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LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

- Reported net profit attributable to equity holders increased by approximately 110% to RMB1,499 million, and the net profit margin raised from 6.8% to 10.8%; after excluding the one-off profit and loss not related to operation, the net profit attributable to equity holders increased by approximately 77% to RMB1,266 million, and the net profit margin was 9.1%.
 - Revenue increased by 32% to RMB13,870 million
 - Gross profit margin expanded 1 percentage point
 - Enhanced operating leverage notwithstanding the Group's investment in new initiatives and increase of organization costs
- Operating cash flow increased by 110% to RMB3,503 million.
- Significant improvement in working capital continued:
 - Gross average working capital improved (reduced) by 16% while revenue increased by 32%
 - Cash conversion cycle further improved (shortened) by 14 days (2018: 40 days/2019: 26 days)
- The Board has recommended payment of a final dividend of RMB15.47 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2019 (2018: RMB8.78 cents).

OPERATIONAL HIGHLIGHTS

- The retail sell-through for the overall platform increased by high-twenties, including online and offline channels.
- Channel inventory turnover improvement continued.
- Overall same-store-sales-growth in 2019 accelerated to high-teens.
- Offline channel new product sell-through increase accelerated to low-twenties:
 - Average selling price (ASP) increased by high-single-digit
 - New product gross margin improved over 1 percentage point
 - Sell-out rate: 6-month improved over 4 percentage points, 3-month improved over 2 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 2019, together with comparative figures of 2018, as follows:

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	As at 31 December	
		2019	2018
		RMB'000	RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,038,588	830,085
Right-of-use assets		981,422	–
Investment properties		119,278	–
Land use rights		72,233	74,092
Intangible assets		193,261	233,921
Deferred income tax assets		431,715	239,047
Other assets		83	132,491
Investments accounted for using the equity method		1,056,866	728,499
Other receivables		114,712	102,916
		<hr/>	<hr/>
Total non-current assets		4,008,158	2,341,051
Current assets			
Inventories	4	1,407,257	1,239,741
Other assets – current portion		443,406	508,536
Trade receivables	5	686,606	928,895
Other receivables – current portion		39,476	37,340
Restricted bank deposits		1,126	200
Cash and cash equivalents		5,961,445	3,671,542
		<hr/>	<hr/>
Total current assets		8,539,316	6,386,254
		<hr/>	<hr/>
Total assets		12,547,474	8,727,305
		<hr/> <hr/>	<hr/> <hr/>

	<i>Note</i>	As at 31 December	
		2019	2018
		RMB'000	RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		214,300	204,435
Share premium		3,547,682	3,249,389
Shares held for Restricted Share Award Scheme		(276,664)	(168,809)
Other reserves		1,153,645	1,314,569
Retained earnings		2,482,676	1,217,456
		<u>7,121,639</u>	<u>5,817,040</u>
Non-controlling interests in equity		<u>2,554</u>	<u>2,550</u>
Total equity		<u>7,124,193</u>	<u>5,819,590</u>
LIABILITIES			
Non-current liabilities			
License fees payable		24,581	27,565
Derivative financial instruments		25,806	14,274
Lease liabilities		557,451	–
Deferred income tax liabilities		45,002	34,730
Deferred income		53,821	53,675
		<u>706,661</u>	<u>130,244</u>
Total non-current liabilities		<u>706,661</u>	<u>130,244</u>
Current liabilities			
Trade payables	6	1,348,206	1,133,314
Contract liabilities		293,926	97,979
Lease liabilities – current portion		336,870	–
Other payables and accruals		2,173,658	1,383,118
License fees payable – current portion		31,349	28,719
Current income tax liabilities		530,635	134,341
Derivative financial instruments – current portion		1,976	–
		<u>4,716,620</u>	<u>2,777,471</u>
Total current liabilities		<u>4,716,620</u>	<u>2,777,471</u>
Total liabilities		<u>5,423,281</u>	<u>2,907,715</u>
Total equity and liabilities		<u>12,547,474</u>	<u>8,727,305</u>

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
Revenue	3	13,869,630	10,510,898
Cost of sales	7	<u>(7,064,168)</u>	<u>(5,458,124)</u>
Gross profit		6,805,462	5,052,774
Distribution expenses	7	(4,445,070)	(3,708,446)
Administrative expenses	7	(968,264)	(679,873)
Reversal of impairment losses on financial assets – net		12,258	18,176
Other income and other gains – net	8	<u>138,823</u>	<u>94,546</u>
Operating profit		1,543,209	777,177
Finance income	9	28,873	23,376
Finance expenses	9	<u>(59,005)</u>	<u>(13,865)</u>
Finance (expenses)/income – net	9	(30,132)	9,511
Share of profit of investments accounted for using the equity method		<u>343,469</u>	<u>63,633</u>
Profit before income tax		1,856,546	850,321
Income tax expense	10	<u>(357,403)</u>	<u>(135,058)</u>
Profit for the year		1,499,143	715,263
Attributable to:			
Equity holders of the Company		1,499,139	715,263
Non-controlling interests		<u>4</u>	<u>–</u>
		<u>1,499,143</u>	<u>715,263</u>
Earnings per share attributable to equity holders of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share	11	<u>61.94</u>	<u>29.63</u>
Diluted earnings per share	11	<u>60.13</u>	<u>29.19</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Profit for the year	1,499,143	715,263
Other comprehensive income/(loss):		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	2,641	1,320
<i>Items that may not be reclassified to profit or loss</i>		
Changes in the fair value of equity investments at fair value through other comprehensive income	—	(2,888)
Total comprehensive income for the year	1,501,784	713,695
Attributable to:		
Equity holders of the Company	1,501,780	713,695
Non-controlling interests	4	—
	1,501,784	713,695

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 26 March 2020.

2. Basis of preparation and changes in accounting policies

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

2.1 Basis of preparation

(a) *Compliance with IFRS and HKCO*

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

(b) *Historical cost convention*

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

(c) *New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

IFRS 16	<i>Leases</i>
Amendments to IFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to IAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Amendments to IAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
IFRIC 23	<i>Uncertainty over Income Tax Treatments</i>

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new standards retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. Please see the disclosures in Note 2.2 for details. The amendments to most of the other standards 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 periods.

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

The following new accounting standards and interpretations have been published but are not mandatory for 31 December 2019 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.

Amendments to IAS 1 and IAS 8	<i>Definition of Material</i> ⁽¹⁾
Amendments to IFRS 3	<i>Definition of a Business</i> ⁽¹⁾
IFRS 17	<i>Insurance Contracts</i> ⁽²⁾
Amendment to IFRS 7 and IFRS 9	<i>Interest Rate Benchmark Reform</i> ⁽¹⁾
Amendments to IAS 1	<i>Classification of Liabilities as Current and Non-current</i> ⁽³⁾

⁽¹⁾ Effective for the accounting period beginning on 1 January 2020.

⁽²⁾ Effective for the accounting period beginning on 1 January 2021 (likely to be extended to 1 January 2022).

⁽³⁾ Effective for the accounting period beginning on 1 January 2022.

2.2 *Changes in accounting policies*

This note explains the impact of the adoption of IFRS 16 on the Group's financial statements.

As indicated in Note 2.1 above, the Group has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the requirements of IAS 17 *Leases*. These lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.5%-6.1%.

(a) *Practical expedients applied*

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

(b) *Measurement of lease liabilities*

	<i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018	959,500
Discounted using the lessee's incremental borrowing rate at the date of initial application	792,728
Less: short-term leases recognised on a straight-line basis as expense	<u>(121,077)</u>
Lease liabilities recognised as at 1 January 2019	<u>671,651</u>
Of which are:	
Lease liabilities – current portion	264,443
Lease liabilities – non-current portion	<u>407,208</u>
	<u>671,651</u>

(c) *Measurement of right-of-use assets*

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

(d) *Adjustments recognised in the consolidated balance sheet as at 1 January 2019*

The change in accounting policy affected the following items in the consolidated balance sheet as at 1 January 2019:

- right-of-use assets – increased by RMB757,762,000
- other assets – current portion – decreased by RMB86,931,000
- lease liabilities – non-current portion – increased by RMB407,208,000
- lease liabilities – current portion – increased by RMB264,443,000
- other payables and accruals – decreased by RMB820,000

Land use rights are accounted for in accordance with the accounting policies for right-of-use assets and are presented as land use rights in the consolidated balance sheet.

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 segment information presented by brand perspective has ceased since 1 January 2018 as 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.

