LI-NING

LI NING COMPANY LIMITED
李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)


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About Li Ning Group

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 various sports products which are self-owned by or licensed to the Group, including Double Happiness (table tennis), AIGLE (outdoor sports), Danskin (fashionable fitness products for dance and yoga), Kason (badminton) and Lotto (sports fashion) which are operated through joint venture/associate with third parties of the Group.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Director

Mr. LI Ning *(Executive Chairman and Interim Chief Executive Officer)*

Non-executive Director

Mr. LI Qilin

Independent non-executive Directors

Mr. KOO Fook Sun, Louis
Ms. WANG Ya Fei
Dr. CHAN Chung Bun, Bunny, *GBS, JP*
Mr. SU Jing Shyh, Samuel

AUDIT COMMITTEE

Mr. KOO Fook Sun, Louis *(Committee Chairman)*
Ms. WANG Ya Fei
Dr. CHAN Chung Bun, Bunny, *GBS, JP*

REMUNERATION COMMITTEE

Ms. WANG Ya Fei *(Committee Chairperson)*
Mr. LI Qilin
Dr. CHAN Chung Bun, Bunny, *GBS, JP*

NOMINATION COMMITTEE

Mr. SU Jing Shyh, Samuel *(Committee Chairman)*
Mr. LI Ning
Dr. CHAN Chung Bun, Bunny, *GBS, JP*

AUTHORISED REPRESENTATIVES

Mr. LI Ning
Ms. WANG Ya Fei

COMPANY SECRETARY

Ms. TAI Kar Lei

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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OPERATIONAL HEADQUARTERS

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Fax: +8610 8080 0000

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
Royal Bank House –
3rd Floor, 24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law
Troutman Sanders

PRC law
TAHOTA Law Firm

PRINCIPAL BANKERS

Hong Kong
Hang Seng Bank Limited
DBS Bank Ltd., Hong Kong Branch
China MinSheng Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited

PRC
Industrial & Commercial Bank of China
China Construction Bank
Bank of China
China Merchants Bank
China MinSheng Banking Corporation Limited

Five-Year Financial Highlights

Unit: RMB'000

	2017	2016	2015	2014	2013
Operating results:					
Turnover	8,873,912	8,015,293	7,089,495	6,047,195	5,217,957
Operating profit/(loss)	445,678	385,805	157,069	(643,062)	(311,245)
Profit/(Loss) before taxation	537,524	287,946	30,814	(777,888)	(424,084)
Profit/(Loss) attributable to equity holders	515,155	643,254	14,309	(781,481)	(391,540)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	889,271	713,147	393,953	(456,221)	(99,496)
Assets and liabilities:					
Total non-current assets	2,210,967	2,130,054	1,413,942	2,077,087	2,055,201
Total current assets	5,110,382	4,650,440	5,483,516	3,962,719	3,961,650
Total current liabilities	2,127,810	2,673,915	2,471,786	2,679,141	2,017,723
Net current assets	2,982,572	1,976,525	3,011,730	1,283,578	1,943,927
Total assets	7,321,349	6,780,494	6,897,458	6,039,806	6,016,851
Total assets less current liabilities	5,193,539	4,106,579	4,425,672	3,360,665	3,999,128
Capital and reserves attributable to equity holders	5,071,047	3,994,599	3,179,903	1,951,858	2,684,230
Key financial indicators:					
Gross profit margin	47.1%	46.2%	45.0%	44.9%	45.2%
Margin of profit/(loss) attributable to equity holders	5.8%	8.0%	0.2%	(12.9%)	(7.5%)
EBITDA ratio	10.0%	8.9%	5.6%	(7.5%)	(1.9%)
Earnings/(losses) per share					
– basic (RMB cents)	21.47	29.03	0.66	(49.97)	(26.91)
– diluted (RMB cents)	20.87	28.95	0.66	(49.97)	(26.91)
Dividend per share (RMB cents)	–	–	–	–	–
Return on equity attributable to equity holders	11.4%	17.9%	0.6%	(33.7%)	(18.2%)
Net tangible assets per share (RMB cents)	219.21	182.47	162.59	94.24	157.86
Debt-to-Equity ratio	44.3%	69.7%	109.7%	198.3%	116.4%


SPORTSMANSHIP

Chairman's Statement

Dear Shareholders,

In 2017, as the national economy continued to grow and the consumption structure of residents improved, particularly the rising demand for sports consumption, the Group further optimized various operational indicators by steady implementation of the development strategies and launch of the related measures, achieving encouraging results.

According to the statistics of the National Bureau of Statistics, China's Gross National Product (GNP) registered a year-on-year increase of 6.9% in 2017, extricating itself from the gradual slowdown trend since 2011. The national disposable income per capita of urban and rural residents recorded a real increase of 7.3%. Engel coefficient, which can reflect the consumption structure and purchasing power, dropped from 30.1% in 2016 to 29.3% in 2017. This marks that Chinese residents have been basically at the entry level of affluence and residents' consumption structure has improved. The improvement of consumption structure further refined consumption demand and thus made it more mature. Specifically regarding sports consumption, tournaments and events stemming from healthcare, entertainment and athletic competition demands are growing daily, which has laid a favorable foundation for the long-term development of the entire sports industry. According to the statistics of Chinese Athletic Association, the number of people regularly participating in physical exercises in the country grew from approximately 380 million in 2010 to approximately 440 million in 2016.

During 2017, revenue of the Group maintained a stable growth and our profitability improved steadily. The profit attributable to equity holders increased from RMB330 million in 2016 to RMB515 million in 2017 (comparative figures excluding net gain on disposal of 10% equity interest in Double Happiness), whereas other key operational indicators saw significant improvement. During the year, creating LI-NING's experience value remained our focus. Our innate sports DNA has impelled us to place more emphasis on sports research and the investment in product research and development (R&D) and design to constantly conduct R&D, design and launch professional products for athletes and sports enthusiasts. Incessant imagination, on the other hand, is guiding LI-NING brand to be more trend-setting by closely integrating fashion, entertainment and leisure elements with professional sports, therefore providing consumers with more precise consumption experience.

OPTIMIZE LI-NING'S BUSINESS MODEL AND ACHIEVE HEALTHY PROFIT GROWTH

In 2017, the Group's various key operational indicators continued to improve. During the year, revenue of the Group grew by 11%, while the net profit margin rose from 4.1% last year to 5.8% this year (comparative figures excluding net gain on disposal of 10% equity interest in Double Happiness). Cash flow from operating activities increased by approximately 40% to RMB1,159 million. Meanwhile, working capital improved significantly, with Cash Conversion Cycle (CCC) shortened from 59 days in 2016 to 49 days in 2017. The distributors have resumed confidence gradually. In terms of tag price, trade fair orders for LI-NING brand products from franchised distributors registered a year-on-year growth for seventeen consecutive quarters.

During the year, we continued to focus on productivity and efficiency in a bid to constantly optimize LI-NING's business model. By establishing the "precise + swift" operation model in line with retail efficiency and effective operation, we sustained healthy business growth and continued to improve the efficiency of our sales channels. The overall retail sell-through of our brand registered a high-single digit growth. The same-store sales for overall platform, including online and offline, recorded a mid-single digit growth, while e-commerce business recorded a low-forties growth on a year-on-year basis.

Based on our more precise trade fair order strategy adopted in 2017, the efficiency of our offline channel gradually rose through fine tuning. For the channel, the amount of inventory further declined, resulting in more reasonable inventory turnover and healthier structure of inventory ageing. Sell-out ratio of new products (including that of distributors) also surged.

Strengthening retail capability remained our core premise for the year. Through continuous establishment and improvement of retail operation-supported platform, we have further enhanced shopping experience of customers. Moreover, we continued to facilitate the transformation of our product operation model, improve in-store order management and enhance order precision, thereby better capturing fashion trends in market. In terms of channels, we have taken continuous initiatives to refine channel structure and raise channel efficiency by implementing various measures including closing down and renovating inefficient and loss-making stores and opening highly efficient and profitable key experience-concept stores.


Mr. LI Ning
Executive Chairman and
Interim Chief Executive Officer

As at 31 December 2017, excluding LI-NING YOUNG Point-of-Sales (POS), the number of LI-NING POS in China recorded a net decrease of 178 to 6,262 as compared to 31 December 2016. Meanwhile, LI-NING YOUNG business newly opened 173 POS.

Create more professional and more unique products through imagination and innovation

In 2017, in order to further enhance our brand influence, we better combined professional sports with fashion, entertainment and leisure. We have also made innovative designs to enhance productivity based on various sporting products, thereby improving LI-NING's product competitiveness.

On professional product level, we continued to accumulate knowledge of sports during the year and apply such knowledge to our product design. We offered exclusive and highly professional experience to sports players in tandem with the revolution of functional material and scientific technology, thereby enhancing LI-NING brand's competitiveness in mainstream mass sports in China with more involvement, contribution and engagement in these mainstream sports. Way of Wade 6 basketball shoes adopted Drive Foam rebounding technology jointly developed with BASF in Germany for the first time; Eleventh Generation of "YuShuai" basketball shoes was nominated for Compasso d'Oro Award, the most influential design award in the world. On the other hand, we also conducted more communication and interaction with consumers, so as to create LI-NING's product experience and sports experience and thus create brand experience. Taking "Super Light 14th" running shoes as an example, we effectively combined various differentiated advertising techniques and unbounded innovation with promotion on "Moments" through Wechat platform based on different customers by identifying customers precisely through big data. Moreover, we created a craze for super light pop-up stores in prime commercial zones in a number of cities, further closely communicating with end consumers. Meanwhile, with support of the Group's sports resources for athletes, sports teams and tournament marketing, we have enhanced our interactive experience with consumers, thereby producing truly competitive products and enhancing our brand value in the minds of consumers. In 2017, the Company continued to sponsor China Basketball Association (CBA) Professional League, China Junior & high school Basketball League, China University Basketball League (CUBA) and Women's China Basketball Association (WCBA). As a result, LI-NING brand and the underlying products firmly dominated China's professional and collegiate basketball leagues at all levels.

In addition to developing professional products, we also reflected and proactively sought ways to enable our professional products more closely connected with cultural life. During the year, we cooperated with certain sports stars such as Dwyane Wade, a renowned NBA star. By delivering and integrating elements of his personality and lifestyle into the designs of our products, we developed a number of commemorative products, which were widely popular. We also have reached in-depth cooperation with fashion media and realized product placement during media shooting of artists. Moreover, we interacted with the media to reach the circles of media fans and artist fans. Meanwhile, we cooperated with GAI, the winner of The Rap of China, to launch co-branded shoes "GAI shi wu shuang". By integrating fashion elements into our products, we have created fashion sports experience for our customers.

Our innate sports DNA has impelled the Group to continuously open up space for imagination as well as create more professional and stylish products and sports experience for sports enthusiasts and life enjoyers in 2017.

IMPLEMENT PRECISE PRODUCT PLANNING, OPTIMIZE EFFICIENCY OF SALES CHANNELS AND ENHANCE RETAIL CAPABILITY

In 2017, we focused on enhancing our retail capability in some aspects, namely product planning, product design, integration of supply chains and channels, and improvement in the efficiency of retail operations. Altogether, this would also be an overriding challenge in the future.

As for the transformation of product operation model, we are dedicated to enhancing the precision of our product planning, which includes building a portfolio of products with both long and short life-cycles. Further, we established a design team of the Southern region to conduct precise management relating to product design, assortment and discount based on the diverging market sentiments and preferences between Southern and Northern Chinese markets. One of our key efforts during the year was to promote precise single store order. By performing research and study on the close ties between store assortment and consumer demands, we have gradually developed a more efficient assortment model, consolidated our product offerings and precisely aligning them with consumer demands. Meanwhile, we continued to optimize the supply model and increase the efficiency in product delivery, striving to satisfy end-user demands in a "swift + precise" way.

Concerning channel and operating efficiency, we persisted in establishing and improving a retail operation-supported platform and adopted the shopping experience-oriented approach to enhance and re-shape retail experience at stores constantly. During the year, the Group continued to consolidate the commercial zone market analysis on the business structure at all market levels. Coupling this with the development of consumer group structure, we have optimized the overall matrix of our store images and categories. Meanwhile, catering to different sports product categories and city tiers, we also made a differentiated market layout for product coverage and continued to refine the operating standards and detailed rules for all store categories. We also set up an online training system to enhance staff's professional knowledge on products and customer service standards. Taking advantages of the existing sponsorship resources and activities, we added value to customers' in-store experience in our retail outlet stores with the product competitiveness and brand strengths in a flexible and diversified manner.

