



**LI NING COMPANY LIMITED**

李寧有限公司

*(Incorporated in Cayman Islands with limited liability)*

**(Stock code: 2331)**

**Implement Strategy of “Single Brand, Multi-categories, Diversified Channels”**

**Enhance operational efficiency and improve profitability**

**FINANCIAL HIGHLIGHTS**

- Reported net profit attributable to equity holders increased by 39% to RMB715 million, net profit margin raised from 5.8% to 6.8%:
  - Revenue increased by 18% to RMB10,511 million
  - Gross profit margin expanded 1 percentage point
  - Enhanced operating leverage notwithstanding investment in new initiatives and increase of organization costs
- Operating cash flow increased by 44% to RMB1,672 million.
- Significant improvement in working capital continued:
  - Gross average working capital improved (reduced) by 12% while revenue increased by 18%
  - Cash conversion cycle further improved (shortened) by 9 days (2017: 49 days/2018: 40 days)
- The Board has recommended payment of a final dividend of RMB8.78 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2018 (2017: Nil).

**OPERATIONAL HIGHLIGHTS**

- The retail sell-through for the overall platform increased by mid-teens, including online and offline channels.
- Channel inventory turnover further improved.
- Overall Same-Store-Sales growth accelerate to low-teens.
- Offline channel new product sell-through increased by mid-teens with new product mix increased by 2 percentage points:
  - Direct retail new product gross margin improved over 1 percentage point

(Hong Kong, 22 March 2019) **Li Ning Company Limited** (“Li Ning” or the “Company”; together with the subsidiaries, the “Group”; HKEx stock code: 2331) is pleased to announce today the annual results of the Group for the year ended 31 December 2018 (the “year”).

In 2018, the Company’s profitability was further enhanced with continuous improvement in operational efficiency. During the year, the Group’s revenue amounted to RMB10,511 million,

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representing an increase of 18.4% compared to that of 2017. Gross profit rose 21.0% to RMB5,053 million, against RMB4,176 million in 2017. The Group's overall gross profit margin improved to 48.1% (2017: 47.1%). The increase in gross profit margin was resulted from the increase in proportion of higher-margin e-commerce channel business, better sales discount in self-operated channel, increase in the proportion of sales of new products and the improved tag-cost-ratio (partially due to the increase of tag price). During the year, operating profit for the year reached RMB777 million, representing an increase of 74.4% as compared to RMB446 million in 2017. Profit attributable to equity holders amounted to RMB715 million, up 38.8% from RMB515 million in 2017. Margin of profit attributable to equity holders was 6.8% (2017: 5.8%). Return on equity attributable to equity holders was 13.1% (2017: 11.4%).

Basic earnings per share were RMB29.63 cents (2017: RMB21.47 cents). The Board has recommended payment of a final dividend of RMB8.78 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2018 (2017: Nil).

In terms of cash flow management, the Group's net cash generated from operating activities for the year amounted to RMB1,672 million (2017: RMB1,159 million), up 44.2% year-on-year. As at 31 December 2018, cash and cash equivalents amounted to RMB3,672 million, representing a net increase of RMB1,142 million as compared with the position as at 31 December 2017. As the Group's cash flow from operating activities improved significantly year-on-year and reasonable investment arrangement has been made simultaneously, the use and operation of funds of the Group become more reasonable and efficient.

During the year, the Group implemented the development strategy of "Single Brand, Multi-categories, Diversified Channels", operating multi-sports categories under "LI-NING" core brand to enable every category to form its own business platform. Meanwhile, the Group took full advantage of synergy effect between products, channels and retail capability, and supply chain management to create and enhance LI-NING's experience value.

For products, the Group continued to highlight the professional sports attributes, at the same time placing more emphasis on sports research and investment in design, research and development of professional products, thereby constantly launching new products for athletes and sports enthusiasts. Meanwhile, strong creativity enabled LI-NING brand to achieve breakthrough from traditional model and closely integrate professional sports with fashion trends and creative culture, hence providing more consumption choices and more precise consumption experience for consumers. During the year, the Group further expanded consumer groups and enhanced brand and product competitiveness through the debut at international fashion weeks and cross-sector crossover collaborations.

As of 31 December 2018, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 6,344, representing a net increase of 82 POS since the beginning of the year. Among the net increase of 82 POS, direct retail accounts for a net decrease of 35 POS, and wholesale accounts for a net increase of 117 POS. With improved confidence of distributors, in terms of tag price, trade fair orders for LI-NING brand products (excluding LI-NING YOUNG) from franchised distributors, which from the latest trade fair held in December 2018 for the third quarter of 2019 registered a low-teens growth on a year-on-year basis.

During the year, the Group actively optimized the structure of sales channels to enhance the channel efficiency. The Group pursued the diversified development strategy by closing down and reforming loss-making and inefficient stores, and increasing the number of stores with high productivity. At the

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same time, the Group continued to innovate the matrix of the store image. China LI-NING stores were launched with a brand new image. These stores were mainly located in high-end business districts in metropolises to second-tier cities with a view to attracting young and trendy consumer groups. As of 31 December 2018, the total number of China LI-NING stores reached 23.