Revenue breakdown by product category is as follows:

	Year ended 31 December	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Footwear	6,085,402	4,601,262
Apparel	7,109,763	5,316,033
Equipment and accessories	674,465	593,603
Total	<u>13,869,630</u>	<u>10,510,898</u>

Geographical information of revenue

	Year ended 31 December	
	2019 RMB'000	2018 RMB'000
The PRC (including the Hong Kong Special Administrative Region and the Macau Special Administrative Region)	13,600,230	10,262,236
Other regions	269,400	248,662
Total	13,869,630	10,510,898

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 2019 and 2018, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Inventories

	2019 RMB'000	2018 RMB'000
Raw materials	7,087	1,112
Work in progress	5,930	3,101
Finished goods	1,526,927	1,360,167
	1,539,944	1,364,380
Less: provision for write-down of inventories to net realisable value	(132,687)	(124,639)
	1,407,257	1,239,741

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB6,842,827,000 for the year ended 31 December 2019 (31 December 2018: RMB5,312,201,000). 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 2019 and 2018.

5. Trade receivables

	2019 RMB'000	2018 RMB'000
Accounts receivable	944,799	1,213,288
Less: allowance for impairment of trade receivables	(258,193)	(284,393)
	686,606	928,895

Customers are normally granted credit terms within 90 days. As at 31 December 2019 and 2018, ageing analysis of trade receivables based on invoice date are as follows:

	2019 RMB'000	2018 RMB'000
0 – 30 days	431,286	551,193
31 – 60 days	211,047	247,090
61 – 90 days	40,096	99,029
91 – 180 days	41,497	87,835
Over 180 days	220,873	228,141
	944,799	1,213,288

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

	2019 RMB'000	2018 RMB'000
Opening balance	284,393	401,845
Reversal of provision for impairment of trade receivables	(17,529)	(22,227)
Trade receivables written off during the year as uncollectible	(8,671)	(95,225)
	<u>258,193</u>	<u>284,393</u>

6. Trade payables

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

	2019 RMB'000	2018 RMB'000
0 – 30 days	1,125,045	758,434
31 – 60 days	191,812	310,259
61 – 90 days	23,777	57,309
91 – 180 days	1,717	1,947
181 – 365 days	1,725	1,857
Over 365 days	4,130	3,508
	<u>1,348,206</u>	<u>1,133,314</u>

7. Expenses by nature

	2019 RMB'000	2018 RMB'000
Cost of inventories recognised as expenses included in cost of sales	6,842,827	5,312,201
Depreciation on property, plant and equipment (<i>Note a</i>)	419,881	363,037
Amortisation of land use rights and intangible assets	40,666	48,375
Depreciation on right-of-use assets	360,424	–
Impairment of goodwill	36,394	–
Advertising and marketing expenses	1,327,013	1,090,608
Commission and trade fair related expenses	268,430	180,637
Staff costs, including directors' emoluments (<i>Note a</i>)	1,518,565	1,139,002
Short-term lease rentals and variable lease payments not included in lease liabilities and rental related expenses (2018: Operating lease rentals and related expenses in respect of land and buildings)	628,125	898,440
Research and product development expenses (<i>Note a</i>)	362,494	228,798
Transportation and logistics expenses	497,343	395,775
Auditor's remuneration		
– Audit services	5,550	5,200
– Non-audit services	1,878	1,290
Management consulting expenses	107,443	78,877

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

	2019 RMB'000	2018 RMB'000
Government grants	63,893	34,311
License fees income	10,202	16,299
Interest income from wealth management products at fair value through profit or loss	78,236	46,641
Fair value losses on derivative financial instruments at fair value through profit or loss	(13,508)	(8,690)
Dividends	–	5,985
	<u>138,823</u>	<u>94,546</u>

9. Finance (expenses)/income – net

	2019 RMB'000	2018 RMB'000
Finance income		
Interest income on bank balances and deposits	24,655	14,947
Net foreign currency exchange gain	4,218	8,429
	<u>28,873</u>	<u>23,376</u>
Finance expenses		
Amortisation of discount – license fees payable	(3,197)	(4,320)
Amortisation of discount – lease liabilities	(45,400)	–
Others	(10,408)	(9,545)
	<u>(59,005)</u>	<u>(13,865)</u>
Finance (expenses)/income – net	<u>(30,132)</u>	<u>9,511</u>

10. Income tax expense

	2019 RMB'000	2018 RMB'000
Current income tax		
– Corporate income tax (Note b)	539,088	122,197
– Withholding income tax on interest income from subsidiaries in the PRC (Note c)	711	1,174
	<u>539,799</u>	<u>123,371</u>
Deferred income tax	(182,396)	11,687
Income tax expense	<u>357,403</u>	<u>135,058</u>

Notes:

- (a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.
- (b) For the year ended 31 December 2019, provision for the corporate income tax of Chinese Mainland is calculated based on the statutory tax rate of 25% (2018: 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 (2018: 16.5%).
- (c) This mainly arose from the interests due by the Company's subsidiaries in Chinese Mainland to other group companies in Hong Kong during the years ended 31 December 2019 and 2018, which are subject to withholding tax at the rate of 7%.

11. Earnings per share

Basic

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

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company had completed the issuance of offer securities. The below market subscription price of these two events had effectively resulted in 38,372,000 ordinary shares (31 December 2018: 57,689,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share.

	2019	2018
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>1,499,139</u>	<u>715,263</u>
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (<i>in thousands</i>)	<u>2,420,222</u>	<u>2,413,636</u>
Basic earnings per share (<i>RMB cents</i>)	<u>61.94</u>	<u>29.63</u>

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.

	2019	2018
Profit attributable to equity holders of the Company, used to determine diluted earnings per share (<i>RMB'000</i>)	<u>1,499,139</u>	<u>715,263</u>
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (<i>in thousands</i>)	2,420,222	2,413,636
Adjustment for the restricted shares (<i>in thousands</i>)	27,505	22,603
Adjustment for the share option schemes (<i>in thousands</i>)	<u>45,279</u>	<u>14,266</u>
Deemed weighted average number of shares for diluted earnings per share (<i>in thousands</i>)	<u>2,493,006</u>	<u>2,450,505</u>
Diluted earnings per share (<i>RMB cents</i>)	<u>60.13</u>	<u>29.19</u>

Note:

As at 31 December 2019, there were 4,356,000 share options that could potentially have a dilutive impact in the future but were anti-dilutive during the year ended 31 December 2019. As at 31 December 2018, there were 1,420,000 share options that could potentially have dilutive impact in the future but were anti-dilutive during the year ended 31 December 2018.

12. Dividends

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Proposed final dividend of RMB15.47 cents (2018: RMB8.78 cents) per ordinary share	<u>379,682</u>	<u>214,579</u>

On 26 March 2020, the Board proposed a final dividend of RMB15.47 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2019.

The proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves for the year ending 31 December 2020.

13. Events after the balance sheet date

Conversion of convertible securities (“CS”)

During the period from 1 January 2020 to the date of approval of the financial statements, CS with carrying value of HK\$390,592,000 (equivalent to approximately RMB305,697,000) were converted into 137,799,000 ordinary shares of the Company.

The assessment of the impact of the novel coronavirus (“COVID-19”)

The raging outbreak of COVID-19 at the beginning of 2020 has greatly affected people’s livelihood and travelling plans as well as market order. The operation and financial performance of both the industry and the Group have also been affected inevitably, posing severe challenges for the overall outlook for 2020. Up to the date on which the consolidated financial results were approved for issue, the Group is still in the process of assessing the impacts of the COVID-19 on the financial performance of the Group.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB15.47 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2019 (2018: RMB8.78 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 12 June 2020 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 12 June 2020. Such dividend will not be subject to any withholding tax. Upon shareholders’ approval, the proposed final dividend will be paid:

- (i) on 30 June 2020 to ordinary shareholders whose names shall appear on the register of members of the Company on 19 June 2020;
- (ii) on 30 June 2020 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 and remain outstanding on 19 June 2020;
- (iii) on 6 July 2020 (i.e. the third business day after 30 June 2020) to holders of convertible securities issued under the open offers of convertible securities of the Company as set out in the listing documents of the Company dated 27 March 2013 and remain outstanding on 19 June 2020.

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 19 June 2020) shall be entitled to the distribution of such final dividend of the Company. For details of calculation of distribution of the final dividend entitled to the convertible securities please refer to the listing documents of the Company dated 27 March 2013 and 9 January 2015 respectively.

The Company did not declare interim dividend for the six months ended 30 June 2019.

CLOSURE OF REGISTER OF MEMBERS AND HOLDERS OF CONVERTIBLE SECURITIES

For the purpose of determining shareholders of the Company who are entitled to attend and vote at the forthcoming AGM to be held on 12 June 2020 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 holders 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 8 June 2020 (Monday)
Period of closure of register of members	9 June 2020 (Tuesday) to 12 June 2020 (Friday) (both days inclusive)
Record date	12 June 2020 (Friday)
AGM date	12 June 2020 (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, 8 June 2020.

(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 2020 (Wednesday)
Period of closure of register of members and register of holders of convertible securities	18 June 2020 (Thursday) to 19 June 2020 (Friday) (both days inclusive)
Final dividend record date	19 June 2020 (Friday)

In order to qualify for the proposed final dividend, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Wednesday, 17 June 2020.