OUTLOOK

As China's society, cities and towns will continue to undergo rapid developments and with the constant increase of disposable income per capita of urban residents in the future, unprecedentedly favorable opportunities for business development will be brought by the promotion of nationwide fitness. From the competition, training, entertainment and health perspectives, the public's consumption of sports products and sports culture-related items will provide industry players with more opportunities. Moreover, the Group will offer more professionalized products and services in the future, thereby achieving real sports value. In 2018, the Group will further strengthen and improve the following business focuses:

– Adhering to the principle of "everything is business-oriented", aiming to enhance our expertise and operation efficiency and focusing on continuous efficiency improvement, we will steadily improve our profitability and further expand our business scale;

– Continuing to improve our products and retail operation efficiency, we will upgrade the business model of LI-NING, establish and optimize the "precise + swift" operation model in line with retail efficiency and effective operation, in order to stimulate the vitality of the Company through business model;

– Conducting tests and researches for LI NING's products, we will establish and improve the combination of professional sports, fashion, entertainment and leisure demand. Innovative designs will be made to enhance productivity based on various sports features; meanwhile, by constantly accumulating our knowledge to sports and exercise as well as making use of sports resources, we will improve our interactive experience with consumers, so as to enhance our brand value;

– Exercising reasonable and prudent use of resources invested in the sports category market with business opportunities, including Danskin brand, LI-NING YOUNG and "" label, we will foster new opportunities for the Company's long-term growth.

As we enter the modern era driven by knowledge, innovation and technology, the Group will devote its major resources into sports knowledge learning, technological research and development and application as well as LI-NING brand experience development. As the founder and operator of the Company, I always highly regard the interests of investors, and cherish their care of LI-NING brand and unremitting supports to the Company. The management and I will spare no efforts to steer the Company forward towards further development in the future, forging a LI-NING brand full of vivacity and creativity in a new era. "Anything is Possible"!

Li Ning
Executive Chairman and Interim Chief Executive Officer

Hong Kong, 21 March 2018


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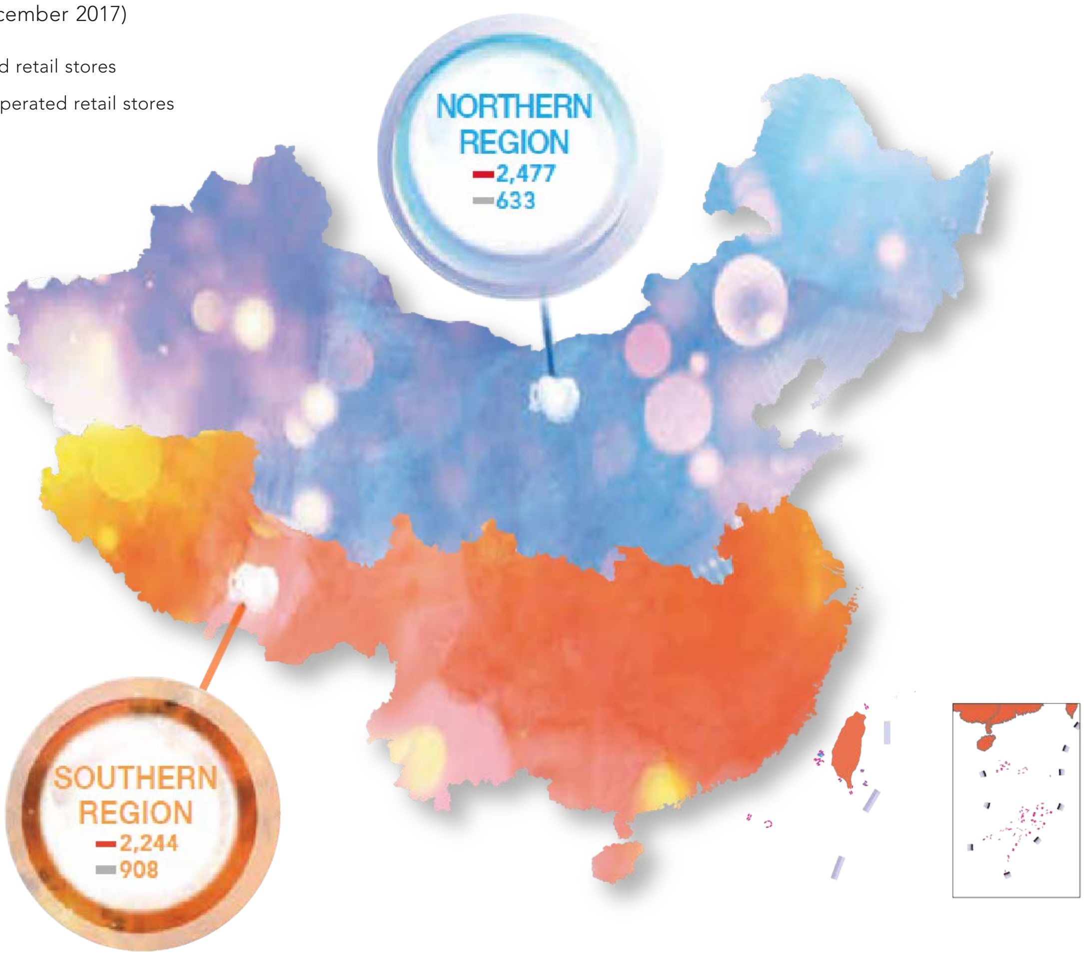
Management Discussion and Analysis

NATIONWIDE DISTRIBUTION OF FRANCHISED AND RETAIL POS

(As at 31 December 2017)

Franchised retail stores

Directly-operated retail stores



	Franchised	Directly-operated retail	Total
Northern region (Note 1)	2,477	633	3,110
Southern region (Note 2)	2,244	908	3,152
Total	**4,721**	**1,541**	**6,262**

Notes:

1. Northern region includes provinces and autonomous regions covering Beijing, Tianjin, Shanxi, Shandong, Hebei, Inner Mongolia, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Gansu, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region and Qinghai.
2. Southern region includes provinces and autonomous regions covering Guangdong, Guangxi, Fujian, Hainan, Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing,Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei, and Anhui.

FINANCIAL OVERVIEW

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

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

	31 December 2017	31 December 2016
Balance sheet items		
(All amounts in RMB thousands unless otherwise stated)		
Total assets *(Note 5)*	**7,321,349**	6,780,494
Capital and reserves attributable to equity holders *(Note 6)*	**5,071,047**	3,994,599
Key financial ratios		
Asset efficiency		
Average inventory turnover *(days) (Note 7)*	**80**	82
Average trade receivables turnover *(days) (Note 8)*	**52**	64
Average trade payables turnover *(days) (Note 9)*	**83**	87
Asset ratios		
Debt-to-equity ratio *(%) (Note 10)*	**44.3**	69.7
Interest-bearing debt-to-equity ratio *(%) (Note 11)*	**–**	19.2
Net asset value per share *(RMB cents)*	**234.65**	200.56

Notes:

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

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

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

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

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

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

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

8. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year (excluding Double Happiness), divided by revenue and multiplied by the total number of days in the year.

9. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year (excluding Double Happiness), divided by total purchases and multiplied by the total number of days in the year.

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

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

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

Revenue

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

Revenue breakdown by brand and product category

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

* Including Lotto, Kason, Aigle and Danskin.

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

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

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

Revenue breakdown of LI-NING brand by geographical location

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

Notes:

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

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

Cost of Sales and Gross Profit

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

Distribution Expenses

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

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

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

Administrative Expenses

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

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

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

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

Finance Expenses

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

Income Tax Expense

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

Profit for the year from Discontinued Operations

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

Overall Profitability Indicators

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

Provision for Inventories

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

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

Provision for Doubtful Debts

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

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

Liquidity and Financial Resource

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

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

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

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

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

Foreign Exchange Risk

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

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

Pledge of Assets

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

Contingent Liabilities

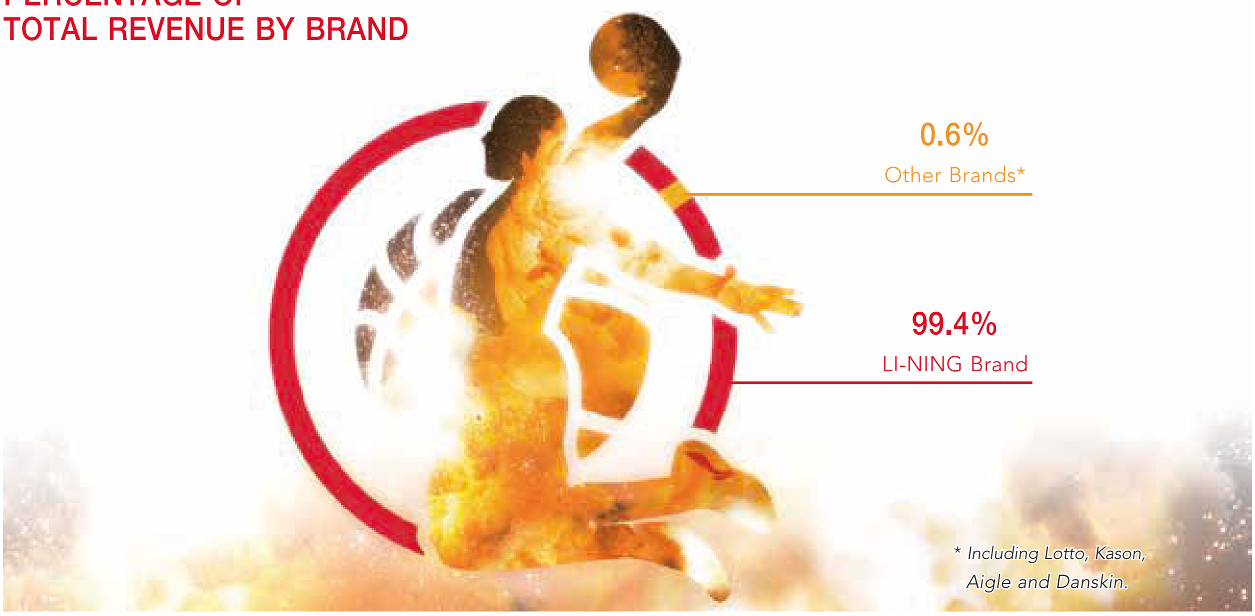
As at 31 December 2017, the Group had no significant contingent liabilities.

BUSINESS REVIEW

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

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

PERCENTAGE OF TOTAL REVENUE BY BRAND



Latest trade fair orders and operational update

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

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

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

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

LI-NING BRAND

Create more professional and unique products through creativity and innovation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Integrating with fashionable trends to accelerate brand rejuvenation

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

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

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

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

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

Sales Channel Expansion and Management

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

Number of franchised and directly-operated POS

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

Number of POS by geographical location

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

Notes:

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

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

Structural Adjustment and Quality Improvement of Sales Channels

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

Transformation of Product Operation Model

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

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

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

Transformation of Logistics System

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

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

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

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

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

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

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

Enhancing Store Image and Visual Promotion

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

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

Strengthening Membership Recruitment and Membership Marketing

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

Enhancing Omni-channel Service Experience

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

E-Commerce

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

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

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

Supply Chain Management

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

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

NEW BUSINESS

DANSKIN Brand

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

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

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

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

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

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

“” Label

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

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

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

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

LI-NING YOUNG

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

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

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

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

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

HUMAN RESOURCES

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

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

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

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

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

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

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

OUTLOOK

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

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

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

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

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

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

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

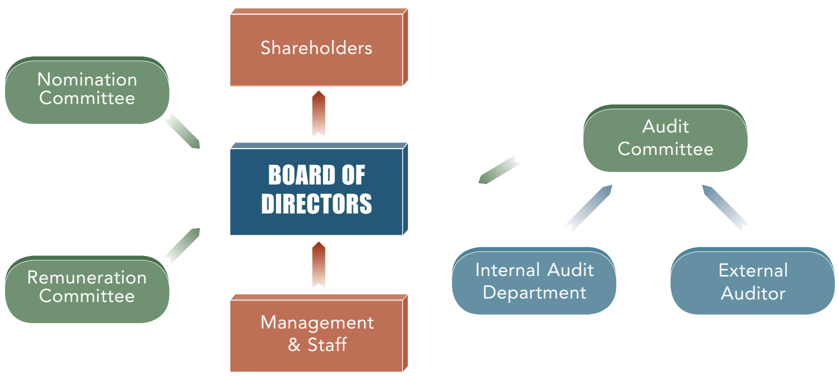
Corporate Governance Report

Adapting and adhering to recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in an effective and efficient manner. The Board believes that good corporate governance safeguards the long-term interest of the Shareholders and enhances the Group's performance. The Board endeavours to uphold a high standard of corporate governance with focuses on internal control, fair disclosure and accountability to all Shareholders.

Throughout the year ended 31 December 2017, the Company has complied with the code provisions of the Corporate Governance Code ("Code Provisions") as set out in Appendix 14 to the Listing Rules, except for certain deviations specified with considered reasons as explained below.

CORPORATE GOVERNANCE STRUCTURE

The corporate governance structure of the Company is as follows:



The corporate governance functions are performed by the Board.

The Company adopted paragraph D.3.1 of the Code Provisions as the duties of the Board in performing its corporate governance functions.

