more efficient store operation.

– The Company gradually improved the functions of the retail operation platform. Through this management platform, it performed analysis and follow-up against key retail indicators and operation standards, which allowed its staff to identify and solve operational issues. This has led to better store execution and operational efficiency. At the same time, the Company optimised the existing retail operation standard with reference to that of big stores with high efficiency and the best practices of the retail management system. In pursuit of excellence in customers' sports, product and shopping experience, the Company established a preliminary operation model and management system for big stores that boosted the results of operation.

– The Company promoted the implementation of the retail operation standards. It set the red line for the key operation standard in the course of daily management and held weekly business meetings with all levels of management to monitor the implementation of relevant standards. It also provided feedbacks to single store and staff promptly, which enabled better store execution and more efficient follow up on operation management.

Improving shopping experience with new store image and driving business growth through member and omni-channel development

During the year, the Company continuously enhanced the visual image of its stores, upgraded types of store props and improved brand recognition among consumers. Meanwhile, it devoted more efforts in member and omni-channel development, so as to boost business growth through online and offline synergy.

– During the year, the Company established and put great efforts in promoting the 8th generation image store of LI-NING brand in line with branding and product direction. In view of the development trend of China LI-NING stores, we marketed the image of China LI-NING 2.0 and opened a number of China LI-NING 2.0 image stores at leading domestic commercial complexes in the second half of the year. In response to the development strategy of the outlets channel, we launched the image of LI-NING Outlet 3.0 after preliminary tests. Upon consolidating our design, props development and engineering teams across China, we established operation standards and optimised relevant procedures, which clearly differentiated various types of store design, props and construction works. This allowed us to accelerate the design and setting up of stores, hence reducing the costs of store construction and props.

– The Company continued to expand its member base and the omni-channel business. As of the end of 2020, the LI-NING Member Club attracted over 30 million registered members in total. Based on which, LI-NING brand enhanced its consumer reach, operation capability and interactive communication. Through the online mini-programs and live streaming business, we boosted member engagement and order amount in all channels. We also developed a set of efficient operating models and procedures for inter-connected member and order processing. Looking ahead, we will stay focused on the long-term development in four dimensions, namely member recruitment, consumer reach and education, member service and interaction, and insight from member data.

Strengthening the service support capability of the logistics system for business units

During the year, the Company strived to establish a logistics service system that supports various business models. Based on the features of different business models and diversified business scenarios, the Company provided differentiated, refined and efficient logistics service support in line with the requirement of relevant business sectors for its principal business and each business division, which promoted the service support capability of the logistics system for all business units.

– The Company developed a logistics service support system to specifically meet differentiated needs, through which it was able to offer efficient logistic services by taking into consideration the timeliness, costs, on-site operation capability and the capacity of business partners. The system covered the entire product chain from exiting factory to sales in terms of time, connected to all levels of warehouse and distribution networks across the country geographically, and supported wholesale, retail, e-commerce, professional channels and the new retail businesses in terms of business models. At the same time, it also refined order and store management.

– The Company achieved precise and efficient goods delivery and turnover. It combined the logistics network resources and the management platform of the Group to fully follow the instruction of the goods management team. Through the cooperation with upstream and downstream players along the supply chain, as well as the great synergy from planning with the goods management team and retail stores, we completed the direct delivery and rapid replenishment from the central warehouse to approximately 1,900 stores across China. The rapid, precise, flexible and efficient goods delivery and turnover by the goods operational management team was complemented with various flexible return policies and deployment models. Meanwhile, the Company established its own retail logistics network to facilitate fast product turnover within different channels and enhance product utilization.

- The Company continued to upgrade its logistics management capability. Capitalizing on the unified information system and product quality standards, the precise and efficient logistics planning system, the comprehensive logistics resources management, and the standard business procedures and logistics operation system, we supported inventory consolidation and management by the goods management team to accelerate efficient product turnover. In order to align our logistics efforts with the market and timely meet the demand from end-users, we formulated differentiated logistics service solutions that targeted the specific needs of stores. Apart from improving our service capability and standards, we also took into account costs and efficiency when gradually bringing store and customer experience to the next level.