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 2019 are set out below:

	Year ended 31 December 2019	2018	Change (%)
Income statement items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue (Note 1)	13,869,630	10,510,898	32.0
Gross profit	6,805,462	5,052,774	34.7
Operating profit	1,543,209	777,177	98.6
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 2)	2,707,649	1,252,222	116.2
Profit attributable to equity holders (Note 3)	1,499,139	715,263	109.6
Basic earnings per share (RMB cents) (Note 4)	61.94	29.63	109.0
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	49.1	48.1	
Operating profit margin (%)	11.1	7.4	
Effective tax rate (%)	19.3	15.9	
Margin of profit attributable to equity holders (%)	10.8	6.8	
Return on equity attributable to equity holders (%)	23.2	13.1	
Expenses to revenue ratios			
Staff costs (%)	10.9	10.8	
Advertising and marketing expenses (%)	9.6	10.4	
Research and product development expenses (%)	2.6	2.2	
	31 December 2019	31 December 2018	
Balance sheet items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Total assets (Note 5)	12,547,474	8,727,305	
Capital and reserves attributable to equity holders (Note 6)	7,121,639	5,817,040	
Key financial ratios			
Asset efficiency			
Average inventory turnover (days) (Note 7)	68	78	
Average trade receivables turnover (days) (Note 8)	21	36	
Average trade payables turnover (days) (Note 9)	63	74	
Asset ratios			
Debt-to-equity ratio (%) (Note 10)	76.2	50.0	
Net asset value per share (RMB cents)	311.15	269.79	

Notes:

1. Including revenue for the period from 1 January to 30 September 2019: RMB9,722,804,000.
 2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of profit for the year, income tax expense, finance (expenses)/income – net, depreciation on property, plant and equipment, amortisation of land use rights and intangible assets and depreciation on right-of-use assets.
 3. Including profit attributable to equity holders for the period from 1 January to 30 September 2019: RMB1,117,856,000.
 4. The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year, divided by the weighted average number of shares in issue less ordinary shares held for Restricted Share Award Scheme.
 5. Total assets at 30 September 2019: RMB12,179,683,000.
 6. Capital and reserves attributable to equity holders at 30 September 2019: RMB6,835,448,000.
 7. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year, divided by cost of sales and multiplied by the total number of days in the year.
 8. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, divided by revenue and multiplied by the total number of days in the year.
 9. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, divided by total purchases and multiplied by the total number of days in the year.
 10. The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.
- * *The aforesaid indicators provided by the Group may not necessarily be the same in terms of calculation methods as those provided by other issuers.*

Revenue

The Group's revenue for the year ended 31 December 2019 amounted to RMB13,869,630,000, representing an increase of 32.0% as compared to that of 2018, with a significant year-on-year increment. With consumers' enhanced confidence in ethnic culture, the Group has explored the brands' implicit stories and reshaped its brand image by effectively incorporating Chinese elements into its products, thus driving a rapid increase in revenue from all channels, among which, (a) as the market confidence in the main LI-NING brand has strengthened, the sell-through of retail terminal grew by more than 30%, which led to the improvement of the ordering capability of distributors and the growth of the wholesale business of LI-NING's distributors, in addition, businesses such as LI-NING YOUNG continued to grow steadily, therefore the revenue generated by the franchised distributors recorded a growth of approximately 40%; (b) even with the transfer of certain stores to the distributors, the growth of sales revenue from direct operation still increased by 15%, driven by healthy growth in same-store-sales and improvement in new store productivity; and (c) the e-commerce channel recorded a growth of approximately 40% owing to the rapid attraction of online consumers by leveraging its user-friendly services in recent years and the fact that its self-developed "COUNTERFLOW" product series and its diversified product positioning have refined the needs of consumer groups. While securing strong revenue growth, the Company will continue to monitor the changes in inventory of its channels and maintain it at a reasonable and healthy level.

Revenue breakdown by product category

	Year ended 31 December		2018		Revenue Change (%)
	2019	% of total revenue	2018	% of total revenue	
	RMB'000		RMB'000		
Footwear	6,085,402	43.9	4,601,262	43.8	32.3
Apparel	7,109,763	51.2	5,316,033	50.6	33.7
Equipment and accessories	674,465	4.9	593,603	5.6	13.6
Total	13,869,630	100.0	10,510,898	100.0	32.0

Revenue breakdown (in %) by sales channel

	Year ended 31 December		Change (%)
	2019	2018	
	% of revenue	% of revenue	
PRC market			
Sales to franchised distributors	49.5	46.7	2.8
Sales from direct operation	26.1	29.8	(3.7)
Sales from e-commerce channel	22.5	21.1	1.4
International markets	1.9	2.4	(0.5)
Total	100.0	100.0	

Revenue breakdown by geographical location

	Note	Year ended 31 December		2018		Revenue Change (%)
		2019	% of revenue	2018	% of revenue	
		RMB'000		RMB'000		
PRC market						
Northern region	1,2	6,886,570	49.7	5,320,312	50.6	29.4
Southern region	1,3	4,954,877	35.7	3,679,935	35.0	34.6
South China region	1,4	1,758,783	12.7	1,261,989	12.0	39.4
International markets		269,400	1.9	248,662	2.4	8.3
Total		13,869,630	100.0	10,510,898	100.0	32.0

Notes:

1. In 2019, the Group restructured and adjusted its sales system and related organizational structure thus comparative figures have also been restated for consistent presentation purpose.
2. The Northern region includes provinces, municipalities and autonomous regions covering Beijing, Tianjin, Shanxi, Shandong, Hebei, Inner Mongolia, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Gansu, Ningxia, Xinjiang and Qinghai.
3. The Southern region includes provinces, municipalities and autonomous regions covering Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing, Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei and Anhui.
4. The South China region includes provinces, autonomous regions and special administrative regions covering Guangdong, Guangxi, Fujian, Hainan and Macau.

Cost of Sales and Gross Profit

For the year ended 31 December 2019, the overall cost of sales of the Group amounted to RMB7,064,168,000 (2018: RMB5,458,124,000), and the overall gross profit margin was 49.1% (2018: 48.1%). During the year, the Group provided higher percentage of tag price on delivery to franchised distributors due to the increasing brand recognition, and there was better sales discount on both new and old products in self-operated channel; moreover, the tag-cost-ratio further improved. The aforesaid factors contributed to the increase of 1.0 percentage point in gross profit margin compared to last year.

Distribution Expenses

For the year ended 31 December 2019, the Group's overall distribution expenses amounted to RMB4,445,070,000 (2018: RMB3,708,446,000), accounting for 32.0% (2018: 35.3%) of the Group's total revenue.

The percentage of distribution expenses to revenue dropped significantly by 3.3 percentage points during the year. While revenue grew significantly, the Group implemented reasonable control over items such as advertising and marketing expenses and miscellaneous daily expenses. However, distribution expenses increased as compared to last year, which is mainly attributable to: (1) along with the development of the Group's business, both expenses that directly related to sales, such as logistics expenses, variable rentals, commission, wages and bonuses of marketing staff and license fees that are linked to part of the income of particular products have all increased in accordance with the growth in revenue; (2) the Group focused its channels on refining user's experience during the year to strive to build up trendy and efficient stores, leading to an increase in the asset investments of points of sales and corresponding depreciation charges; and (3) the increase in relevant brand promotion fees with a view to building up a trendy brand culture image and enhancing brand value.

Administrative Expenses

For the year ended 31 December 2019, the Group's overall administrative expenses amounted to RMB968,264,000 (2018: RMB679,873,000), accounting for 7.0% (2018: 6.5%) of the Group's total revenue with a year-on-year increase of 0.5 percentage point. 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 increase in administrative expenses is mainly attributable to: (1) in order to further increase operating efficiency and enhance supply chain management, the Group successively hired professionals in relevant fields and also provided incentives for its personnel holding key positions; (2) with a view to increasing product competitiveness, the Group made great efforts in research, development and innovation during the year, leading to a substantial increase in technological development fees; (3) the management consulting expenses have increased as a result of business expansion; and (4) the Group has made provision for the relevant goodwill impairment of RMB36,394,000 in aggregate resulting from the realignment of the Group's overall channel structure. Consequently, the Group's administrative expenses and its percentage to revenue increased as compared to last year.

Share of Profit of Investments Accounted for Using the Equity Method

For the year ended 31 December 2019, the Group's share of profit of investments accounted for using the equity method amounted to RMB343,469,000 (2018: RMB63,633,000), among which, the Group shared the one-off gain of RMB269,925,000 in relation to the disposal of a land parcel held by Shanghai Double Happiness Co., Ltd. ("Double Happiness") during the year.