During the year of 2017, the Board has performed the following duties in respect of its corporate governance functions:

a. reviewing the Company's policies and practices on corporate governance;

b. reviewing and monitoring the training and continuous professional development of the Directors and the senior management of the Company (the "Senior Management");

c. reviewing and monitoring the Company's policies and practices to ensure they are in compliance with legal and regulatory requirements;

d. reviewing and monitoring the code of conduct applicable to employees; and

e. reviewing the Company's compliance with the code of disclosure in the Corporate Governance Report.

THE BOARD OF DIRECTORS

Being accountable to the Shareholders, the Board has the responsibility for providing leadership and monitoring and controlling the Company and is collectively responsible for promoting the long-term sustainable and healthy development of the Group by directing and supervising the Company's affairs.

Composition of the Board

The Board currently comprises eight Directors, with a majority of whom being non-executive Directors (including independent non-executive Directors), of which one is an executive Director, three are non-executive Directors, and four are independent non-executive Directors. During the year of 2017 and up to the date of this report, the composition of the Board and its changes are as follows:

Name of Director

Executive Director

Mr. Li Ning *(Executive Chairman and Interim Chief Executive Officer)*

Non-executive Directors

Mr. Chen Yue, Scott
Mr. Wu, Jesse Jen-Wei
Mr. Li Qilin *(appointed on 13 December 2017)*

Independent non-executive Directors

Mr. Koo Fook Sun, Louis
Ms. Wang Ya Fei
Dr. Chan Chung Bun, Bunny, *GBS, JP*
Mr. Su Jing Shyh, Samuel

The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group. Except Mr. Li Qilin is the nephew of Mr. Li Ning, the Executive Chairman and Interim Chief Executive Officer of the Company, there are no relationships (including financial, business, family or other material or relevant relationships) among members of the Board. Biographical details of the Directors are set out in the section headed "Directors and Senior Management" of this annual report.

All Directors have disclosed to the Company the number and nature of offices they held in other public companies or organisations and other significant commitments, with the identity of the public companies or organisations, and an indication of the time involved. They are also reminded to notify the Company and confirm to the Company any change of such information in a timely manner pursuant to the disclosure requirements of the Listing Rules. The Board is of the view that each Director has given sufficient time and attention to the affairs of the Company for the year under review.

Board Diversity Policy

The nomination committee of the Company (the "Nomination Committee") reviews and assesses the composition of the Board and makes recommendations to the Board on the appointment of new Directors and Senior Management based on its terms of reference.

The Nomination Committee made an annual review on the composition of the Board with reference to a number of factors, including but not limited to diversity. The Company has complied with paragraph A.5.6 of the Code Provisions, with respect to board diversity during the year. Further details on the review of the composition of the Board are set out in the section headed "Nomination Committee" below.

Chairman and Chief Executive Officer

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

In addition, the operations and management of the Company is constantly subject to the scrutiny and valuable contributions of the independent non-executive Directors. The Board will continue to review the management structure regularly to ensure that it continues to meet these objectives and is in line with industry practices.

Principal Responsibilities of the Board

While delegating the authority and responsibility for implementing business strategies and managing the day-to-day operations of the Group's business to the management, the Board is collectively responsible for formulating the strategic business direction of the Group and setting objectives for the management, overseeing its performance and assessing the effectiveness of management strategies. The Board reviews the operating performance against agreed targets and budgets on a regular basis and also exercises a number of reserved powers, including:

- formulating long-term objectives and strategies;
- approving strategic, operational and financial plans;
- monitoring and controlling the Group's operational and financial performance;
- approving financial statements and public announcements;
- setting the dividend policy;
- approving major acquisitions and disposals, formation of joint ventures and capital transactions; and
- developing and reviewing the Company's policies and practices on corporate governance, and performing other duties set out in paragraph D.3.1 of the Code Provisions.

Directors' Induction and Continuous Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. Every newly appointed Director receives a comprehensive, formal and tailored induction to ensure that he or she has a proper understanding of the business and operations of the Group and that he or she is fully aware of his or her duties and responsibilities as a director under the applicable rules and requirements. Directors are updated on any developments or changes affecting their obligations from time to time. Professional training and update programmes are provided to the Directors on a regular basis in order to enhance the Board members' knowledge on the professional and regulatory perspectives. In June 2017, the Company, together with its legal adviser, organized a training session to provide the Directors with an update on "Legal responsibilities of Directors and Senior Management of listed companies and regulatory development of legal compliance".

According to the records maintained by the Company, the Directors received the following trainings and updates in 2017:

Name of Director	Attending seminars and/or conferences and/or forums relating to rules and regulations or duties of the directors	Reading newspapers, journals and updates relating to the economy and business management and duties of directors
Executive Director		
Mr. Li Ning *(Executive Chairman and Interim CEO)*	✓	✓
Non-executive Directors		
Mr. Chen Yue, Scott	✓	✓
Mr. Wu, Jesse Jen-Wei	✓	✓
Mr. Li Qilin *(appointed on 13 December 2017)*	–	✓
Independent non-executive Directors		
Mr. Koo Fook Sun, Louis	✓	✓
Ms. Wang Ya Fei	✓	✓
Dr. Chan Chung Bun, Bunny, *GBS, JP*	✓	✓
Mr. Su Jing Shyh, Samuel	✓	✓

Non-executive Directors and Independent Non-executive Directors

Non-executive Directors and independent non-executive Directors play an important check-and-balance role in safeguarding the interests of the Company and the Shareholders as a whole, and will take the lead when potential conflicts of interests arise. The incumbent non-executive Directors and independent non-executive Directors have extensive professional experiences and have participated in the meetings of the Board in a conscientious and responsible manner. They actively serve on the Board and its committees to provide their independent and objective views, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control. They have been appointed for a specific term and are subject to re-election and rotation according to the applicable Listing Rules and the Articles of Association.

In compliance with Rules 3.10(1) and 3.10A of the Listing Rules, the Company has appointed four independent non-executive Directors, representing more than one-third of the Board. One of the independent non-executive Directors has the appropriate qualifications in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Company has received from each of the independent non-executive Directors an annual confirmation of his or her independence as required under the Listing Rules. Independence of each of the independent non-executive Directors has been assessed by the Board and the Board continues to consider each of them independent in accordance with the Listing Rules.

Directors' Appointment and Re-election

Each of the executive Directors, non-executive Directors and independent non-executive Directors has entered into a service agreement with the Company for a term of three years. All Directors are subject to retirement by rotation at least once every three years and are eligible for re-election in accordance with the Articles of Association. A new Director appointed by the Board is subject to re-election by the Shareholders at the first general meeting after his or her appointment in accordance with the Articles of Association.

Directors' and Officers' Liability Insurance

The Company has arranged for appropriate insurance cover in respect of possible legal actions against its Directors and officers. The scope of coverage of the insurance is subject to review annually.

BOARD COMMITTEES

The Board is supported by a number of committees, including the executive committee (the "Executive Committee"), the Nomination Committee, the remuneration committee (the "Remuneration Committee") and the audit committee (the "Audit Committee") of the Company. Each of the Board Committees has its own defined and written terms of reference as approved by the Board covering its duties, powers and functions, which are in compliance with the Listing Rules and have taken into account the specific business needs of the Company. The Board Committees are provided with sufficient internal and external resources to discharge their duties. Each Board Committee reports the outcome of the Committee's meetings to the Board, addressing major issues and findings, and making recommendations to assist the Board in its decision making. Meetings of the Board Committees are convened and conducted in accordance with the Articles of Association.

Executive Committee

The Board has established the Executive Committee to enhance management efficiency since December 2004. Upon regular review of the function of the Executive Committee, the Board was in the view that as Mr. Li Ning, the Executive Chairman of the Company, also assumed the role of Interim CEO, the communication between the Board and the Senior Management and the implementation of business strategies are effective. The Board considered that the Executive Committee did not remain appropriate to the Company's needs and resolved to cancel the Executive Committee on 13 December 2017.

For the period from 1 January 2017 to 12 December 2017, the Executive Committee comprised three members, namely:

Mr. Li Ning *(Chairman of the Committee)*	Executive Chairman, Interim CEO & Executive Director
Mr. Chen Yue, Scott	Non-executive Director
Mr. Wu, Jesse Jen-Wei	Non-executive Director

The Board has delegated the following duties to the Executive Committee:

- advising on matters relating to and overseeing the implementation of the Company's strategic objectives, risk management policies and compliances;
- providing the Board with recommendations on policies and specific operational issues, helping to develop and endorse major recommendations made to the Board by management, and supervising the management in the implementation of policies and decisions laid down by the Board in relation to the business and operations of the Group;
- overseeing and guiding the business and operations of all the business units of the Group; and
- endorsing proposals to change the Company's capital structure, including any reduction of capital, share buyback or issue of new securities.

Nomination Committee

The Nomination Committee has been established since June 2005. The primary role of the Nomination Committee is to formulate and execute nomination policies of the Board members and the Senior Management, to evaluate the structure, size and composition of the Board, to make recommendations to the Board on the appointment and succession planning for the Directors, the Chairman, the CEO and the chief financial officer ("CFO") of the Company, to evaluate the structure and organisational strategy of the Group and to assess and identify the appropriate staffing for the Senior Management.

The Nomination Committee has adopted the terms of reference as outlined under the Code Provisions. The current terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The Nomination Committee currently consists of the following three Directors:

Mr. Su Jing Shyh, Samuel *(Chairman of the Committee)*	Independent non-executive Director
Mr. Li Ning	Executive Chairman, Interim CEO & Executive Director
Dr. Chan Chung Bun, Bunny, *GBS, JP*	Independent non-executive Director

The Nomination Committee normally engages professional recruitment consultants in discharging its duties and functions. Candidates who satisfy the criteria are short-listed and met by the Nomination Committee before the final candidate is nominated to the Board for consideration. The process ensures that the Board and the Senior Management have sound knowledge, experience and/or expertise required in the business operations and development of the Group.

The following is a summary of the major tasks carried out by the Nomination Committee in 2017:

- nomination of Mr. Yang Hai Wei to act as Chief Operating Officer;
- nomination of Mr. Li Qilin to act as a non-executive Director;
- assessing the independence of each of the independent non-executive Directors; and
- reviewing the structure, size and composition of the Board, the time involvement, work framework, and duties and responsibilities of the Directors on an annual basis; and keeping records on the information updated by each Director pursuant to Rule 13.51B of the Listing Rules.

During the year, the Nomination Committee reviewed the composition of the Board, including its diversity, based on a range of perspectives with reference to the Company's business model and requirements, including but not limited to gender, age, ethnicity, education background and professional expertise, industry experience, skills and knowledge, and length of service.

The Nomination Committee considered that the current composition of the Board is balanced in terms of diversity and is able to meet the objectives of the Board. The Board's diversity provides the Company with experienced individuals and professionals with proven and extensive industry experience whose opinions and expertise are useful for the decision-making of the Board and the implementation of its business directives.

Remuneration Committee

The Remuneration Committee has been established since the Company was listed on the Stock Exchange in June 2004. The primary responsibility of the Remuneration Committee is to formulate remuneration policies and structure for the Directors and the Senior Management to enable the Company to attract, retain and motivate talents which are essential to the long-term success of the Company.

The Remuneration Committee has adopted the terms of reference as outlined under the Code Provisions. The current terms of reference of the Remuneration Committee are available on the websites of the Company and the Stock Exchange.

The Remuneration Committee currently consists of the following three Directors:

Ms. Wang Ya Fei *(Chairperson of the Committee)*	Independent non-executive Director
Mr. LI Qilin	Non-executive Director
Dr. Chan Chung Bun, Bunny, *GBS, JP*	Independent non-executive Director

The primary goal of the Remuneration Committee is to make recommendations to the Board on the policy and structure of the remuneration package for all the Directors and Senior Management and to establish a formal and transparent procedure with reference to corporate objectives, operating results and comparable market conditions. The principal elements of the remuneration package of the Directors include basic salary, discretionary bonus, participation in the Company's share option schemes and other benefits and allowances, taking into account the duties and responsibilities of the respective Directors.

No Directors participated in deciding his or her own remuneration. The emoluments of each Director for the year ended 31 December 2017 are set out in note 38 to the consolidated financial statements.

The following is a summary of the major tasks carried out by the Remuneration Committee in 2017:

- making recommendations to the Board on the remuneration packages of all the Directors and Senior Management for the year 2017;
- reviewing and approving the bonus plan for the year 2017;
- reviewing and approving the salary adjustment plan for the year 2017;
- reviewing, monitoring and approving the implementation of ESOP (employee share option program) and Restricted Share Award Scheme for the year 2017;
- reviewing and approving the recommendation of short-term and long-term incentives for the year 2017; and
- approving the budget of human resources expenses for the year 2018.

To discharge its obligations, the Remuneration Committee consults and seeks advice from the Executive Chairman and the human resources division of the Company during the review of the remuneration policy and incentive plans. External professional consultants are engaged to provide advice on issues when the Remuneration Committee considers necessary.