- The Company strengthened the management system for logistics informatization and digitalization. It enhanced the basic informatization capabilities of all logistics processes and upgraded the capacity of the information system in key areas, including logistics planning, warehouse network planning and optimization, warehouse operation and management, overall transportation management, coordination and connection of the transportation resources system, logistics handover and the relevant customer service management system.

Exploring brand competitiveness through marketing campaigns and continuously enhancing the efficiency of e-commerce platform

Despite the pandemic-induced pressure on consumption and inventory clearance in the industry, the e-commerce of Li Ning Company maintained stable discount and good profit margins in 2020. In the face of intense market competition, its operating efficiency remained at a high level.

During the year, the e-commerce of Li Ning Company utilized the key marketing resources of the Group to launch a series of promotional campaigns centering on its spokesperson for sports casual products. These campaigns reached out to various fan bases, capitalize on the influence of the artists and appealed to female consumers. Combining market and fashion trends, the Company created hot topics for specific product categories, price range and target consumers to attract online views, increase brand recognition and consumer interaction, and effectively boost online product sales. The Company also devoted more efforts to promote technology products such as basketballs and running shoes, which continuously shaped consumers' perception and raised their awareness of the professional features of the brand.

Meanwhile, the e-commerce platform intensely developed the "COUNTERFLOW BY LI-NING" series, which is an independent sports casual product line with a focus on cultural elements. During the year, the platform organized the "Blossoming Silk Road" (絲路花開) campaign with Dunhuang Museum and launched the "Dunhuang" series to uncover the unique beauty of the Silk Road. We invited celebrities and fashionistas to witness the launch of the newest Dunhuang crossover products at the "Silk Road Exploration" (絲路探行) party in Dunhuang. The event generated significant buzz and further promoted our brand's prominence and sound reputation as the representative of Chinese culture.

Looking ahead, the e-commerce of Li Ning Company will leverage consumer big data and the product data analysis system to enhance brand reputation and product competitiveness. Through online buzz marketing, it will educate consumers and maintain the high operating efficiency of the e-commerce platform.

Transitioning from "passive production" to "active production" to drive business growth with supply chain resources

In 2020, the Company established the "value supply chain" management model for the supply chain system. In pursuit of wastage reduction and efficiency improvement, we used consumer satisfaction as the final indicator of supply chain value, so as to enhance product quality and price-performance ratio. We also continued to consolidate the resources of the footwear and apparel supply chain. At the same time, we advanced the transition of the supply chain from "passive production" to "active production" by building a precise, flexible and efficient supply chain management system for more agile supply and rapid response.

– To promote product research and development and innovation, the footwear and apparel supply chain set up a research and development and innovation centre to incorporate innovation into its routines. Furthermore, it engaged in in-depth cooperation with quality suppliers, textile institutions and research institutes. By boosting product competitiveness through joint development of new products and technology, the Company fueled business growth with technology.

– The Company collectively coordinated and managed supply chain resources to encourage resource sharing among various departments and product categories, which laid a foundation for bulk purchasing and centralised management. To restructure supply resources, it developed a system to retain high-quality suppliers and eliminate underperforming ones. It also continued to increase cooperation with good suppliers to ensure the efficiency and preciseness of supply chain resources.

– The Company pushed forward the transition of the supply chain from "passive production" to "active production". It orchestrated merchandise, production and sales planning to form an effective interaction mechanism, and established a win-win mechanism for the long-term development and synergetic growth with strategic suppliers, so as to meet the business needs of diversified channels and boost business with top-quality supply chain resources.

– In respect of cost management, the Company maintained stringent cost planning and practised the concept of cost control and management in all areas ranging from design, development to various production stages, with a view to driving optimization and upgrade of cost structure with concerted efforts. Meanwhile, the Company continued to tighten the requirements on labour, occupational health and environmental protection to ensure sustainable development.

– The Company maintained its focus on the establishment of its own supply chain system for more flexible and efficient performance. It was committed to gradually instilling the core industrial capabilities into LI-NING's system over time. As a result, it has strengthened its own supply chain management and the application of technological research and development knowledge, which led to a more precise and swift supply chain system.