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

For the year ended 31 December 2019, the Group's EBITDA amounted to RMB2,707,649,000 (2018: RMB1,252,222,000), representing a year-on-year increase of 116.2%. This was comprised of share of gain of RMB269,925,000 in relation to the disposal of a land parcel held by Double Happiness; the provision for goodwill impairment of RMB36,394,000 due to the realignment of the Group's overall channel structure; and the inclusion of part of the expenses in depreciation charges and interest expenses, which were originally included in lease expenses of RMB405,824,000 under the influence of IFRS 16 *Leases*, which took effect from 1 January 2019. Without taking into consideration of the aforementioned factors, for the year ended 31 December 2019, the Group's EBITDA amounted to RMB2,068,294,000, representing a year-on-year increase of 65.2%. This was mainly attributable to the significant increase in revenue, continuous improvement in gross profit margin and profit growth due to reasonable control over expenses.

Finance (Expenses)/Income

For the year ended 31 December 2019, the Group's net finance expenses amounted to RMB30,132,000 (2018: finance income of RMB9,511,000). The increase in net finance expenses was mainly due to the recognition of interest expenses on the lease liabilities of RMB45,400,000 according to the requirement of IFRS 16 during the year. In addition, as evidenced by the proper operation and sufficiency of its own capital, the Group recorded a significant growth in interest income as compared to last year, among which interest income from wealth management products has been recognised in other income and other gains-net.

Income Tax Expense

For the year ended 31 December 2019, the income tax expense of the Group amounted to RMB357,403,000 (2018: RMB135,058,000) and the effective tax rate was 19.3% (2018: 15.9%), while excluding the one-off profit and loss not related to operation, the effective tax rate was 22.0%. The effective tax rate remained at a level slightly below the standard, which was attributable to the recognition of certain deferred income tax assets during the year.

Overall Profitability Indicators

During the year, the sales revenue and gross profit margin of the Group were both improved, while expense ratio decreased and other income and other gains increased, together with a substantial growth in share of profit of investments accounted for using the equity method, thus the overall profitability indicators of the Group for the year ended 31 December 2019 improved substantially. During the year, the Group's profit attributable to equity holders amounted to RMB1,499,139,000 (2018: RMB715,263,000), representing a year-on-year increase of 109.6%, while after excluding the one-off profit and loss not related to operation, the profit attributable to equity holders amounted to RMB1,265,608,000, representing a year-on-year increase of 76.9%. The margin of profit attributable to equity holders was 10.8% (2018: 6.8%), while after excluding the one-off profit and loss not related to operation, the margin of profit attributable to equity holders was 9.1%. The return on equity attributable to equity holders was 23.2% (2018: 13.1%), while after excluding the one-off profit and loss not related to operation, the return on equity attributable to equity holders was 19.9%.

Provision for Inventories

The Group's policy in respect of provision for inventories for 2019 was the same as that in 2018. 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 2019, the accumulated provision for inventories was RMB132,687,000 (31 December 2018: RMB124,639,000). During the year, the balance of the provision for inventories increased along with the increase in gross value of inventories, the growth rate of both of which, however, were lower than that of revenue. The Group will continue to monitor the changes in inventory ageing so as to improve the inventory ageing structure.

Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for 2019 was the same as that in 2018. The provision for doubtful debts was recorded at an amount equal to the lifetime expected credit losses of the trade receivables that do not contain a significant financing component, and 12 months expected credit losses or lifetime expected credit losses of other receivables, depending on whether there has been a significant increase in credit risk since initial recognition.

As at 31 December 2019, the accumulated provision for doubtful debts was RMB267,315,000 (31 December 2018: RMB288,444,000), among which the accumulated provision for doubtful debts of trade receivables was RMB258,193,000 (31 December 2018: RMB284,393,000) and the accumulated provision for doubtful debts of other receivables was RMB9,122,000 (31 December 2018: RMB4,051,000). The trade receivables and other receivables written off during the year as uncollectible amounted to RMB8,871,000 (2018: RMB95,225,000). There was a decrease in the gross value of trade receivables with lower provision for doubtful debts.

Liquidity and Financial Resource

The Group's net cash from operating activities for the year ended 31 December 2019 amounted to RMB3,503,469,000 (2018: RMB1,671,869,000). As at 31 December 2019, 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 RMB5,961,445,000, representing a net increase of RMB2,289,903,000 as compared with the position as at 31 December 2018. The increase was due to the following items:

Item	Year ended 31 December 2019 RMB'000
Operating activities:	
Net cash generated from operating activities	3,503,469
Investing activities:	
Net cash used in investing activities	(573,343)
Financing activities:	
Net cash used in financing activities	(648,624)
	<hr/>
Add: Exchange gains on cash and cash equivalents	8,401
	<hr/>
Net increase in cash and cash equivalents	2,289,903

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

As at 31 December 2019, the Group's banking facilities amounted to RMB1,069,700,000, 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 2019 and 31 December 2018, the Group had no pledged assets.

Contingent Liabilities

As at 31 December 2019, the Group had no significant contingent liabilities.

BUSINESS REVIEW

Looking back into 2019, the national economy operated steadily and achieved progress while maintaining stability. In particular, the sports consumption market in the PRC remained active and the sports-related industries witnessed robust growth. By leveraging the national policies and with support and promotion from governments in the PRC at all levels, the potentials of the sports and fitness industry were unleashed at a faster pace and the scale of the industry was brought to a new level. With the continuous improvement of the national economic structure and the quality of people's livelihood, the consumption concepts became more mature, which urged the sports consumption market to put greater efforts in the development towards a more diversified, professionalized and refined direction so as to create more rooms for the development of the sports industry. In view of the increasingly segmented sports consumption demand, we remain devoted to create and enhance LI-NING's experience value. We have adopted diversified strategies and approaches to consolidate the advantages of our online and offline platforms and strengthen differentiated consumption interactions and services, which has enabled further enhancement of consumption experience. We also made use of digital marketing to capture ever-changing consumption related hot topics, thereby further promoting our engagement with different consumer groups and hence enhancing the image and value of LI-NING brand. During the year, key operational indicators of the Group have been further optimized, the Group's revenue has maintained steady growth and the profitability has improved continuously.

During the year, we supported and deepened LI-NING's experience value comprehensively with products, channels and retail capability, and supply chain management remained as our main business focuses and the strategy of "Single Brand, Multi-categories, Diversified Channels" continued to be our core development direction. In terms of products, we continued to enhance the brand's professional sports attributes, at the same time we also scale up the efforts on research and development in sports technology as well as optimize our product functions so as to continuously upgrade the product experience for athletes and sports enthusiasts. Focusing on cultural creativity and popular trend, we offered professional sports products with increasingly diversified style based on cultural or fashionable elements, thereby providing more consumption choices and more accurate consumption experience for consumers and conveying our brand value efficiently. In 2019, we successively attracted consumers through multiple approaches, including "China LI-NING", fashion weeks, collaborations with designers and cross-sector crossover, which effectively expanded our consumer groups and further enhanced both our product and brand competitiveness. In terms of sales channels, we further optimized our structure of channels with a focus on diversified channel development strategies and continued to push ahead the establishment of stores with high efficiency and model stores with a view to further unleashing channel efficiency. In terms of retail operation, we continued to consolidate and improve the retail operation platform, aiming to enhance the retail operation standards of stores and hence improving its retail efficiency. In terms of supply chain, we further established the supply chain management system centering on business needs and continued to strengthen our own supply chain capabilities.

Latest trade fair orders and operational update

In terms of tag price, trade fair orders for LI-NING brand products (excluding China LI-NING and LI-NING YOUNG) from franchised distributors, which are for the third quarter of 2020, held in December 2019 registered a mid-teens growth on a year-on-year basis (this number is being adjusted downward depending on the financial impact to these distributors due to the outbreak of the epidemic).

For the fourth quarter ended 31 December 2019, 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-twenties growth on a year-on-year basis. In terms of channels, retail channel (direct operation) registered a high-teens growth and wholesale (franchised distributors) channel registered a mid-teens growth, while the e-commerce virtual stores business registered a low-forties growth on a year-on-year basis.

For the fourth quarter ended 31 December 2019, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform increased by mid-thirties on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a mid-thirties growth, with retail channel increased by high-teens and wholesale channel increased by low-forties, while the e-commerce virtual stores business registered a low-forties growth.

As at 31 December 2019, the total number of LI-NING POS (excluding LI-NING YOUNG) in the PRC amounted to 6,449, representing a net decrease of 115 POS since the end of previous quarter and a net increase of 105 POS since the beginning of year 2019. Among the net increase of 105 POS, direct retail accounts for a net decrease of 214 POS, and wholesale accounts for a net increase of 319 POS.

As at 31 December 2019, the total number of LI-NING YOUNG POS in China amounted to 1,101, representing a net increase of 175 POS since the end of previous quarter and a net increase of 308 POS since the beginning of this year.