In terms of retail operation, the Group continued to optimize the retail operation supporting platform, and enhance in-store sports and retail experience with the target to improve shopping experience. Also, the Group continuously deepen the analysis of characteristics of different commercial area among various levels of city tiers and combined with the development of consumer group structure to improve the matrix of types of the store image and create a differentiated layout of product coverage. Moreover, the Group focused on strengthening the retail operation standard of stores to optimize the unified store image. The Group improved the online and offline integrated training system that enhanced terminal sales personnel training and sports consultant team building to help the employees gain better understanding of professional product knowledge and improve customer service standard, thereby providing comfortable and speedy consumer experience.

During the year, the Group implemented business demand-oriented supply chain management. The Group targets to respond to channel and product demand in high-efficiency and high-quality manner, and further optimized and improved the use of materials, introduction of new suppliers and quality standard. The Group also established the supplier monitor department to regulate the supply. It raised concerns about the development of automation, and optimized the resources reserve of suppliers to maintain the vitality of the supply chain. Furthermore, the Group actively consolidated upstream resources to enhance the capabilities of its supply chain. During the year, the Group leased a footwear production plant in Nanning, Guangxi Province, with the aims of strengthening its supply chain management and application of research and development knowledge, and instilling core industrial capabilities to self-owned supply chain system.

During the year, various retail indicators of the Group including the overall sell-through growth, new product sales mix, the same store sales growth and sales per transaction continued to increase; inventory turnover has improved significantly.

In 2018, the e-commerce business of LI-NING continued to improve steadily on its profitability and saw continuous growth in sales revenue, accounting for 21.1% of the Group's total revenue, up 2.3 percentage points year-on-year. During the year, the e-commerce of LI-NING continued to invest resources in content marketing and event marketing. The Group successfully organized a China LI-NING project during New York Fashion Week in collaboration with Tmall which provided a new interpretation for the Chinese fashion culture. The e-commerce of LI-NING continued to improve and develop the relevant data operating systems for its digital operation and the development of a data model for commodity flow management has started to bear fruits. For supply chain, the Group established a separate footwear supply center for new businesses with a view to redeveloping the supply chain system of the e-commerce platform in response to the accelerated development of e-commerce business. During the year, the e-commerce of LI-NING developed the "Counterflow-溯" series, a product line with specific offerings on the e-commerce platform and comprises middle- to high-priced sports footwear and apparel featuring both street fashion and Chinese culture elements, striving to develop the "Counterflow-溯" series into an independent product line with the richest cultural background and strongest story-telling capabilities in the industry.

Apart from LI-NING brand, the Group also diversified its brand portfolio by developing new businesses. 2018 is a year for business expansion and strengthening of refined management for LI-NING YOUNG, during which it has developed a retail business model with products satisfying consumer needs as the core aspect, driven by retail profitability and maintaining sound development.

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For products, LI-NING YOUNG continued to invest and drive product innovation in terms of themes and technological features. It launched various fashion trend-related products, including Fashion Week Parent-Child Model, BADFIVE Model, Disney Collaboration Model, and also seasonal products with technological features in order to improve the technological features of the products. For channel retailing, LI-NING YOUNG continued to expedite the expansion of channel customers and stores, and consistently carried out works such as upgrade of store image. For marketing, LI-NING YOUNG has gradually established its own digital marketing matrix. Meanwhile, it leveraged various promotional channels such as KOL in maternity and childcare field, sportsman, celebrities, partners and others media to interact with consumers with a view to enhancing customer loyalty. As of 31 December 2018, LI-NING YOUNG business covered 30 provinces with a total of 793 stores (2017: 173).

Mr. Li Ning, Founder and Executive Chairman of the Group, concluded: "In 2018, we continued to create and enhance LI-NING's experience value. We have enhanced the communication and interactive experience with consumers through digitalization whilst precisely capitalizing on the hot topics to attract more young consumers and enhance the brand recognition among consumers. Looking ahead, we will continue to promote the strategy of "Single Brand, Multi-categories, Diversified Channels", strengthen and improve the core business focuses, remain devoted to creating LI-NING's experience value, and focus on enhancing productivity in order to achieve healthy and sustainable profit growth for the Company in the future. In respect of products, we will continue to closely integrate professional sports with pop culture so as to further underpin our brand competitiveness. We will continue to increase the efficiency of our sales channels, pursue diversified development, implement the strategy of stores with high productivity and improve the online and offline integrated operation mode. Moreover, we will continue to promote the development of digitalization strategy so as to further strengthen the comprehensive marketing layout. In respect of new business, on the basis of continuing to enhance single store profitability, we will make reasonable and prudent use of resources to explore business opportunities and potential market, in order to foster new opportunities for the Company's profit growth in the long run.

Along with the progress of optimization of consumption structure, the consumption demand of people will become more refined and diverse. In order to align with such trend of the industry and create successful business opportunities amid the ever-changing market environment, we will continue to focus on our products to reinforce brand competitiveness and develop LI-NING's experience value. In the future, we will continue to devote main resources to gaining sports knowledge, technological research and development and development of LI-NING brand experience, and proactively explore and broaden room for business development."

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### **About Li Ning Company Limited**

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

In addition to its core LI-NING brand, the Group also manufactures, develops, markets, distributes and/or sells sports products under several other brands, including Double Happiness (table tennis), AIGLE (outdoor sports), Danskin (fashionable fitness products for dance and yoga) and Kason

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(badminton) which are either self-owned by, licensed to or operated through joint ventures with third parties of, the Group.

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