Audit Committee

The Audit Committee was established since the Company was listed on the Stock Exchange in June 2004. The primary role of the Audit Committee is to assist the Board in discharging its responsibilities for monitoring the integrity of the Group's financial statements, overseeing the Group's financial reporting systems, risk management and internal control procedures and the Company's relationship with the external auditor.

The Audit Committee has adopted the terms of reference, which follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and are in compliance with the Code Provisions. The current terms of reference of the Audit Committee are available on the websites of the Company and the Stock Exchange.

The Audit Committee currently consists of the following three Directors:

Mr. Koo Fook Sun, Louis *(Chairman of the Committee)*	Independent non-executive Director
Ms. Wang Ya Fei	Independent non-executive Director
Dr. Chan Chung Bun, Bunny, *GBS, JP*	Independent non-executive Director

The external auditor, the CFO and the heads of the internal audit department (the "Internal Audit Department") and the accounting management department of the Company attended the meetings and provided necessary information to the questions raised by the Audit Committee.

During the year of 2017, the Audit Committee held three meetings with the external auditor of the Company to discuss issues they considered necessary.

The following is a summary of the work performed by the Audit Committee in 2017:

- reviewing the external auditor's statutory audit plan and the nature and scope of audit before commencement of audit work;
- reviewing and recommending for the Board's approval the annual results announcement and annual financial statements for the year ended 31 December 2016 and the interim results announcement and interim financial statements for the six months ended 30 June 2017 with particular focus on changes in accounting policies and practices, compliance with accounting standards, the Listing Rules and other requirements in relation to financial reporting;
- discussing with the external auditor and the management on possible accounting risks and major findings in the course of audit/review;
- reviewing the independence of the external auditor and recommending to the Board on the re-appointment of the external auditor;
- approving the audit fees and terms of engagement of the external auditor;
- reviewing 2017 internal audit findings and recommendations and approving 2018 internal audit plan; and
- reviewing the effectiveness of the Company's risk management functions and internal control system, including the financial reporting and compliance functions.

Whistleblowing Policy

Whistleblowing policy and system have been established for employees and those who have business dealings with the Company (including suppliers and distributors). They may raise concerns, in confidence, to the Audit Committee about the possible improprieties in any matters related to the Company. A member of the Audit Committee has been appointed as the contact person for channeling any possible irregularities considered by the staff, suppliers and distributors.

Board and Committee Meetings

The Board holds at least four regular Board meetings each year at approximately quarterly intervals and additional Board meetings are held as and when necessary. Regular Board meetings are scheduled a year ahead to achieve the maximum attendance of the Directors. Notice of at least 14 days is served for regular Board meetings. The meeting agenda is set after consulting with members of the Board so that all Directors have the opportunity to include matters in the agenda. The agenda and accompanying papers are sent to the Directors in a timely manner before the date of the meeting in compliance with the Code Provisions.

Directors can access relevant information as requested at any time. The management provides the Directors with comprehensive reports on the Group's business progress, financial objectives, strategic and development plans to enable them to make informed decisions on matters submitted for their approval at the Board meetings. The Board arranges, where appropriate, relevant members of the Senior Management to attend their meetings and report the latest situation about operations and respond to queries from the Directors.

During the year of 2017, the Board has only one Executive Director. For the year ended 31 December 2017, the Executive Chairman of the Company had meetings with the non-executive Directors, including the independent non-executive Directors, without the presence of the Executive Directors.

Directors are required to declare their direct or indirect interests, if any, in any matter to be considered at the Board or Committee meetings. Interested Directors are required to abstain from voting and will not be counted in the quorum present in the Board or Committee meetings in accordance with the Articles of Association.

The attendances of the Directors at the meetings of the Board, the Nomination Committee, the Remuneration Committee and the Audit Committee during the year are as follows:

	Number of meetings attended/ number of meetings held during the respective tenure in the financial year ended 31 December 2017			
Name of Director	Board	Nomination Committee	Remuneration Committee	Audit Committee
Executive Director				
Mr. Li Ning *(Executive Chairman and Interim CEO)*	4/4	2/2	2/2 (in attendance)	N/A
Non-executive Directors				
Mr. Chen Yue, Scott	4/4	N/A	2/2	N/A
Mr. Wu, Jesse Jen-Wei	4/4	N/A	N/A	N/A
Mr. Li Qilin *(appointed on 13 December 2017)*	1/1	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Koo Fook Sun, Louis	4/4	N/A	N/A	3/3
Ms. Wang Ya Fei	4/4	N/A	2/2	3/3
Dr. Chan Chung Bun, Bunny, *GBS, JP*	4/4	2/2	2/2	3/3
Mr. Su Jing Shyh, Samuel	4/4	2/2	N/A	N/A

Note:
Minutes of the foregoing meetings were recorded in sufficient detail of the matters discussed and the decisions made at the meetings, which include the issues raised or dissenting views expressed by Directors. Draft and final version of the minutes are circulated to all Directors for their comments and records within a reasonable time after the relevant meetings.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors, with support from the finance team, acknowledge their responsibilities for preparing the financial statements of the Group and ensure that the financial statements are prepared in accordance with statutory requirements and applicable accounting standards on a going concern basis. The Board also ensures timely publication of the financial statements of the Group.

Prior to commencement of the audit of the Company's accounts for the year of 2017, the Audit Committee had received a confirmation from the external auditor on their independence and objectivity. External audit partners are subject to periodic rotation.

The statement of the external auditor of the Company, PricewaterhouseCoopers, about their reporting responsibilities on the consolidated financial statements is set out in the section headed "Independent Auditor's Report" of this annual report.

During the year of 2017, the management had provided all members of the Board with monthly financial updates in order to give a balanced and reasonable assessment of the Company's performance, position and prospects.

External Auditor's Remuneration

PricewaterhouseCoopers has been appointed as the external auditor of the Company since the Company was listed on the Stock Exchange in 2004. The re-appointment of PricewaterhouseCoopers as the external auditor of the Company has been recommended by the Audit Committee, endorsed by the Board and is subject to approval by Shareholders at the forthcoming annual general meeting.

For the year ended 31 December 2017, the fees for the audit services and non-audit services provided by the external auditor are as follows:

Type of Service	2017 (RMB)	2016 (RMB)
Audit fee for the Group	4,700,000	4,400,000
Tax compliance and other advisory services	962,000	957,000
Total	5,662,000	5,357,000

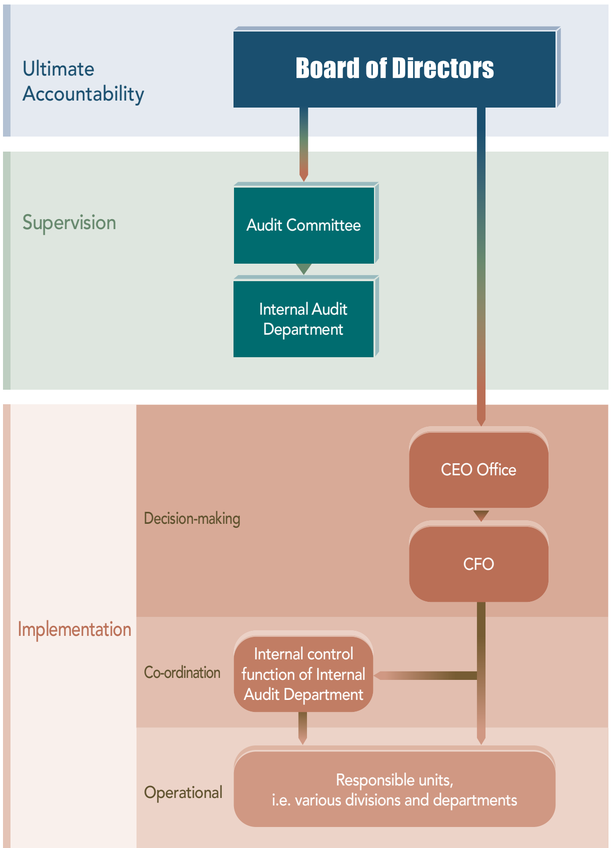
Risk Management and Internal Control

The Board is responsible for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives and reviewing the effectiveness of the Group's risk management and internal control systems on an annual basis. In 2017, the Board, with the support of the Audit Committee, reviewed the adequacy of resources, qualifications and experience of staff in performing the accounting and financial reporting functions and the appropriateness of their training programmes and budgets.

Risk Management and Internal Control System

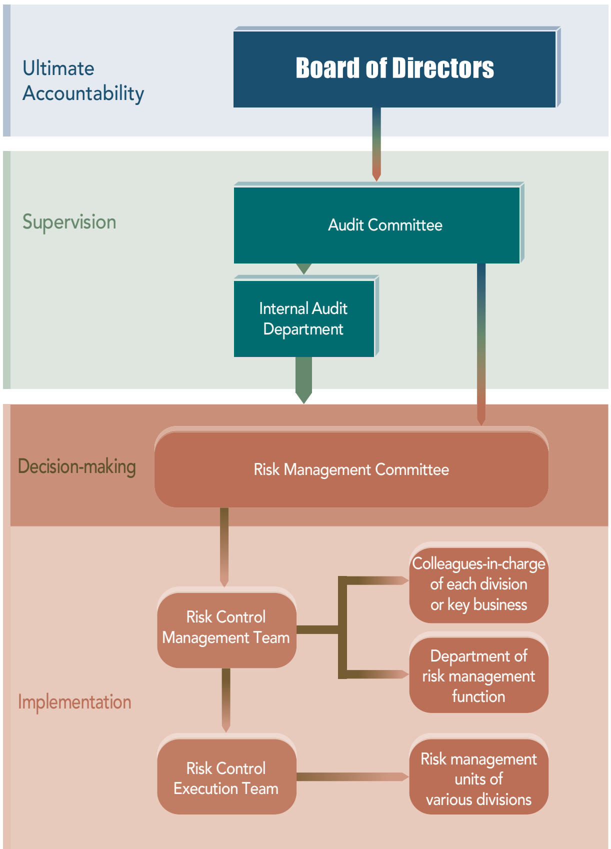
Based on the experience in operation control over the years, the Company has put in place an integrated system of risk management and internal control. The system adopts the globally recognised framework outlined by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"), taking into account the Group's business, operational and financial risks, corporate culture and management philosophy. The system is designed to (i) achieve effectiveness and efficiency of operations; (ii) enhance the reliability of internal and external financial reporting; and (iii) ensure compliance with the applicable laws and regulations. The system serves to provide reasonable, but not absolute, assurance against material misstatement, fraud or loss. During the year, the Group continued to improve its internal control system aiming at providing effective control and strong support, reflected mainly in the following aspects:

(1) The normal operation of the organizational structure set up on the basis of the COSO risk management and internal control framework is promoted continuously, under which the internal control organization structure is depicted as follows:



The Company has established a top-down organizational and management structure with clear-cut responsibilities and authorities for internal control purposes, embracing three levels which are responsible for ultimate accountability, supervision and implementation, respectively: (i) the Board bears the ultimate accountability and has the ultimate authority in internal control management. It is externally accountable to the Shareholders for corporate governance responsibility, whereas internally it acts as the highest authority to foster internal control; (ii) the Audit Committee is responsible for supervising the establishment and operation of the internal control system by the management, monitoring the Group's risk management and internal control procedures and advising the Board on the effectiveness thereof. Preliminary assessment on the effectiveness of risk management and internal control are conducted by the Internal Audit Department which reports directly to the Audit Committee; (iii) the implementation level comprises a decision-making group, a coordination body (namely, the internal control function of Internal Audit Department, which is responsible for supporting the planning and establishment of the Group's internal control system, coordinating the promotion and implementation of the internal control structures in different systems, and organising examination on the effectiveness of the internal control and assessment of risks) and operational and functional divisions.

(2) Risk management organization structure is depicted as follows:



The Company has established a top-down organizational and management structure with clear-cut responsibilities and authorities for risk management purposes, embracing four levels which are responsible for ultimate accountability, supervision, decision-making and implementation, respectively: (i) the Board bears the ultimate accountability in the risk management of the Company. It has the right to provide guidance and final decision on the Company's risk management policies and systems as well as response plans, and bears the ultimate accountability for the effectiveness of the Company's risk management; (ii) the Audit Committee and its Internal Audit Department assess and monitor the implementation of the Company's risk management, and inform the Risk Management Committee of such result and submit to the Board in a timely manner; (iii) the Risk Management Committee is comprised of the Company's management and Group Vice President for a term of two years. Its basic duties include but not limited to discussing and approving the policies and systems relating to risk management, making decision on risk management related works, discussing and approving the annual work plan and annual report on risk management, deciding solutions for major issues arisen during the operation of the Company as well as reporting regularly to the Audit Committee and/or the management in respect of risk management; (iv) the implementation level comprises a risk control management group (including heads of departments or key business heads, and risk management functions performed by the Internal Audit Department) and a risk control execution group (i.e. staff designated for risk management of each system).