Deepening the strategy of “Single Brand, Multi-categories, Diversified Channels” with an aim to enhance overall efficiency

Enhancing core competitiveness of products and brands by focusing on professional and technological elements, as well as enriching the sports lifestyle culture

During the year, we stayed focus on our five core categories, namely basketball, running, training, badminton and sports casual. We inherited the brand’s DNA of sports and further built up the professional and technological features of our products to optimize product experience. Moreover, we continued to strengthen the sports lifestyle and culture elements of our products by focusing on the differentiated features of various product categories and properly addressing the individual needs of different channels so as to deeply explore the product’s core competitiveness and strengthen the brand value.

For professional products, with a strong focus on innovative technology, we continued to strengthen the knowledge and research of sports science and consistently invest and dedicate our efforts in the exploration and application of new technologies and new materials. We paid close attention to wearing experience and emphasized the complementary effect of our products and technology, thereby creating more targeted technological features for different sports and categories. This has not only increased the personalized and professional image of our products, but also offered highly professional product experience for sports enthusiasts and professional athletes, thereby enhancing LI-NING brand’s competitiveness in mainstream mass sports in China.

- To enhance the professional attributes with technology, LI-NING running launched its self-developed “LI-NING 䨎” (李寧䨎) technology with lightweight and high resilience features, aiming to establish the matrix for world-class professional running shoes. Derived from Chinese character with a connotative meaning of “roaring thunder”, “䨎” has a character structure and connotation that imply knowledge of science in traditional Chinese culture and drives the promotion of the products’ technology story. In the second half of the year 2019, we launched “Boom” (飛電) and “Pegasus” (天馬), which are premium race running shoes under “LI-NING 䨎” series that are tailor-made for elite athletes. The product series, which has a strong rebounding force as well as more outstanding wear resistance and slip resistance features, has been officially launched after continuous trials, tests and evolutions. The revolutionary product experience can more effectively help athletes to achieve continuous breakthroughs and better results.
- During the year, the professional category of LI-NING basketball consistently underpinned its leading position in the industry along with rapid growth and development and earned high recognition from the consumers. Incorporating the “LI-NING 䨎” (李寧䨎) technology with lightweight and high resilience features, we launched “Yushuai XIII-䨎” (馭帥XIII—䨎) basketball shoes under the core professional series. This new product designed based on the characteristics of basketball games not only retained the outstanding performance of the “Yushuai” series, but also adopted E-PEBAX material of “䨎” technology for the sole in full length, which is lighter in weight with higher resilience than traditional EVA materials, at the same time offering high endurance and stability, hence enabling better bouncing force on basketball courts. Moreover, we launched story packs for professional basketball apparel which offers professional solutions for different seasons and scenarios based on the actual functional needs of basketball games. We also provided premium sport equipment for players of CBA League to meet the needs of athletes for professional competitions and such equipment has received positive feedbacks from professional players and the mass market.

- In terms of products of training category, we continued to focus on functional sports products and refine sports segments. We offered distinctive categories of professional products according to sport consumers from different segments to enhance product experience. Based on the characteristics of outdoor sport, we have developed waterproof and windproof protective gears and created a more vivid and professional product image with the use of high-tech props in stores. Icy printing and ice yarn materials are used based on the fabric characteristics and covered more functional products, thereby developing an all-rounded icy product series. We continued to develop our “Dynamic Technology” (隨動科技) product series to offer safe and protective outdoor sports equipment. In respect of the women’s training market with huge potential, we focused on female sports enthusiasts at gyms and launched product story packs such as “Pink Ribbon” (粉紅絲帶) and “Fitness Mickey” (健身米奇) featuring feminine elements and crossover collaboration, thereby increasing the influence of our brand among female consumers.
- Adhering to the product strategy of “professional quality, fashionable design”, the badminton category put great emphasis on the evolution of the star series. Leveraging our sporting resources and the exposure in competitions, the new high-end products have delivered excellent performance. During the year, we released “Tectonic” (蓄力突襲), a brand-new technological platform for badminton racket, and successfully created two popular products. Through integration of online and offline marketing and exposure in international events, the popularity and reputation of LI-NING badminton rackets have enhanced continuously. In terms of footwear and apparel, we paid close attention to the design and performance of sponsored products for the national teams as well as the evolution of the star series. “Monkey King” (大聖), a newly launched star series of badminton shoes, adopted new dual bouncing technology to effectively enhance athletes’ kick-off ability. This is our first attempt to use entirely flat outsole design together with multi-direction diamond sole texture design, which effectively strengthened the traction of the product. In addition, “Monkey King” (大聖) is the team shoes for the Men’s National Badminton Team of China.

In addition, we continued to enrich the sports lifestyle elements of our products. On the basis of meeting consumers’ demand for professional sports, we created 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. During the year, we continued to cooperate with sports stars and developed star products with their endorsements by integrating their personal characteristics into our professional products, which received overwhelming response from fans and sports enthusiasts. We also paid close attention to the consumption habits and needs amongst different consumer groups and gained insight of the cultural creativity and fashion trend, hence exploring the unique charisma of traditional culture and developing the exclusive and diversified sports culture system of LI-NING brand. By launching customized sports products for youngsters constantly, we have consolidated and enhanced our brand influence among young consumer groups.

- As the high-end product series of LI-NING basketball, the WADE series has sought for gradual transformation riding on the special occasion of Wade’s retirement year. Apart from focusing on high quality, simple design and fans culture, we strived to boost the sales performance of the whole series by adding more fashionable and high-end elements into our product design. Leveraging the enriching product styles, we have launched diversified story-packs of integrated footwear and apparel during the year to attract consumers, among which the products of “White Hot” (白熱) and “All City 7” (全城-VII) have received positive feedbacks from the market. We also launched various crossover products with distinctive design under the collaboration with a graffiti artist OG SLICK and American rapper Rick Ross, aiming to develop high-end basketball series with international vision and sustainable growth.

- Regarding basketball culture, we continued to carry out segmentation of our product layout in order to enrich the diversified product style of the “Essence” (悟道) series and enhance product innovation. The product series of “BADFIVE” continued to focus on the style of street basketball in China and created various urban-themed series, namely “Too Young To Stay” (少不入川), “Chang An Young n Rich” (長安少年) and “BADFIVE Shanghai” (足不出滬), by integrating elements of China’s urban culture. We joined hands with “XLARGE” and launched “BADFIVE 1” (反伍一代) professional basketball outfield shoes incorporating the most advanced technology, which gained overwhelming attention once launched and became a hot footwear item of street fashion among key opinion leaders (KOLs).
- For running culture, we focused on the diversified sports lifestyle and strengthened the development of fashionable jogging product lines targeting the mass market. We paid close attention to the needs for jogging and fashion style, striving to cater to various daily life occasions of different consumers, at the same time creating differentiated and customized products to satisfy the needs of different consumers. Based on the derivative design of professional running shoes, we offered products with aesthetic designs that are more suitable for young consumers, including “Furious Rider ACE” (烈駿ACE), “Arc ACE” (弧ACE) and “V8”, which adopted a more fashionable appearance design to present Chinese culture in a modernized way. These products have received positive feedbacks by gaining exposure at various platforms, such as the Fashion Weeks.
- For sports fashion footwear, adapting to rapid changes in the market and new requirements on sports fashion, we constantly launched hot products in line with the fashion trend and promoted such products to the culture circle of sneakers. In response to the Paris Fashion Week, the “Wave Vintage” (惟吾VNTG) series, a 1990s retro series adopting a simple classic style, have been launched, which attracted positive response in the domestic market through the show-and-sell approach. “Titan” (盤古), a limited crossover product, has been launched in collaboration with “Atmos”, a renowned Japanese fashion brand, and displayed at “Atmos” shops in Japan, which further enhanced the influence of domestic fashion products on the international fashion stage.
- With reference to “A Pu” (阿璞), the first national official panda character, our sports fashion apparel joined hands with “UPanda” (有熊貓) to launch product packages under the theme of environmental protection, which focused on widely discussed social issues such as “waste sorting”, thereby delivering sense of social responsibility and environmental proposition of LI-NING brand in a way that appeals to the young generation. We also launched a crossover series with reference to “Baoyun Building” (寶蘊樓), the youngest and only western building in the Forbidden City. The design of the series incorporated elements of the Forbidden City, striving to promote the charm of Chinese culture to more youngsters. We continued to launch crossover products under the “X-girl” series targeting the female consumption market. Such products promoted women-only product packages under the theme of “Girls Can Do Everything They Want” (少女幫派) and incorporated design elements such as “Fire Cherry” (燃燒的櫻桃) as a tribute to the independence of women.