NEW BUSINESS

LI-NING YOUNG

Adhering to the corporate vision and group strategy, LI-NING YOUNG continued to explore and enhance brand image in 2020. It positioned itself to be "the fashionable professional sports kidswear brand originated from China" and optimised the business model to drive brand growth.

– In respect of products, the Company launched professional sports products for kids enjoying sports. Based on this scenario, it developed technology with professional functions for children, provided professional competition equipment for young athletes in China, and built the reputation as a professional sports brand for kids with a focus on basketball and running products. At the same time, its lifestyle products were supported by the professional sports business. The Company centred its kidswear business around sports lifestyle elements and developed hero products to sustain business growth.

– In terms of the supply chain, the Company continued to develop and enhance supply chain resources to improve the supply chain system of the kidswear business. We consolidated our production processes and resources advantages to minimise product cost, boost product efficiency, ensure product quality, optimize production procedures, promote the flexible response of the supply chain system and facilitate efficiency upgrade.

– For channel development, we focused on the mid-to-high tier market, strengthened the shopping mall and clearance channels, and improved store image to promote channel efficiency and health. In line with the omni-channel strategy of the Company, we actively expanded new retail channels and adapted to external changes to explore new sales channels and business opportunities.

– For brand marketing, we explored specific promotion and sales channels for kidswear such as Mama's Community and members of Wechat groups by fully leveraging and consolidating promotion resources, including current KOLs, sports experts, celebrities and business partners, as well as making use of various digital marketing platforms, with reference to the special features of the kidswear business, thereby continuously exploring new sales channels while expanding brand and product influence.

As of 31 December 2020, LI-NING YOUNG business covered 29 provinces, municipalities and autonomous regions with a total of 1,021 stores. Looking forward, we will continue to intensely develop our kidswear business. Leveraging the LI-NING brand, we will enhance the marketing efforts of the kidswear brand, take a product-focused approach to upgrade core product technology and design, and advance the exploration of market demands and product categorization. Consistent efforts will be devoted to channel expansion, retail operations and supply chain resources, so as to develop LI-NING YOUNG into a leading professional sportswear brand for kids in China.

HUMAN RESOURCES

In 2020, based on the strategic focus of the Company, the human resources department formulated targeted human resources strategy and continued to optimize the organisation, incentive, talent management and corporate cultural system to cater to business needs.

– Regarding organisational development, in order to enhance operation efficiency, the Company has enhanced its retail operation and product control and management capability by establishing two major business units, namely direct operation and wholesale, to reinforce the functions of the sales headquarters. Moreover, the apparel and footwear research and development center has been established to speed up the enhancement of product research and development capability, while respective business departments for badminton and table tennis have been set up to promote the development of the multi-categories strategy.

– In terms of talent management, the Company controlled the number of basic staff and actively recruited mid- to high-end talents in an effort to accelerate the improvement of the overall capability of its staff. It has also expedited the nurturing of internal talents and building its talent reserves by training management trainees and retail talents on an ongoing basis.

– In terms of remuneration and benefits, in line with the changes of business model, the Company optimized the incentive sharing system by focusing its resources on core staff. As such, incentive resources have been redirected towards staff in core positions that is able to drive performance growth and enhance organizational capabilities, thereby encouraging staff to create value with their job positions.

– Regarding culture and staff relationship, the Company improved its business and culture management system to stimulate organizational and employees' vitality, and continued to optimize its welfare schemes and career development system, aiming to further develop the core values of the Company, improve staff satisfaction and engagement and increase its staff's sense of honor and mission.

In the future, we will optimize our organisational efficiency and accelerate the development of talent teams with the aim of achieving sustainable growth of the Company and enhancing sustainable profitability. In addition, we will establish a new incentive mechanism based on new short-term goals and medium- and long-term strategic plans to reinforce the nurturing of retail talents. We will effectively manage the investments in human resources, while continuing to strengthen our organisational capacity, strictly manage and control the number of staff and enhance the overall performance and efficiency of staff so as to give full support to the Company's strategic goal.