During the year, in light of the changes in the Company's organisational structure, staff and business flow, the staff arrangement under the internal control function of Internal Audit Department structure was promptly updated and necessary training was carried out by the Company. The Internal Control Team reported at every meeting of the Audit Committee in relation to the Group's risk management, internal control plans and progress for the supervision and guidance of the Audit Committee and the Board.

(3) Possession of effective and forward-looking information on strategic management and operation management and financial and accounting management systems supports the supervision of implementation and performance of business strategies and plans. Timely and regular operational reports and monthly financial updates are submitted to and reviewed by the Senior Management, the Board or its designated Committees. This allows them to monitor and control situations against the established annual operating and financial targets and to consider necessary actions as well as to ensure such actions are being carried out promptly so as to remedy any significant failures or weaknesses.

(4) The Internal Control Manual of Li Ning Company Limited (the "Internal Control Manual"), which represents the codification of the Group's existing internal control policies and operational procedures to enhance its internal control system, is implemented on an ongoing basis. The Internal Control Manual currently covers areas including the management procedures in respect of sales and trade receivables, procurement and trade payables, inventories, capital, financial reporting, taxation, management functions of the Group, administration and human resources, intellectual property rights, export and fixed assets. Systematic changes to the Internal Control Manual have to be carried out at least once a year, depending on the needs for business changes and procedural refinement, so as to further improve and monitor the effectiveness of the internal control system on a continuing basis. With centralized arrangement and coordination of the internal control function of Internal Audit Department, key items of internal control and the specific control procedures set out in the Internal Control Manual were updated by the relevant departments during 2017. Such updated procedures have been implemented during the year.

(5) An effective annual self-assessment and evaluation mechanism under the internal control framework was established with satisfactory results and attained the following goals:

    (i) fostering middle and senior management to review and comment on whether control targets at corporate level can be achieved, and to identify inadequacy and make improvement in a timely manner;

    (ii) prompting the persons in charge of business processes to actively conduct process review on procedural control, test the design and execution effectiveness, identify problems in a timely manner and formulate improvement measures; and

    (iii) assisting the Audit Committee and the Board in assessing the effectiveness of the Company's internal control system as a whole.

(6) Independent reviews of risks management and internal control in relation to key operations, financial and compliance functions are performed by the Internal Audit Department. Significant issues, if any, together with recommendations for improvement, are reported to the Audit Committee or the Board.

(7) In order to support the rapid and healthy development of business diversification of the Group, the Company conducts annual risk review at corporate level and assesses risks and risk management controls on the key business aspects based on the Risk Management Manual of Li Ning Company Limited.

ANNUAL REVIEW

The Board is fully aware of its accountability in respect of the Group's risk management and internal control systems and its responsibility for reviewing the effectiveness of the systems. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss. The Group's internal control system is subject to continuous review and improvement to enable timely responses to any changing risks facing the Group.

A comprehensive review on the effectiveness of the Group's risk management and internal control system is conducted by the Board annually, covering all material controls including financial, operational and compliance monitoring. The review is performed internally on a self-assessment approach (CSA) with a complete set of reporting forms. Colleagues-in-charge of each division and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In 2017, the Company continued to improve methods for self-assessment, which included extending the scope of the self-assessment. The procedural control of self-assessment covered various divisions or departments in light of the Company's organizational restructuring and business expansion. In addition, members of the Senior Management were required to assess the effectiveness of the corporate internal control system according to the outlines of the COSO internal control system, including control environment and risk assessment, information and communication. The review process has enabled the colleagues-in-charge to verify whether the internal control system is operated as intended, to identify failures or weaknesses and to take relevant remedial actions. The Internal Audit Department also carried out independent examination and analysis on the review process and the results, and submitted a declaration to the Audit Committee and the Board certifying the adequacy and effectiveness of the Group's internal control system.

The results of the review for the year ended 31 December 2017 have been reported to the Audit Committee and the Board. According to the results, the Audit Committee and the Board confirm that the systems and procedures of the Group's risk management and internal control are in good order and are able to identify, control and report on significant risks involved in achieving the Group's strategic objectives. The areas of the systems and procedures pending further improvement have been identified and remedial actions have either been taken or designated to be taken. No material weaknesses have been identified by the Group so far and there are no significant areas of concern which may affect the Shareholders.

The Audit Committee and the Board have also received the annual review results with regard to the adequacy of resources, qualifications and experience of the Group's accounting and financial reporting staff and the sufficiency of their training programmes and budget. In accordance with such results, the Audit Committee and the Board are of the view that the Group has adequate workforce to fulfil accounting and financial reporting duties. These personnel possess necessary professional qualifications and practical experience to effectively perform their respective functions, and there have been appropriate training programmes and related budget for the staff.

The Board considers that the Group's internal control system is adequate and effective and the Company has complied with the Code Provisions of the Corporate Governance Code for the year ended 31 December 2017.

INTERNAL AUDIT

The Internal Audit Department was established soon after the Company's listing on the Stock Exchange in 2004. The main functions of the Internal Audit Department are reviewing the operational and financial conditions of the Group to disclose potential risks, and following up with related remedial measures, with a view to continuously enhancing the operational effectiveness and efficiency of the Group. The Internal Audit Department plays an important role in the Group's internal control and risk management framework with an aim to provide the Audit Committee and the Board with objective assurance that the internal control system and risk management system are effectively maintained and operated and that the risks associated with the achievement of business objectives are being managed properly and circumvented. The Internal Audit Department reports directly to the CFO and refers matters to the Audit Committee directly if necessary. The head of the Internal Audit Department attended every meeting of the Audit Committee and maintained constructive communications with the Company's external auditor during 2017. The Internal Audit Department also collaborates with the external auditor where appropriate.

The Internal Audit Department formulates the internal audit plan every year in accordance with the Group's strategic goals and risk assessment results, and engages in related tasks with the approval and support of the Audit Committee. The tasks of the Internal Audit Department include (i) regular audits and evaluation of the operational effectiveness and efficiency of various business and functional systems; and (ii) special audits in areas designated by the management and the Audit Committee based on the assessment of risks. In the year of 2017, the Internal Audit Department conducted audits on the sales system, marketing system, retail subsidiaries, supply chain system and non-core business systems of LI-NING brand, as well as internal control and risk management systems, and submitted the relevant audit reports to the Audit Committee and the management.

For significant audit findings and risk factors, the Internal Audit Department will notify the Audit Committee and the management of such risks in a timely manner, and will regularly follow up with the improvement progress. The Internal Audit Department submits formal work report to the Audit Committee three times a year, which enables the Board to assess control of the Group and the effectiveness of risk management. As at 31 December 2017, various audit findings and risk factors had been properly handled by the management, and there were no material irreparable audit findings and risk factors.

The Internal Audit Department will review the continuing connected transactions and the internal control procedures to ensure that individual connected transactions are indeed conducted in accordance with the pricing policies and mechanism under the framework agreements, and provide its findings to the independent non-executive Directors to assist them in performing their annual review. The Internal Audit Department also plays an important role in internal control and risk management system and is responsible for reviewing and assessing the adequacy and compliance level of the Group's internal control system and risk management system and providing an independent and objective opinion on the effectiveness of the systems. In 2017, the Internal Audit Department participated in reviewing the implementation of the risk management system, internal control system, risk management of sales channels and branding, and the financial systems.

INSIDE INFORMATION

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is fully aware of its obligations under Chapter 13 of the Listing Rules and the Securities and Futures Ordinance and the overriding principle that inside information of the Company should be announced immediately. The Company reviews from time to time its internal guidelines on inside information or potentially price sensitive information with reference to its own and industry circumstances and the Guide on Disclosure of Inside Information issued by the Securities and Futures Commission. The Company's policy contains a strict prohibition on unauthorised use of confidential or inside information and has established and implemented procedures for responding to external enquiries about the Group's affairs.

During the year, the Company followed the rules and procedures on regulating the disciplines and actions of all employees in external media communications and that the Executive Chairman and CFO are the key spokespersons of the Company in all external media communications. The human resources division of the Company is responsible for monitoring and reviewing the due compliance by all staff of the Group. The purpose of streamlining the communications of the Group with the media is to regulate all media communication activities, protect the interests of the Company and keep inside information strictly confidential prior to its disclosure.

COMPLIANCE WITH THE MODEL CODE ON SHARE DEALINGS

The Company has adopted the Model Code regarding securities transactions by the Directors. Directors are reminded regularly of their obligations under the Model Code. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 December 2017.

Employees who are likely to be in possession of unpublished inside information of the Group are also subject to guidelines on no less exacting terms than the Model Code. No incident of non-compliance was noted by the Company in the year of 2017.

COMPANY SECRETARY

During the year, Ms. Tai Kar Lei is the company secretary of the Company (the "Company Secretary"). Ms. Tai is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. During the year, Ms. Tai reported to the Executive Chairman and/or the CFO. In addition, she has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

SHAREHOLDERS' RIGHTS AND COMMUNICATIONS WITH SHAREHOLDERS

The Company has a number of formal communication channels to provide the Shareholders with accurate, clear, comprehensive and timely information of the Group. These include interim and annual reports, announcements, circulars and other corporate communication on the websites of the Company and/or the Stock Exchange.

Procedures for Shareholders to Convene a General Meeting/Put Forward Proposals

Pursuant to the Articles of Association, any one or more members of the Company holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require the Board to hold an extraordinary general meeting for the transaction of any business specified in such requisition. Such requisition can be deposited at the Company's principal place of business in Hong Kong at Suites 1, 7-15, L45, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon, Hong Kong for the attention of the Company Secretary, and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures for Proposing a Person for Election as a Director

As regards to the procedures for proposing a person for election as a Director, please refer to "Procedures for Shareholders to Propose a Person for Election as a Director" in the section headed "Corporate Governance" of the Company's website at http://ir.lining.com.

Procedures for Shareholders to Send Enquiries to the Board

Shareholders may send their written enquiries which require the Board's attention to the Company Secretary at the Company's principal place of business in Hong Kong at Suites 1, 7-15, L45, Office Tower, Langham Place, 8 Argyle Street, Mongkok, Kowloon, Hong Kong.

For the year of 2017, there was no change in the Articles of Association.

SHAREHOLDERS' MEETINGS

Shareholders' meetings provide a principal channel of direct communication between the Company and the Shareholders. They provide an opportunity for Shareholders to better understand the Group's operation, financial performance, business strategies and outlook.

Since the Company was listed on the Stock Exchange in 2004, all resolutions put forward at the Shareholders' meeting were voted by way of poll, of which each fully paid share of the Company is entitled to one vote. The procedures for demanding and conducting a poll with reference to the Articles of Association are explained at the beginning of the Shareholders' meeting. The results of the poll are published on the websites of the Company and the Stock Exchange.

To encourage Shareholders to attend the meetings, more than 20 clear business days' annual general meeting notice and 10 clear business days' extraordinary general meeting notice, and the circular containing necessary information are given to the Shareholders so as to enable them to make informed decisions on the resolutions proposed to be considered at the meetings.

Board members (including the chairmen of each of the Nomination Committee and the Remuneration Committee, and member of the Audit Committee) and the Company's external auditor were present at the annual general meeting of Company held on 16 June 2017 (the "2017 AGM"). A question-and-answer session was held for the Shareholders to raise questions. The next annual general meeting of the Company will be held on 15 June 2018 (the "2018 AGM"). Details of the 2018 AGM and necessary information on issues to be considered are set out in the circular despatched to the Shareholders together with this annual report.

The attendance records of the Directors at the shareholders' meetings held in the year of 2017 are set out below:

Name of Director	Number of meetings attended/number of meetings held
Executive Director	
Mr. Li Ning *(Executive Chairman and Interim CEO)*	1/1
Non-executive Directors	
Mr. Chen Yue, Scott	1/1
Mr. Wu, Jesse Jen-Wei	1/1
Mr. Li Qilin *(appointed on 13 December 2017)*	N/A
Independent non-executive Directors	
Mr. Koo Fook Sun, Louis	0/1
Ms. Wang Ya Fei	1/1
Dr. Chan Chung Bun, Bunny, *GBS, JP*	1/1
Mr. Su Jing Shyh, Samuel	1/1

WAY FORWARD

The Board will continue to review and improve its corporate governance with an aim to maintain a high degree of transparency, accountability and responsibility.

By order of the Board

Li Ning
Executive Chairman and Interim CEO

Hong Kong, 21 March 2018

Environmental, Social and Governance Report

I. POLICY MANAGEMENT AND KEY ISSUES IDENTIFICATION

The Group has always pursued the concept that "sports activities are not merely for the purpose of competition or fitness, but also have the functions of public service and social education" and stuck to our responsibility of improving social well-being. Adhering to its core values of "fulfilling dreams", "customer orientation", "our culture" and "breakthrough", we are committed to the innovation and design of professional sports products to change our lifestyles with sports. Through close contact with all stakeholders of the Company from time to time, we strive to shoulder our responsibilities to the environment, employees, products and communities while honouring our solemn commitment centred on "corporate social responsibility".