Exploring category personality and continuing to deploy diversified marketing resources

In order to further consolidate our diversified layout of marketing resources, we devoted ourselves to explore the characteristics of each category and comprehensively allocated our marketing resources in five major categories, including basketball, running, training, badminton and sports casual. Continuous exposure of our professional products leveraging sports stars and professional events as well as promotional efforts in tandem with hot topics have further scaled up our consumer groups. We drew attention of young consumer groups by continuously enriching our marketing resources with entertainment elements allocated to the sports casual category and precisely analyzing the fashion trend with our 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, we have launched a series of successful marketing campaigns such as CJ's China tour by utilizing the outstanding on-court performance of C.J. McCollum, our signed NBA star, and the professional basketball product series endorsed by him, which have increased the synergy effect between fans and consumers. Capitalizing on the continuous exposure in the CBA League, we have fully integrated our CBA League resources and gained public recognition for the professional image of our products and brand. We also promoted the attitude of "Expressing yourselves by playing basketball" (拿球說話), which resonated with young consumers and resulted in the high popularity of related competition gears, including the competition uniforms (CBA player version) and products under the "All-Star" series. Leveraging the "LI-NING Basketball College" as platform, we have initiated the "3+1" teenager event for young basketball players in the PRC, thereby offering young basketball enthusiasts and their family members with professional experience of the brand and products.
- In terms of the WADE series for high-end basketball products, we continued to build the influence of Way of Wade series with a focus on Wade 7 basketball footwear. In the second half of the year, the brand representatives and Wade attended the "Complex Con", an international top-notch fashion exhibition, and launched the new footwear products, namely "Way of Wade 8" (韋德之道8) and "Way of Wade Infinity" (韋德之道無限), at the exhibition. The new products implied that the end of the career path is the starting point of a new life and signified our due respect for Wade who has retired as a basketball player and is now ready for unlimited possibilities, which also laid a solid foundation for another great success of the Way of Wade series.
- In order to build a professional image of LI-NING running, we sponsored a marathon event in Hangzhou and introduced "Women's Force Field" (我們的力場), a brand new women-themed campaign targeting the female market. Through the integration of this campaign and the Women's Marathon in Hangzhou, we provided more female runners with an in-depth experience surrounding our products and event, thereby expanding the influence of LI-NING brand in the female market. The products of the "Super Light" (超輕) series were redefined by featuring the concept of "Lighten up the World" (世界為你輕倒). We cooperated with the "Joyrun" (悅跑圈) app and kicked off the virtual running event under the theme of "Light Your City", which has attracted nearly 200,000 runners. The event successfully transformed online traffic into offline customers, which has increased the number of member registration and boosted the sales performance of our products, and hence reinforced and rejuvenated the fan base of the "Super Light" (超輕) series, marking yet another iconic and popular series.

- LI-NING training provided sports equipment for the civilians processions during the military parade on the 70th National Day of the PRC, ensuring that the preliminary training and the on-site inspection could be completed successfully. Meanwhile, we initiated the “Go with China” (與國同慶·與國同行) charity event. Through promotional campaigns in collaboration with athletes, celebrities, KOLs and third-party media, as well as events in offline stores, the charity event was propagated to over ten million people, thereby significantly improving the image and public’s perception of our brand. Delivering the spirit of “Arousing unstoppable military spirits with LI-NING” (寧聚軍魂，勢不可擋), we became the exclusive sports equipment partner of the Chinese delegation of the 7th CISM Military World Games, providing outfits for medalists of all sports disciplines in an effort to facilitate the establishment of a national peace ceremony towards the vision of “Building Friendship through Sports” (體育傳遞友誼).
- In terms of badminton, to celebrate the tenth anniversary of cooperation with the national team, we continued to convey our product philosophy of “Professional, Fashionable and International” to the public. In 2019, LI-NING badminton consecutively signed up with a number of international top-notch players, such as P.V. Sindhu and Srikanth Kidambi, a female singles player and a male singles player from India, Chan Peng Soon (陳炳順) and Goh Liu Ying (吳柳螢), mixed doubles players from Malaysia and Watanabe Yuta (渡邊勇大), a male doubles player from Japan, with a view to enriching LI-NING badminton’s layout of internationalization on an ongoing basis. Following P.V. Sindhu’s unprecedented gold medal win for India in the badminton world championship, LI-NING brand emerged as a hot topic in not only the badminton sector, but also the entire sports industry. By launching the “Champion’s Factory” (冠軍工廠) IP and its peripheral products, and kicking off plentiful engagement activities centering on key competitions, we broke the limits under traditional sales models and imparted a brand new shopping experience for consumers in stores.
- In terms of cross-over collaboration, we continued our collaboration with “X-girl” in the area of sports fashion and launched PROJECT “LX 0991”, a cross-over project inspired by SNS (Social networking services) and designed to create the loudest noise in tandem with the current market trends, which also serves as a tribute to the fond memories of the early internet era. The “Gymnastics with Mickey” (體操米奇) story-pack introduced under the Disney cross-over series has sparked online discussions. Coupling with the offline “321 Old-fashioned Sports Meeting” (321復古運動會) activities, this project has fostered great interactions with consumers. Riding on the release of the “Toy Story” movie, we designed unique footwear with inspirations drawn from the iconic characters “Woody” and “Buzz”, which garnered tremendous popularity among fans and young consumers.
- We gradually deepened marketing campaigns with entertainment and digitalization elements. With great devotion in further developing the fans economy, we cooperated with popular artists and shows in various aspects to tap into various fan bases by leveraging the influence of the artists and transform fans of these artists into fans of our brand. Owing to the thriving reputation of our brand, there are increasing number of collaborating celebrities, including new celebrities with huge number of followers and those arousing heated public discussions. We have also strengthened the cooperation with diverse variety shows and capitalized on the influence of top-tier television channels and online platforms to increase the exposure of our products, with an aim to developing a more diversified entertainment marketing model. Moreover, in order to achieve circle marketing effects, we selected KOL resources which align with our product tonality on top-tier platforms such as Weibo, WeChat and TikTok (抖音) and vertical communities such as Xiaohongshu (小紅書) to release customized brand-related contents and form KOL matrix, thereby creating hot topics and draw attention from consumers to our brand and products. By selecting top-edged, reputable and influential fashion media in the industry to work with based on product positioning, we also came up with in-depth authentic output to build brand-related product tonality so as to reach and expand consumer groups in the target level.

Deepening the multi-channels strategy and propelling diversified sales channels development

In 2019, the Company upgraded its cooperation policy with retailers in accordance with the direction of retail transformation, aiming to attract more quality retailers for cooperation, enhance the efficiency of retail channels and, improve the quality of market coverage. The Company accelerated the promotion of diversified sales channels development. On the basis of developing conventional shopping streets, department stores and sports cities, the Company focused on making breakthroughs in channels with shopping malls and outlets. During the period, the Company has achieved strategic cooperation with various large-scale domestic commercial property chain groups to open full-category model stores and China LI-NING stores in shopping mall channel, while actively exploring new channel types. To enhance channel efficiency and optimize store structures, the Company continued to accelerate the closure of loss-making stores, as well as upgrade and improvement of low-efficiency stores.

As at 31 December 2019, 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 7,550, representing a net increase of 413 POS as compared to 31 December 2018. The number of distributors was 63 (including sales channels of China LI-NING stores), representing a net increase of 17 as compared to 31 December 2018. The number of POS breakdown as at 31 December 2019 is as follows:

LI-NING Brand	31 December 2019	31 December 2018	Change
Franchised	5,157	4,838	6.6%
Directly-operated retail	1,292	1,506	-14.2%
LI-NING YOUNG	1,101	793	38.8%
Total	<u>7,550</u>	<u>7,137</u>	5.8%

Number of LI-NING Brand POS by geographical location

Regions	31 December 2019			31 December 2018			Change
	LI-NING Core Brand	LI-NING YOUNG	Total	LI-NING Core Brand	LI-NING YOUNG	Total	
Northern Region (Note 1)	3,226	727	3,953	3,269	549	3,818	3.5%
Southern Region (Note 2)	2,448	336	2,784	2,351	212	2,563	8.6%
Southern China Region (Note 3)	775	38	813	724	32	756	7.5%
Total	<u>6,449</u>	<u>1,101</u>	<u>7,550</u>	<u>6,344</u>	<u>793</u>	<u>7,137</u>	5.8%

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 regions covering Guangdong, Guangxi, Fujian, Hainan and Macao.

Enhancing product and retail capability and improving operation efficiency

In 2019, the Company continued to focus on the transformation of its product operation model and the improvement of its retail operation management capability with a view to further improving the operation efficiency of sales channels.