As at 31 December 2020, the Group had 3,625 employees (31 December 2019: 3,783 employees), among which 3,466 employees were at the Group's headquarters and retail subsidiaries (31 December 2019: 3,610 employees), and 159 employees were at other subsidiaries (31 December 2019: 173 employees).

OUTLOOK

In addition to being an extraordinary year, the Year 2020 also marked the 30th anniversary of establishment of LI-NING brand. Having gone through multiple ups and downs in the industry, we are ever more focused and confident to cope with challenges encountered. In 2021, we will consistently adhere to the strategy of "Single Brand, Multi-categories, Diversified Channels", remain devoted to create LI-NING's experience value and strengthen the core business in all aspects in order to promote sustainable business growth of the Group:

– In respect of products, we will continue to focus on product functions and technological innovation. At the same time, we will enhance our capability of precisely analyzing fashion trends and sports cultures, striving to provide consumers with diversified consumption experience, enhance consumers' loyalty and deepen our brand influence;

– In respect of channel development, we will focus on enhancing the efficiency and promoting the development of big stores with high efficiency. We will also accelerate the synergistic operation of the omni-channel by establishing diversified sales channel network and optimizing the structure of channels, so as to maximize the efficiency of our sales channels;

– In respect of retail operation and supply chain, we will optimize the standards of store operation and improve store management ability, as well as improve the online and offline integrated operation mode on the basis of both product and consumption experience. Meanwhile, we will continue to consolidate and optimize the supply chain system to continue enhancing the capability in terms of our own supply chain management and research and development regarding application of technology and knowledge;

– In respect of marketing, we will make full use of digitalization to further strengthen our comprehensive marketing layout with an aim to expand the consumer coverage. Based on actual consumption demand, we will keep abreast of hot topics and trends to increase popularity of our brand and convey our brand value;

– In respect of new business, enhancing single store profitability will remain as our major development goal. We will make reasonable and prudent use of resources to explore business opportunities and market potential, in order to foster new opportunities for the Company's profit growth in the long run.

Along with the continuous growth of the national economy and national consumption, sports consumption has become the key driving force of the sports industry and plays a vital role in nurturing healthy lifestyle. We strongly believe that there will be promising prospects and strong demand for the sports industry in the future. As we headed into the end of 2020, although the COVID-19 pandemic has yet come to an end, the development of vaccine was a "morale booster" to the general public. Hence, the socioeconomic and consumption sentiment in the PRC improved gradually amid strict and orderly implementation of measures for pandemic prevention and control. In view of consumers' demand for diversified products in respect of physical and mental health and living standards, the sports industry has achieved breakthroughs and advancement continuously and becomes widely accepted by the general public in a more diversified, refined and commercialized manner. As one of the leading enterprises in the professional sports industry in the PRC, the Group kept pace with industry development to constantly capture new opportunities and embrace new challenges and developments. Under the strong support of the national policies, we will continue to proactively explore and broaden room for business development, establish a more professional and unique image for LI-NING brand, and bring the spirit of "Anything is Possible" into real practice.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company or any of its subsidiaries purchased, sold or redeemed any of its shares during the year ended 31 December 2020.

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 2020, 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. During the year of 2020, Mr. Li Ning, the Executive Chairman and Joint Chief Executive Officer ("Joint CEO"), and Mr. Kosaka Takeshi, the Executive Director and Joint CEO, jointly assumed the role of chief executive officer of the Company during the year. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles were undertaken by Mr. Li Ning during the year. Notwithstanding the above, the Board is of the view that given that Mr. Li Ning is familiar with the business operations and management of the Group, the assumption of the roles of Executive Chairman and Joint 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 Mr. Li Ning and Mr. Kosaka Takeshi can complement with each other in performing the roles of the Joint CEOs, and create synergy effect which 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 2020 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 2020.

ANNUAL GENERAL MEETING

The AGM of the Company will be held at 11:00 am on Friday, 11 June 2021.

The notice of the AGM will be despatched to the shareholders together with the 2020 annual report of the Company on or around 13 April 2021 and published on the website of the Company (http://ir.lining.com) and the "HKExnews" website of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk).

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

Hong Kong, 18 March 2021

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