Environmental, Social and Governance Philosophy

The Group adheres to the development in a way that "balances social, economic and environmental issues, fosters regional sustainable development and builds the green 'Belt and Road' with joint efforts". Equally, we are dedicated to practicing the concept of "green operation", facilitating harmonious development of the society and elevating our management standards, which principally includes:

- Our key environmental objective is to reduce emissions of wastes and energy consumption by continually heightening our management capability. As a manifestation of our motivation for corporate sustainability, we pursue green, safe and high-quality product offerings for consumers, improve management system and assist suppliers in raising their awareness of social responsibility values.

- Caring our employees at heart, we promote the long-term core value of mutual growth of employees and the Company by creating a decent working environment and providing professional skill training and career development opportunities to employees, with an aim to achieve the goal of mutual growth of employees and the Group.

- Steering our long-term development with self-perfection and pioneering efforts, we shoulder our corporate responsibility to the society with our practices. By actively participating in public charity, we can magnify our brand influence while fulfilling our social responsibility to contribute to the harmonious development of the society.

At the end of 2017, we were awarded the "Social Caring Pledge" at the "Belt and Road Leadership Series: Social Caring Pledge Scheme Award Presentation Ceremony cum Sustainable Development Summit" held by Social Enterprise Research Academy, demonstrating our corporate image of actively caring for society and committing to social responsibility.

Key Issues Identification

The Group fully recognizes that communication with stakeholders is conducive to performing our corporate responsibility and attaining sustainable development. According to the features of the industry and our operations, we identified a total of seven stakeholders groups, including government and regulatory authorities, shareholders and investors, employees, distributors and suppliers, media, consumers, communities and general public. In the meantime, we have established a positive and stable mechanism for cooperation and communication with stakeholders through various channels.

Key Stakeholders Identification

Key stakeholders	Communication channel	Issues concerned	Response
Government and regulatory authorities	Policy guidelines; Regulatory document; Industry meeting; On-site inspection; Off-site regulation	Energy saving and emission reduction; Corporate governance; Compliance operation; Implementation of policy	Implement regulatory policy; Accept supervision and assessment; Carry out green operations; Improve corporate governance system
Shareholder and investor	Information disclosure; General meeting; Road show; Results announcement	Operation strategy; Profitability; Transparency of information disclosure	Maintain brand value; Regularly publish results announcement; Promote risk and internal control management
Employee	Trade union; Staff representatives meeting; Intranet mailbox; Corporate activity	Employee remuneration and benefits; Community charity; Development and training; Safety and protection	Bring the role of trade unions into play; Enrich employees' life; Establish a learning platform; Protect employees' rights and interests
Distributor and supplier	Regular communication meeting; Daily exchange and visit; Cooperation agreement; Strategic negotiation	Fair cooperation; Integrity and compliance; Mutual development	Formulate a transparent and fair procurement system; Enhance environmental and social risk awareness; Establish a good relationship in business cooperation
Media	Press Release; Media platform; Site visit	Corporate influence; Transparency of information disclosure; Ability in public relations	Regularly organize the open day for media; Real-time news release; Timely and objective information disclosure
Consumer	Customer service hotline; Satisfaction survey; Marketing activity; Official website	Product quality; After-sales service; Privacy protection	Establish and improve the quality control and management system; Improve service quality; Protect consumers' rights and interests
Community and general public	Charity activity; Volunteer action; Community activity	Benevolent and charitable activities; Community development; Community relations	Regularly conduct volunteer activities; Increase external donations; Popularize professional sports knowledge

With regard to the 11 major issues identified in Environmental, Social and Governance Reporting Guide, the Group identified the main concerns of the internal and external stakeholders through a survey on all key stakeholders. The significance of each key issue is as follows:

Analysis Matrix of Concerns of Key Stakeholders over the Guidelines on Environmental, Social and Governance in various aspects

II. ENVIRONMENTAL MANAGEMENT

Environmental Management Policy

The Group always adheres to the environmental philosophy of low-investment, low-consumption, low-emission and high-yields, and firmly complies with relevant national laws and regulations, including Environmental Protection Law of the People's Republic of China and Laws of the People's Republic of China on Conserving Energy. Meanwhile, we further enhance the environmental management and control measures in a bid to increase the efficiency of energy use and economic benefits, promote the use of clean energy and scale up investment in environmental protection.

Environmental Management Measures

As a sports product brand owner, the Group attaches great importance to environmental management without causing significant pollution and impact on the environment in the course of its operations. For instance, we have enacted systems and management measures including "Li Ning Company Energy (Resources) Saving Management Standards (李寧公司節能(源)管理標準)", "Li Ning Company Energy Saving Arrangements (李寧公司節能工作安排)" and "Li Ning Company Energy Saving Measures (李寧公司節能措施)". In addition, a variety of promoting activities and training on energy saving and emission reduction were carried out within the Group. We also set up a leading team dedicated to energy saving and emission reduction to boost staff engagement and heighten their awareness of environmental protection. In order to improve the overall quality of energy saving and emission reduction management, the Group continued to improve the energy saving and emission reduction system development, analysed and implemented energy saving targets. By tracking and inspecting the progress of energy saving and emission reduction projects and regularly analysing energy consumption, energy saving and emission reduction works have been carried out effectively in 2017.

Reducing Energy Consumption

The Group strengthens energy consumption management by adopting technically viable and economically reasonable measures to reduce losses and waste in all aspects and ensure reasonable and efficient use of energy. The key measures include:

- **Li-Ning Centre Photovoltaic Power Generation Project (李寧中心光伏發電工程):** The Group adopted the "energy management contract mode" and cooperated with professional service providers to build solar power stations by taking full advantages of Li-Ning Centre's vast roof areas of office buildings. The project was composed of more than 5,700 pieces of photovoltaic panels with effective laying area of approximately 15,000 square meters. It is expected to reduce 1,400 tons of CO_2 emission and 42.5 tons of SO_2 emissions and directly save more than RMB400,000 in power charges every year.

- **Refined energy management:** In 2017, our operation centre installed 57 sub-meters, 2 high pressure meters and 6 solar power meters with respect to equipment and users condition. Monthly, the centre conducted statistical review of energy and commenced comparison analysis, and implemented appropriate measures against abnormal energy consumption.

- **LED Light Energy Saving Renovation of Office Area (辦公區LED燈節能改造):** The Company pushed forward energy saving renovation by replacing the original lighting equipment in the office area with 16W LED lamps, and the original energy-saving lamps in conference rooms with 28W LED down lights. In that case, we achieved energy saving under equivalent lighting performance, thus reducing management cost and daily maintenance. It is expected to reduce CO_2 and SO_2 emissions by 295.8 tons and 3.4 tons per year, respectively.

- **Enhancing performance of existing equipment:** The Company regularly inspects energy-consuming equipment. For example, fan filters and split-type air-conditioner filters are timely cleaned, while cleaning and water treatment are conducted for refrigerating machines and condensers. Equally, we have adjusted the refrigeration unit parameters according to the ambient temperature, customised detailed operation plans and operating time for air-conditioners units, and kept doors and windows closed when air-conditioners are in use.

- **Strengthening daily management:** The Group has required the property management department to establish equipment inspection system in order to prudentially check the operation of all energy-consuming equipment. In particular, the lighting system of non-office areas and places with better natural lighting is timely switched off depending on weather conditions. On the other hand, we perform focused supervision and inspection to ensure that energy-consuming equipment is powered down after work so as to fully avoid "lights staying on all night long". Moreover, employees are required to promptly turn off the power supply of energy-consuming equipment in workplace after work to reduce standby energy consumption. Meanwhile, we have enhanced the training and promotion of raising the awareness of energy and water conservation among our employees, and attached energy-saving labels on energy and water-consuming facilities.

Reducing Emissions of Wastes

The operation of the Group is mainly of office nature. Wastes produced are recycled and disposed by qualified professional companies. During our daily operation, we vigorously promote the concept of paperless office. By setting duplex printing as default for our computers, introducing e-fax in office, recommending our employees to utilise electronic office communication channels like e-mails as much as possible and encouraging the use of both sides of papers, we have reduced paper consumption.

2017 Environmental Performance

Unless otherwise stated, the statistical basis of environmental performance herein covered the Group's operating entities headquartered in the PRC, including Li-Ning Centre situated in Beijing, Shanghai office area, Foshan office area and Jingmen Logistics Park, whereas the rest will be included as and when appropriate in the future.

1. Emission[1]

Indicator	Performance
Total emission of greenhouse gases (Scope 1 and Scope 2) (tons)[2]	5,977.99
Emission of greenhouse gases per square meter of floor area (Scope 1 and Scope 2) (tons/square meter)	0.045
Direct emission (Scope 1) (tons)	969.44
Company car oil consumption	9.396
Natural gas	960.046
Indirect emission (Scope 2) (tons)	5,008.55
Externally-purchased electricity	5,008.55
Total amount of non-hazardous waste (tons)[3]	450.43
Weight of non-hazardous waste per square meter of floor area (tons/square meter)	0.0034

Notes:

1. Due to the nature of the Group's operation, the major types of gas emission are greenhouse gases as well as electricity and fuels converted from fossil fuels. Types of hazardous waste generated from the Group's operation mainly included waste toner cartridges, waste ink cartridges and waste toner incurred by the printing equipment in leasing offices. All of these were replaced and recycled by the respective print service providers. Due to the low relevance to the business and little impact to the environment, this type of hazardous waste was not included in the disclosure scope of the Group.
2. Greenhouse gases included carbon dioxide, methane and nitrous oxide, which were mainly from externally-purchased electricity and fuel. Greenhouse gas emission data is presented in carbon dioxide equivalents and is computed with reference to the "2015 China Regional Grid Reference Line Emission Factor" (《2015 中國區域電網基準線排放因子》) issued by National Development and Reform Commission of the PRC and the "2006 IPCC Guidelines for National Greenhouse Gas Inventories" (《2006 年 IPCC 國家溫室氣體清單指南》) issued by the Intergovernmental Panel on Climate Change ("IPCC").
3. Non-hazardous waste of the Group, including mainly office waste and kitchen waste, is handled by recyclers. Of which, office waste of Shanghai and Foshan office areas is centrally processed at the premises where they are located, which cannot be measured separately. However, we have estimated according to the "Coefficient Manual of the First National Census on Pollution Sources for the Pollutant Generation and Discharge from Urban Living" (《第一次全國污染源普查城鎮生活源產排污系數手冊》) issued by the State Council.

2. Energy and Resources Consumption

Indicator	Performance
Total energy consumption (MWh)[1]	11,758.45
Energy consumption per square meter of floor area (MWh/square meter)	0.0884
Direct energy consumption (MWh)	4,948.20
Gasoline	38.38
Natural gas	4,909.82
Indirect energy consumption (MWh)	6,810.25
Externally-purchased electricity	6,810.25
Daily water consumption (tons)[2]	64,431
Daily water consumption per square meter of floor area (tons/square meter)	0.48
Total amount of packaging material used for finished products (tons)[3]	12,901.78
Amount of packaging material for finished products consumed per million revenue (tons/million yuan)[4]	1.45

Notes:

1. Energy consumption data is computed according to the relevant conversion factors provided under the "General Principles for Calculation of Comprehensive Energy Consumption (GB/T 2589-2008)" (《綜合能耗計算通則(GB/T 2589-2008)》) issued by State Quality Supervision, Inspection and Quarantine General Office of the People's Republic of China and Standardization Administration of the People's Republic of China, including electricity, natural gas and company car oil consumption.
2. Daily water consumption includes tap water and reclaimed water. Of which, daily water consumption of Shanghai office area is controlled by the premise where it is located and the water charges are included in property charges. Since water consumption cannot be measured separately, we have estimated the water consumption with reference to the national standard "Urban Domestic Water Consumption Standards" (《城市居民生活用水量標準》) (GB/T 50331-2002) issued by the Ministry of Construction.
3. Packaging material mainly includes plastic packaging bags, paper boxes, cartons and paper bags.
4. Amount of packaging material consumed per million revenue represents the weight of packaging material consumed per million income of the Group.

III. EMPLOYMENT MANAGEMENT

The Group strictly complies with the laws and regulations such as "Labour Law of the People's Republic of China", "Labour Contract Law of the People's Republic of China", "Social Insurance Law of the People's Republic of China", and has formulated the "Staff Handbook of Li Ning Company Limited" (《李寧有限公司員工手冊》) in accordance with the national laws and the practical conditions of the Company, in order to maintain and improve the employment management system of the Group, enhance the supervision and management system on the rights and interests of employees and establish an effective security system for employees, thereby effectively protecting the legitimate rights and interests of employees.

Lawful Employment with Protection of Employees' Rights and Interests

As of the end of 2017, the Group had 2,182 employees in total, including 2,008 employees in the Group's headquarters and retail subsidiaries, and 174 employees in the Group's other subsidiaries.