- Focusing on the enhancement of product operation management efficiency of single store. The Company further refined the classification of single store based on the brand development direction of promoting both professional sports attributes and fashionable elements, and established a standardized single store product management model as guidance for execution at different sales channels. We have also improved the functions of the single store order management tools so as to realize a single store order model that is consumer-oriented. We pushed ahead with the direct distribution of products to stores, and developed a store replenishment and allocation system based on demand forecast, thereby enhancing the operation efficiency of stores and accelerating the turnover of goods through the automatic management of our systems.
- Strengthening the management over product sales plan of single store. The Company has established a preliminary product sales plan management system based on single product and single store. The system formulated sales plans and strategies based on every single SKU; and product efficiency was managed based on color and size, which has expedited the decision-making process and effectively increased or decreased the number of orders, thereby enhancing the planning and operation efficiency of product. Moreover, we have established a rolling replenishment platform for stores with longer life cycles based on popular products. Through the demand forecast and flexibility of the supply chain, we have extended the continuous selling cycle and increased the total sales volume of popular products.
- Formulating the retail operation standard for big stores with high efficiency. In 2019, we have accelerated the formulation and introduction of the strategy of big stores with high efficiency across China. The Company continued to optimize the store operation standards for this kind of stores, adjusted the product assortment and structure, and established an assortment and operation management model that embodies the sporty and trendy image of LI-NING brand. As a results, various operation efficiency indicators such as store efficiency, area efficiency and staff efficiency of the big stores, including flagship stores, model stores and multi-category stores, improved continuously.
- Establishing a new visual image for the stores. In response to the strategy of big stores with high efficiency, the Company continued to optimize the visual image of stores and further diversified the display of various sporting and living scenarios by way of upgrading the types of props in stores. We promoted the professional and functional features of our running, basketball and training products by adopting high-tech materials and campaigns from multiple dimensions, and managed to enhance the shopping experience regarding lifestyle products by showcasing with fashion matching, fashion weeks and trendy story-packs. Furthermore, we further increased the use of electronic display in stores with close integration of products so as to optimize the product display and promotion via videos and graphic works.
- Continuing the cultivation of retail talents. In order to reserve and cultivate outstanding retail talents for performance growth, the Company has established and refined the talent cultivation system, designed promotional path, mentoring process and contents with a focus on store-level positions, optimized offline course system as well as performance training evaluation system, and increased the use of on-site teaching. For the purpose of enhancing LI-NING's training and learning method and building an education-oriented retail organization, we continued to make efforts to improve the online learning platform and the diversity of retailer learning channels by setting up live streaming training channel on We-Media platform. We also intensified our efforts in the building of our retail culture by means of corporate culture learning, sports activities, retail skills competition and others.

Strengthening interaction to improve consumers' experience

In 2019, the Company sustained its focus on consumer research and made further improvements on the way of reaching out to consumers, which continuously and effectively enhanced consumers' retail experience.

- Continuously enhancing interactions with consumers at stores. Leveraging on events such as “Way of Wade Tour China” (韋德中國行), “3+1” Basketball League (「3+1」籃球聯賽), store activities for CBA fans, pop-up stores and sales of limited edition products, the Company interacted with consumers at store level, which has increased the number of new members and the traffic at stores. Meanwhile, we have increased consumers' exposure to our products by letting them to experience the props and setting up new promotion and display zone for individual product in stores. We also launched the promotion and sales of products at stores through enhanced interactions on online platforms such as WeChat, Weibo and TikTok (抖音), introduction of interactive games, cross-over cooperation and attractive gifts.
- Pushing ahead with the establishment of digital stores and new retail attempts continuously. We set up independent visitors, heat map of customer flow, commodity touching assessment and other digital devices as well as back-end computing system at stores, giving us insights on consumers' portraits at stores, based on which we analyzed the behavior and demand of consumers as well as closely followed the performance on the individual product. We also commenced the establishment of a middle-end data platform for integrating information such as data in respect of retail, members and product operation. With the support of the big data, we managed to improve our efficiency and performance by enhancing the decision-makings in relation to optimization of product assortment, retail circulation layout, retail display method and sales services in stores.
- Promoting the development of omni-channel business consistently. In 2019, we completed the upgrade and transformation of the omni-channel system, through which we have successfully consolidated the POS from distributors into our omni-channel business structure. The Company unceasingly tapped into new retail aspects and achieved borderless provision of services and sales in all scenarios by leveraging platforms and tools such as LBS (Location Based Service), WeChat Store (微店) and TikTok (抖音).
- Facilitating membership's expansion and marketing. Adhering to the operational value chain with “members” as the core, the Company recorded significant increase in both number of members and their sales contribution in 2019. We strived to accelerate the integration of distribution membership system by integrating the online and offline systems into the omni-channel membership system. Moreover, we have expanded the sources of data collection on consumers to enrich member profiles, thereby managed to establish our preliminary data operation platform, laying a solid foundation for precise marketing across all business segments of the Group. The seamless connection of online and offline systems will complement each other with a view to providing a smooth experience for the members when completing the related services via the intelligent system in collaboration with the physical stores.

Strengthening construction of logistics supporting capacity

In 2019, the Company focused on building and optimizing the logistics operation system of “Precise, Swift and Efficient”, thus providing differentiated and refined logistics service support in line with the requirement of relevant business sectors for its principal business and each business division through the application of logistic network resources and platform capability.

- Accelerating the speed of all processes including forward and reverse logistics as well as deployment and turnover of goods and following the instruction of the goods management team, thereby achieving prompt response, flexible delivery and rapid turnover of products. Through the enhancement of operation efficiency and the great synergy from planning for upstream and downstream of the supply chain, we have realized direct delivery and rapid replenishment from the central warehouse to various types of stores across China, which is conducive to the implementation of efficient goods operational management and effective goods turnover of the Company.
- Strengthening the logistics support for operation of retail stores. During the year, the Company placed strong emphasis on formulating targeted logistics services and supporting plans for big stores with high efficiency with a view to enhancing the logistics operation efficiency of such stores, demonstrating and utilizing their overall advantages and resources to improve both store and customer experience.
- Supporting the rapid development of O2O business. Currently, all warehouses are equipped with operation capacity for B2B and B2C models, and are hence able to satisfy the sales demand online and offline simultaneously in various peak seasons and holidays. Meanwhile, we continued to improve the online and offline integrated operation model, and enhanced the omni-channel coverage of self-operated retail and franchised business, thereby enhancing channel inventory utilization whilst better catering to consumers’ demand, and thus created benefits for the Company.

Influence of the e-commerce platform further enhanced with consistent emphasis on products and consumption experience

In 2019, the e-commerce of Li Ning Company continued to grow under fierce competition with further increase in terms of both revenue and profitability.

During the year, we continued to develop the “Counterflow-溯” series on the e-commerce platform, an independent product line with a focus on middle-to-high-priced sports footwear and apparel featuring both sporty lifestyle and Chinese culture elements. Popular products including “ALIEN星際”, “Glass” (璃), “Space Jump” (光輪) and “Cornice Brackets” (飛簷斗拱) have been launched and achieved satisfactory sales performance and positive market reputation accordingly, hence boosted sales growth continuously and further solidified and expanded our consumer base, which has in turn enhanced our brand influence and the brand value of Li-Ning.

During the year, the e-commerce of Li Ning Company continued to work aggressively on the enhancement of in-shop visual experience, the implementation of marketing campaigns and the promotion of events with great significance, while making efforts to enhance product reputation and brand value on a continuous basis by participating in New York/Paris Fashion Weeks, the launch of “LI-NING 䨻” (李寧䨻) high-tech running shoes and significant marketing events relating to the WADE series. Meanwhile, the e-commerce of Li Ning Company has made bold attempts and breakthroughs in the field of live streaming with a view to continually optimizing consumption experience and creating phenomenal consumption events. Among all sport brands on the Tmall platform, the annual live streaming duration, the number of viewers and user interaction of Li-Ning brand were taking the lead in the industry.

Looking forward, leveraging the online and offline synergies, the e-commerce of Li Ning Company will be committed to facilitating the upgrade of product competitiveness and consumption experience by stepping up the efforts in ladder-structured team building and making breakthroughs in potential markets for women's wear and kidswear, so as to develop a high-calibre team with excellent management capabilities and product operation efficiency.

Optimization of the precise, flexible and efficient supply chain system

In 2019, the Company's supply chain system provided vigorous support for the Company's needs for business development. In pursuit of a "Precise, Flexible and Efficient" supply chain, the Company continued to improve the responsiveness and elasticity of supply chain by further promoting the "Demand-driven" business model, at the same time continuing to optimize the supply chain resources, thereby fostering a positive and dynamic supply chain platform.

- During the year, based on the business development strategy, the Company consolidated and evaluated its supply chain resources with an emphasis on customized and differentiated product demands. It also strengthened the synergistic cooperation with its suppliers in a bid to enhance its competitive advantages. The Company aligned its strategic needs and the characteristics of the suppliers with its synergistic resources plan, which has ensured efficient and precise allocation of its supply chain resources.
- The Company has established a quality management community with suppliers to control quality and risks at an earlier stage and maintain control throughout the production process, aiming to complete all production tasks with high quality and efficiency. Meanwhile, it continued to intensify its efforts in product innovation and research and development, at the same time established cooperation with quality suppliers with greater emphasis on the results of innovation and research and development, hence enhancing the productivity of the supply chain through innovative technology.
- In respect of cost management, the Company continued to implement stringent cost planning and practiced the concept of cost control and management on 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.
- To ensure rapid growth of new businesses, based on diversified business development needs and with an aim to enhance efficiency and improve product competitiveness, the Company made optimized allocation of supplier resources in the industry to improve layout of supply chain resources and network. Meanwhile, the Company continued to work diligently on the establishment of its own supply chain system. The footwear production plant that we leased in Nanning, Guangxi Province of the PRC has commenced production during the year, which is committed to gradually instilling the core industrial capabilities into LI-NING's system over time, which has hence strengthened its own supply chain management and application of technological research and development knowledge, and further promoted the establishment of a precise and swift supply chain system.

NEW BUSINESS

LI-NING YOUNG

2019 is a year of steady development for LI-NING YOUNG, during which it continued to focus on better satisfying consumer needs with its products, and pushed forward the development of the retail operation model. It also strengthened the work in relation to the building of visual system of retail stores, and continued to optimize its business management standards and working procedures with an aim to establish a professional brand image for kids' sportswear and gradually enhance the brand influence.

- In respect of products, with a focus on the consumers' mainstream demands, the Company progressively optimizes the storylines of its products by launching core story-packs in order to promote the sales contribution of products as a whole from both marketing and retail levels. A more accurate product hierarchy and product structure have been implemented with refined management of product assortment based on the climatic characteristics and consumption habits of different regions, through which the Company would be able to meet diversified consumers' demands, promote precise investment of product, improve the performance of store level and enhance product efficiency. In light of the distinctive features of different regions, the Company has stepped up its efforts in the planning and development of accessories with a view to exploring new business opportunities and promoting continuous business growth.
- We laid out quality supply chain resources and continued to improve the supply chain system exclusively for kidswear business. By managing and controlling the development cost and enhancing product efficiency, we consolidated our production processes and resources advantages to ensure product quality, optimize production procedures and facilitate efficiency enhancement.
- For channel development, we utilized the shopping mall and clearance channels to promote diversified channel establishment, and adjusted the strategy for channel development based on the market demand at different levels. We placed emphasis on the expansion and planning of core channels to ensure adequate space for and maximize the effectiveness of product display. We have also stepped up our efforts in store upgrade to improve the images of the stores and the brand, so as to enhance efficiency of the stores.
- For brand marketing, we continued to optimize the digital marketing matrix including Weibo, WeChat and TikTok (抖音) official accounts. Meanwhile, by leveraging various promotional channels such as KOL in maternity and childcare field, sportsman, celebrities and partners, we have delivered real-time information on brand news and new product launch and interacted with our consumers with a view to enhancing customer loyalty. By the "3+1" youth basketball league organized by the Group, LI-NING YOUNG has built a professional image of sport equipment supplier and advocated the charisma and spirit of sports by conveying the philosophy of braving challenges and growing healthily through professional competition platforms, aiming to build up the brand image and enhance brand recognition by giving full play of our brand values.

As of 31 December 2019, LI-NING YOUNG business covered 29 provinces, municipalities and autonomous regions with a total of 1,101 stores. Looking forward, we will continue to devote great efforts to explore market demands and carry out product categorization with products as the core aspect. Consistent efforts will be devoted in channel expansion, retail operations and supply chain resources. Meanwhile, we will optimize the resources-oriented business model with refined management with a view to fostering positive business development and ensuring stable business growth.

HUMAN RESOURCES

In 2019, based on its strategic focus, the Company 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, the Company improved product team building, optimized the organisation of product categories, strengthened our research and development and organizational capacity, as well as continued to optimize the organisation of LI-NING YOUNG and e-commerce business.
- In terms of talent management, the Company actively explored and recruited talents to drive business transformation and focused on the improvement and development of the overall capability of staff so as to nurture teams of talent within the Company.
- 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 staff incentives. 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 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, our assessment and incentive mechanism will be adjusted based on 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 2019, the Group had 3,783 employees (31 December 2018: 2,412 employees), among which 3,610 employees were at the Group's headquarter and retail subsidiaries (31 December 2018: 2,233 employees), and 173 employees were at other subsidiaries (31 December 2018: 179 employees).

OUTLOOK

Stepping into 2020, which marks the 30th anniversary of establishment of LI-NING brand, we will stay committed to the guiding strategy of “Single Brand, Multi-categories, Diversified Channels”, strengthen and improve the following core business focuses, remain devoted to create LI-NING’s experience value, and focus on improving products and enhancing efficiency in order to achieve healthy and sustainable profit growth for the Company in the future:

- In respect of products, we will keep track of hot topics to provide more inspiration for the integration of cultural element and creativity with professional sports attributes. We will also keep abreast of the fashion trend to increase the fashionable elements in our professional sports products so as to attract more consumer groups and expand our brand influence. Moreover, we will increase our investment in research and development in relation to sports science to enhance the technological features of our professional sports products, which will in turn improve the wearing and usage experience of consumers and constantly enhance our product competitiveness;
- In respect of channel development, we will continue to focus on enhancing the efficiency of our sales channels, further promoting the diversified development of our sales channels and progressively implementing the strategy of stores with high efficiency and model stores. Meanwhile, with a view to refining the structure of sales channels, we will continue to reform or close down inefficient and loss-making stores;
- Optimization of retail operation platform and supply chain management system remain as one of our major tasks. We will optimize the retail experience in stores, improve the standards of store operation and improve store management ability. We will also continue to explore new retail businesses, as well as strengthen and improve the online and offline integrated operation mode. Meanwhile, we will step up our efforts in establishing the supply chain management 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 both online and offline. Based on actual consumption demand, we will strive to precisely capitalize on current hot topics to create and lead the market trend, at the same time strengthening the interaction with consumers to enhance their recognition and loyalty to our brand and increase our brand value; and
- 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 potential markets, in order to foster new opportunities for the Company’s profit growth in the long run.

Along with the sound economic and social development as well as the steady growth of national income, there emerges growing demand for high-quality and diversified products in respect of physical and mental health and living quality. Sports consumption becomes widely accepted by the general public and increasingly mature, fostering rapid development of the sports industry. Driven by the accelerated development trend, the sports industry has achieved breakthroughs and advancement continuously with every brand devoted greater efforts to enhance brand competitiveness by focusing on interaction with consumers. As a national brand focusing on professional sports sector for 30 years, our development witnessed the up-and-down of the industry and constantly embraced new starting points. Under the strong support of the macro national policies, we will take up challenges with great enthusiasm and focus on our products. We will place emphasis on the professional attributes to enhance product and brand competitiveness and optimize LI-NING’s experience value with an aim to provide full momentum for the Company’s development in the long run. Looking forward, we will remain pragmatic in making every move and devote our main resources into gaining sports knowledge, technological research and development, as well as proactively explore and broaden room for business development.

The raging outbreak of COVID-19 at the beginning of 2020 has greatly affected people's livelihood and travelling plans as well as market order. The operation and financial performance of both the industry and the Group have also been affected inevitably, posing severe challenges for the overall outlook for 2020. Facing the current situation of the epidemic, we are still not in the position to estimate the ultimate impact of the spread of virus on the society, the economy and the Group's operation. However, since the outbreak of the epidemic, the Group has been closely monitoring the trend of the epidemic and market conditions and promptly responded to the emergencies by leading all employees to join hands to "fight against the epidemic" and minimize the impact of the epidemic. We believe that people will become more concern about their health and physical exercise after this epidemic, hence more potentials of the industry will be released and we are still fully confident about the Group's development in the long run.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its shares during the year ended 31 December 2019. Except for the purchase of shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the rules of Restricted Share Award Scheme, neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

The Company is committed to upholding a high standard of corporate governance by continued review and enhancement of its corporate governance practices, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in a timely and effective manner. During the year ended 31 December 2019, 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. Mr. Li Ning, the Executive Chairman of the Company, assumed the role of interim chief executive officer ("CEO") of the Company during the period from 1 January 2019 to 1 September 2019 as the Company has not yet identified a suitable candidate to be the CEO. Upon the appointment of Mr. Kosaka Takeshi as an executive Director and the joint CEO of the Company ("Joint CEO") with effect from 2 September 2019, Mr. Li Ning has been re-designated as the Joint CEO on the same date. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles are undertaken by Mr. Li Ning during the year. Notwithstanding the above, the Board is of the view that given that Mr. Li has been the interim CEO of the Company for more than seven years prior to the appointment of the Joint CEO and 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 will complement with each other in performing the roles of the Joint CEOs, and the current arrangement will 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 2019 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 2019.

ANNUAL GENERAL MEETING

The AGM of the Company will be held at 11:00 am on Friday, 12 June 2020.

The notice of the AGM will be despatched to the shareholders together with the 2019 annual report of the Company on or around 21 April 2020 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, 26 March 2020

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.