The Group has entered into labour contracts with employees in strict compliance with the relevant laws and regulations of the State and local governments and fulfilled the obligations of the enterprise in accordance with the terms of the labour contract. In the recruitment process, we treat all candidates equally, regardless of gender, ethnic and religious background, in order to select candidates who are in line with the Group's needs and in compliance with the age requirement stipulated by the law through a rigorous recruitment process. Through special audit on human resources compliance, the Group ensures the employee relation management system is in compliance with relevant national laws and regulations to protect the rights and interests of our employees at all levels and assures employees' salaries and working hours are not affected by gender, race or other relevant diversity perspectives during their employment. No employment of minors or forced labour has been found by the Group so far.

The Group has developed "Employee Attendance and Leave Management System (員工考勤及休假管理制度)" in accordance with the provisions of the State and the local government to arrange the entitlements of paid leave for employees. At the same time, we pay full premium on pension, work injury, unemployment, medical and maternity insurance and other social insurance and housing provident fund for all employees, and provide employees with other additional benefits, including birthday, marriage and birth gifts, traditional festival allowance, accidental injury insurance and supplementary health insurance. Meanwhile, the Group's labour union arranges regular staff representatives meeting, carries out voluntary tree-planting activities, holds first-aid knowledge lectures and organizes LI-NING Children's Training Camp in summers and winters. We also organize various recreational activities such as badminton, basketball and group singing in order to enrich the spare time and enhance the spiritual lives of employees.

Adhering to the philosophy of co-development with employees, the Group has developed a remuneration strategy matching the Company's strategies and has implemented performance appraisal for all employees by formulating annual performance plans every year. With the performance management system, we carried out unified management over employees' daily performance and potential assessment during the year to track the milestone progress of the performance plan on a regular basis. Moreover, we completed employee appraisals based on the results of the Group and their respective department as well as individual performance while developing various incentive mechanisms to motivate and recognize employees. By promoting the performance-oriented model, we strive to enhance the visibility of potential talents as well as the employee engagement.

Focusing on Health and Safety Protection

The Group places great emphasis on caring about the physical and psychological well-beings of our staff. We have maintained various types of commercial insurance such as supplementary medical insurance, personal injury insurance and critical illness insurance for our staff. We also provide contingency funding support with our staff and organize them to have body check. Meanwhile, we proactively encourage our staff to participate in the health knowledge lectures held by the Company, with an aim to enhance the staff's healthcare awareness, enable them to timely understand their physical condition and learn health knowledge. Furthermore, we implement effective health management, which has successfully prevented the occurrence of occupational diseases.

The Group is steadfast in creating safe and comfortable working environment for our staff by continuously increasing our investment in security, fire, technical and manual protection. We have formulated and improved certain systems, including "Li Ning Group Emergency Plan Compilation (李寧集團應急預案彙編)", "Li Ning Group Emergency Rapid Reporting Procedure (李寧集團突發事件快速彙報流程)" and "Li Ning Group Emergency Evacuation Plan (李寧集團疏散應急預案)". By conducting various promotional training campaigns on safety and fire protection, we have strengthened our staff's awareness of safety protection, thereby enabling us better managing the risks associated with safety. Meanwhile, the Group established an emergency headquarter, with the Administration Department as the leading department. Also, we have specified the corresponding duties and powers of each department and issued "Emergency Telephone Contact List of Li Ning Park (李寧園區緊急電話聯繫表)" to every system, so as to clearly define the duties of the responsible persons of each emergency command organization. Besides, in 2017, the Group carried out more than 10 series of inspection activities of "5S Day" (which includes SEIRI, SEITON, SEISO, SEIKEISU and SHITSUKE), with an aim to strengthen safety inspection, prepare for the unexpected as well as eliminate hidden safety risks in Li Ning Park through examination and knowledge promotion.

Talent Training and Promotion of Mutual Development

The Group always regards the career development and capability enhancement of our staff as our most valuable strategic investment. We proactively create learning opportunities for our staff, set up mechanisms for providing diverse growth in experience, place great emphasis on cultivating new staff and young staff as well as reinforce the leadership and professionalism of employees of different ranks. Through all-round development including professional training, leadership cultivation and talent team-building, we fully explore staff's potential and achieve the goal of raising the overall standard of our staff, thereby enabling them growing in tandem with the Group. During 2017, the all-round training offered to front-end staff by our internal training personnel achieved coverage of 100%. Besides, we allocate development budget for each department, providing opportunities for our employees to attend external special trainings and lectures.

Cases:

Training Camp for Management Trainees

In August 2017, the Group coordinated all management trainees nationwide to receive training in Beijing. The Group conducted all-round training on corporate culture, brand development, Company's businesses and outward bound for the management trainees, which helped them to quickly understand the Group's cultural development and businesses as well as smoothly integrate into the Group. Meanwhile, the Group provided a tutor for each management trainee. By arranging training tutor for one-on-one guidance, the business abilities of management trainees were improved rapidly. Besides, the Group provided online learning platform for all of the management trainees, which offered mandatory and elective courses every month. As such, through online learning and offline sharing, the management trainees consolidated their online learning and diverged offline thinking. Proactively sharing learning and working suggestions and experience as well as discussing solutions for business issues, the management trainees enhanced their comprehensive capabilities.

IV. SUPPLY CHAIN MANAGEMENT

Social Responsibility of Supply Chain

In 2017, the Group further strengthened the management of its suppliers on the basis of the "Code of Conduct on the Social Responsibility of Li Ning Company's Suppliers (李寧公司供應商社會責任行為準則)". We required all finished product suppliers to conduct quarterly report on their CSR performance by fully capitalizing on the "Quarterly Self-assessment and Review Tool on the Social Responsibility of Li Ning's Suppliers (李寧供應商社會責任季度自評審核工具)", in a bid to urge the suppliers to regularly perform self-inspections and address the identified deficiencies. Besides, we updated the "On-site Review and Assessment Tool on the Social Responsibility of Li Ning's Suppliers (李寧供應商社會責任現場審核評估工具)" and commissioned a third-party consulting organization to conduct quarterly CSR on-site audit on 11 representative suppliers. In respect of the suppliers discovered to have problems, the Group will continuously pay attention to their rectification process, thereby enhancing the CSR awareness and management capability of the suppliers. At the same time, we continued to strictly implement the qualification system for new suppliers. During the year, audits were conducted on totally 20 potential suppliers among which 14 became our suppliers officially while the passing rate was 70%.

Environmental Responsibility of Supply Chain

The Group places great importance on environmental protection and sustainable development. By way of system improvement, entering into of agreements, on-site reviews and third-party evaluations, we conducted management and guidance for suppliers' environmental performance:

- The Group signed the "Group's Manufacturing Restricted Substances List (MRSL) Compliance Statement (本集團生產工藝中限用物質(MRSL)遵從聲明書)" with suppliers and revised the "Li Ning's Restricted Substances List Policy on Manufacturing (李寧公司生產工藝中限用物質清單政策)", requiring that supplies should take control at source and promise not to deliberately use toxic and hazardous substances, prevent the toxic and harmful chemicals from affecting the environment and reduce the damage to the environment during the manufacturing process, thereby reducing potential environmental risks and protecting the health of employees in a better way.

- The Group commissioned a third-party consulting organization to conduct on-site environmental and chemical review on representative core suppliers by using the audit tool (TGI, Higg Index FEM3.0) to evaluate the suppliers' environmental management performance in terms of performance indicators such as gas emissions, solid waste, chemicals, noise, energy consumption and water resources usage, so as to confirm the environmental management standards of such suppliers.

- The Group conducted on-site chemical management audit on key material suppliers using the third-party chemical management performance audit tool. Meanwhile, we also facilitated our suppliers to conduct wastewater discharge test. Also, our suppliers are required to collect the energy consumption data and the related climate change data on a quarterly basis, and disclose such data on the platform of Institute of Public and Environmental Affairs (IPE). This has laid a solid foundation for the Group to achieve green supply chain.

Participating in ZDHC Program

As the only Chinese brand of the Zero Discharge of Hazardous Chemicals Program of Member Brands (ZDHC Program or ZDHC), the Group continued to proactively participate in regular meetings of the ZDHC management board and took part in the resolutions of and discussions on major issues concerning the ZDHC in 2017. Meanwhile, we continued to shoulder our responsibilities as one of the founding brands of ZDHC:

- The Group led the research work of the "Top Ten Issues on and the Best Practice of Chemical Management (化學品管理十大問題與最佳實踐)" working group. It was involved in the formulation of the template of the ZDHC MRSL Declaration of Conformity and the extracted version of MRSL Conformity Guidance. At the same time, we partnered with ZDHC Asian Brands to jointly promote DMF removal action in the synthetic leather industry.

- The Group assisted the ZDHC Foundation and China National Textile and Apparel Council (CNTAC) to co-organize the 2017 Implementation Circuit of Chemical Stewardship 2020, in order to enhance the environmental management capability for chemical of Chinese textile enterprises and push forward the green transformation and upgrade of Chinese textile industry. Moreover, we proactively promoted the application of ZDHC Gateway in textile supply chain, thereby improving its management standard for chemical.

- In 2017, ZDHC published the updated version of "Guidance on Wastewater (廢水指南)". The Group was involved in the formation and promotion of this standard, continuously making positive contributions to the goal of zero discharge of hazardous chemicals in textile supply chain.

V. PRODUCT LIABILITY MANAGEMENT

Quality Control

The Group established a production and quality management system in line with its philosophy and standards in accordance with ISO9001 Quality Management System, taking reference of the relevant standards of the industry.

In order to ensure that Li Ning products always maintain steady and excellent quality, the Group has set up stringent quality control requirements in design, research and development, production and other aspects, which cover more than 40 corporate standards including product quality, physical and chemical properties of surface materials, product safety and sanitation (RSL), functional requirements, testing methods, labeling, management process, and so on. A risk assessment team on apparel quality has been established by the quality assurance department (QA), quality control department (QC) and research and development department of the Group. The team conducts risk assessment on each product in the quarterly sampling meeting, and performs joint quality audit review on warehouse products quarterly. In addition, we conduct annual audit review and periodical on-site review on the production plants of suppliers every year based on the production and quality management system audit table. The results of the supplier audit will be reflected in the supplier's annual assessment and evaluation at end of year. For the suppliers with poor results in assessments and evaluations, we will urge them for improvement, reduce orders and even take disciplinary measures such as delisting them from Li Ning's supply chain and timely dismiss those unqualified suppliers in order to satisfy consumers' demands with high quality products.

Complaints and Guarantees

Pursuing the principle of "customer priority and professional services", the Group has set up a complete customer experience assurance system, established "Customer Services and Phone Replies Management Regulations (客戶服務電話解答管理規定), "Customer Services Knowledge Management Principles (客戶服務知識管理準則)","Customer Services Hotlines Daily Management Standards (客戶服務熱線日常管理規範)" and other systems, and formulated detailed procedure to handle complaints over services and products which clearly allows us to prioritize our responses and respond timely to all kinds of customer feedbacks. We request our staff to follow up, handle and feedback the queries from various customers in a manner of "handle once a query is made" and make an overall analysis for any potential opportunities and risks. In 2017, we effectively launched Li Ning WeChat members' feedback system. As such, consumers could make their feedback through various ways including 400 customer care hotlines, stores or WeChat.

We also provide the function of satisfaction assessment to centrally receive customers' feedback. We will make adjustments and improve ourselves based on the feedback so as to protect our customer's rights and interests and ensure a constant upgrade of customer experience. According to the result analysis of customer satisfaction assessment, the overall satisfaction on the Group was 98.74% in 2017.

Customer Data Protection

The Group put high emphasis on the protection of customer data. With the confidential information security management mechanism and high-security technical firewall in place, the Group ensures a sound protection of customer's personal data, consumption information and other data. Meanwhile, the Group monitors data flow process strictly to mitigate the risks of information leakage.

Verification and Recall

The Group has formulated the "Li Ning Product Aftersales Service Manual (李寧產品售後服務手冊)" as the operating guidelines for the staff in sales system to deal with product issues, recall and management of defective goods in order to solve the product quality issues properly and quickly and better serve customers and consumers.

For the verification of the product quality, the Group formulated the "Production Quality Control Procedure (產品生產質量控制步驟)"to stringently control the product inspection procedure through four steps, namely the development of requisite technology, technology transfer in plants, online production control and product inspection prior to delivery, which ensures our products to be strictly up to standard and the interests of consumers are better protected accordingly.

For the recovery of defective product, the Group formulated the "Li Ning Company's Defective Product Recall Management Regulations (李寧公司缺陷產品召回管理規定)"which expressly provided for the recall procedure of defective products. In the event that a product is confirmed to be defective and required a recall, the related management department shall strictly follow the provisions to timely deal with the defective product, cease its production, and at the same time, notify the sellers to suspend wholesale and retail sales of the defective product, inform consumers about its defects and deal with the issue coping with the consumers' needs. These regulations standardize the procedure of dealing with defective products, mitigate the economic losses of consumers arising from defective products. They also play a key role in maintaining the corporate safety, enhancing profits and safeguarding the reputation of the Group.

Intellectual Property Protection

The Group formulated the relevant system and work procedure for protection of the Company's intellectual property in accordance with the relevant laws and regulations, such as Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China, Product Quality Law of the People's Republic of China and Provisions on Indicating Product Identification in order to consolidate the brand protection, prohibit the infringement of the Company's trademark rights by third parties, safeguard its commercial interests and protect the legitimate rights and interests of consumers.

The Group has set up an Intellectual Property Rights Department to strengthen the internal control and strictly review the patents, trademarks or paperwork which might get involved with infringement of rights. Meanwhile, we make full use of external resources to cooperate with renowned intellectual property law firms or agencies to conduct professional process analysis on important research and development results, including pre-assessment, patent infringement retrieval and analysis, and patent novelty retrieval and analysis so as to ensure the originality of our research results. Recently, no material dispute or litigation of intellectual property against the Group has been aware of.

Regarding brand protection, the Group fights against counterfeit products jointly with various e-commerce platforms, timely deal with similar products online and suspend the links that sell them. Meanwhile, we work with certain third party agencies offline to conduct investigation on the cases of producing and selling counterfeit products. We also cope with the law enforcement entities closely to timely file complaints with the industry and commerce authorities against counterfeit products. We strive to protect product rights by ways of online and offline together with customer and staff reporting, consumer complaints and others, with the dual aim of protection of brand and consumer rights.

VI. ANTI-CORRUPTION MANAGEMENT

The Group strictly complies with the relevant laws and regulations of anti-corruption and anti-bribery. In order to strengthen internal governance and mitigate operating risks, the Group formulated the "Anti-Corruption and Anti-Bribery System (反腐敗和反賄賂制度)"to illustrate the Group's code of commercial behavior, define the role duties of employees, procure all staff to always comply with the core values and principles of the Company, and always maintain the professional ethics such as internal engagement, justice and integrity. In addition, we formulated the code of conduct and implementation rules relating to the marketing of products and services participated in or engaged with by our staff, provision and reception of business courtesy and management of business relationship.

The Group has entered into the "Letter of Undertaking on Anti-Corruption and Anti- Bribery (反腐敗和反賄賂承諾書)" jointly with business partners, investors, customers, landlords, suppliers, service providers and agents. Meanwhile, the Group also effectively launched a reporting means of anti-corruption and anti-bribery, formulated related and similar reward and punishment measures so as to prevent and cease misconducts such as corruption and commercial bribery, aiming to jointly combat commercial corruption and bribery and accordingly, promote the business development of the Company and maintain a sound and stable market environment.

VII. COMMUNITY INVESTMENT MANAGEMENT

The Group takes upon itself to discharge social responsibility by actively participating in public charity and endeavoring to assume the social responsibilities as a corporate citizen. Adhering to the synchronization of self-development and social contribution, we vigorously promote national fitness, proactively engage in community charity and thoroughly perform social responsibility in our management and development to guide the charity values in the society and promote philanthropic culture, in an effort to make contributions in constructing a harmonious society.

Pursuing the public welfare concept of "spreading warmth and positivity by giving back to the society", we placed attention to the economic development in poverty-stricken areas and showed care to the health development of children with difficulties through long-term participation and support to sports education in poverty-stricken areas. We also provided active support to female charity activities and promoted the popularity of sports activity and culture in order to show our initiative to charity activity and discharge our corporate social responsibility. In April 2017, the Group was bestowed with the "Chinese Women and Children's Charity Awards" by All – China Women's Federation.

Cases:

Champions Public Welfare Poverty Alleviation under "Champion's Choice"

In January 2017, The Chinese Athletes Educational Foundation, jointly promoted by donation from Mr. Li Ning (the Chairmen of the Group) and world champions, worked together with JD Mall to initiate the Champions Public Welfare Poverty Alleviation under "Champion's Choice". The project has collected quality agricultural products from poverty-stricken areas nationwide. With the calls and influence of world champions, it is aimed to ingather the love and strength of all to help the locals of the poverty-stricken areas and show care to the local development while appealing more people to have direct access to authentic and quality agricultural products in this way.

"Give Children a Dream of Championship" Charitable Project

In March 2017, The Chinese Athletes Educational Foundation and JD Charity Donation Platform jointly initiated the "Give Children a Dream of Championship" Charity Project. Mr. Li Ning, the Chairman of the Group, initiated the "Paper Ball Challenge" with many other sports stars, passing on the positivity of the society in a bid to raise money for the project. The project aimed to fund the construction of standard 5V5 football field and standard 200m sports track for schools in remote areas such as Bayingol of Xinjiang and Yuncheng of Shandong. Meanwhile, children from needy families were chosen to receive professional training, those with outstanding performance were sent to Spain to meet and train with famous footballer Messi.

Care for development of special children

In May 2017 on the occasion of the National Disabled Day, the Group took actions to express care for the development of special children and entered into further collaboration with Beijing Chaoyang Anhua Peizhi School in relation to, among others, visit to Li Ning Park and the provision of internship and job opportunities to students. In September, we invited students of Anhua School to visit Li Ning Park, enabling children to experience the care of Li Ning staff and the Group's corporate culture, thereby delivering the passion and positivity of sports to children.

"All-weather Playground" Charitable Project

In October 2017, Mr. Li Ning, the Chairman of the Group, joined other honored guests to visit the 37th playground built by The Chinese Athletes Educational Foundation, namely Tanle Village Primary School in Silin Town, Tiandong County, Baise City, Guangxi. In May 2017, the construction of new playground under the "All-weather Playground" project of The Chinese Athletes Educational Foundation was completed here, benefitting nearly 500 teachers and students. It is the aim of the Group to offer teenagers with sports platform while guiding teenagers to understand the charisma and feel the joy of sports so as to comprehensively improve their physical and mental quality.

"Practical Adherence of Female Sanitation Worker" Charitable Project

In the Women's Day on 8 March 2017, China Women's Development Foundation initiated the charitable donation project "Practical Adherence of Female Sanitation Worker". The Group actively responded to the charitable donation activity by gifting new and fashionable running shoes to sanitation workers and issuing warm appeal to the society to give more intimate care for female sanitation workers.

"Postal Parcels for Mothers" Charitable Project

The Group continued to give strong support to the public event "Postal Parcels for Mothers". Over the five years since the launch of the event, we have delivered nearly 710,000 postal parcels for mothers in 31 provinces and cities, with a total donation (in cash or in kind) of over RMB30 million.

In July 2017, the Group joined hands with China Women's Development Foundation in organizing public visits in Huzhu prefecture and Minhe prefecture of Qinghai province. In addition to sending postal parcels for mothers, we prepared suitable kidswear for children of impoverished mothers, expressing our care for impoverished mothers and their family members with actions. In 2017, we donated supplies totaling RMB1.5 million to areas all over Qinghai.

VIII. PARTICULARS OF THE REPORT

Report Summary

This report describes the basic policies of environmental, social and governance of Li Ning Company Limited in 2017, the compliance with important laws and regulations, the specific work performed and the relevant performance in response to the concerns of the Group's key stakeholders.

Reporting period

From 1 January to 31 December 2017, part of contents of the report can be appropriately traced back to previous years.

Scope of Report

Unless otherwise stated, this report covers the headquarters of Li Ning Company Limited and its retail subsidiaries.

Basis of Preparation

This report is prepared in accordance with Environmental, Social and Governance Reporting Guide published by The Stock Exchange of Hong Kong Limited.

Investor Relations Report

During the year, the Investor Relations Department of the Company continued to adhere to the principle of being accessible, credible and timely (the "ACT" principle) to constantly maintain effective communications with investors showing continuous interests in the business development of the Company.

In 2017, it remained the core development focus of the Company to vigorously explore and offer LI-NING brand value and enhance our brand image through digital operation. The Company continued to focus on the product competitiveness and efficiency to continuously optimize the LI-NING brand business model and develop the "precise + swift" operation model in line with retail efficiency and effective operation in order to stimulate the vitality of the Company through its business model. During the year, with the continuous improvement of key operating indicators of the Company, our profitability improved steadily and the business maintained steady growth and efficiency of sales channels continued to be enhanced. In order to be further in line with the Company's pace of business development and the concern from the investment community on the progress of the Company's core business, the investor relations team continued to deepen and broaden the communication with the investment community, striving to demonstrate a more complete picture of the Company's development focus to the investment community.

During the year, the Investor Relations Department strictly complied with the relevant requirements of the Hong Kong Stock Exchange to disclose information on a regular basis. At the same time, it remained timely communication with the investment community on the Company's operating performance, continued to maintain the active daily meeting and conference call mechanism with them and increased participation in investors' forums. The Department deepened and broadened the conveying of information through more focused interactive communication. To cope with the demand of the investment community for the knowledge on the retail business of the Company in a more detailed and practical way, the Department organized various store visit activities in various regions to facilitate the investment community to experience LI-NING brand value more comprehensively. Except the black-out period prior to the results announcement, the investor relations team responded to the questions in an effective and timely manner. At the same time, it served as a two-way link to collect the feedbacks from the investment community for consideration of the Company's management concerning its future development.

Type of activities	2017	2016
Roadshows (including reverse roadshows)	2 times (49 meetings in total)	2 times (42 meetings in total)
Forum	4 times (55 meetings in total)	1 time (12 meetings in total)
Meeting	130 times	137 times
Conference call	206 times	170 times
Store visit	25 times	12 times

PROSPECT

In 2018, the Investor Relations Department will continue to adhere to the ACT principle and accommodate the business development of the Company with an aim to facilitate the understanding by the investment community of the Company's current and future development in a more timely and comprehensive way so as to secure the confidence of the capital market on the long-term development of the Company.

INFORMATION FOR INVESTORS

Share Information

Listing: Main Board of the Hong Kong Stock Exchange on 28 June 2004
Stock code: 2331
Board lot: 500 shares
No. of issued shares as at 31 December 2017: 2,178,441,416
Market capitalisation as at 31 December 2017: approximately HK$13,789,534,163

Dividend for 2017

Interim dividend: Nil
Final dividend: Nil

Financial Calendar

Announcement of annual results: 21 March 2018
Annual General Meeting: 15 June 2018

Corporate Websites

Li Ning Official Website: http://www.lining.com
Li Ning IR Website: http://ir.lining.com

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Directors and Senior Management

Biographies of Directors and Senior Management as at the date of this report are as follows:

EXECUTIVE DIRECTOR

Mr. Li Ning, aged 55, is the founder of the LI-NING brand and the Group's Executive Chairman, Interim Chief Executive Officer and an executive Director, he is also a member of the nomination committee of the Company. Mr. Li has been appointed as interim chief executive officer of the Company with effect from 18 March 2015 and the duties of Chief Executive Officer has been performed by Mr. Li and supported by the incumbent senior management of the Company. He is primarily responsible for formulating the Group's overall corporate strategies and planning. Mr. Li is one of the most outstanding athletes in the 20th century. In the 6th World Cup Gymnastics Competition in 1982, Mr. Li unprecedentedly won six gold medals in men's artistic gymnastics events and was named the "Prince of Gymnastics" (體操王子) in the PRC. In the 23rd Los Angeles Olympic Games in 1984, Mr. Li won three gold, two silver and one bronze medals, making him the athlete winning the most medals of that Olympic Games. In 1987, Mr. Li became the Asian member of the Athlete's Commission of the International Olympic Committee. From 1993 to 2000, Mr. Li served as a member of the Men's Artistic Gymnastics Technical Committee of the Federation Internationale De Gymnastique. He is currently an honorary member of the Federation Internationale De Gymnastique. In 1999, Mr. Li was voted one of the "World's Most Excellent Athletes in the 20th Century" by the World Sports Correspondent Association. After retiring from his athlete career in 1989, Mr. Li initiated the idea of LI-NING brand with the goal of creating the first national sports goods brand in the PRC. He has dedicated the past over 20 years to the development of the Group's business, making great contribution to the development of the sporting goods industry in China. Mr. Li also serves as chairman, chief executive officer and executive director of Viva China Holdings Limited. Mr. Li holds a bachelor's degree in law from School of Law of Peking University (北京大學), an executive M.B.A. degree from Guanghua School of Management of Peking University (北京大學光華管理學院), a technical honorary doctorate from Loughborough University in the United Kingdom and a degree of Doctor of Humanities honoris causa of The Hong Kong Polytechnic University. In June 2010, Mr. Li was also conferred honorary fellowship from The Hong Kong University of Science and Technology. Mr. Li has also been actively involved in charities via his "Li Ning Foundation" (李寧基金) and his genuine support to the active and retired Chinese athletes and coaches in establishing "The Chinese Athletes Educational Foundation" (中國運動員教育基金), which aims at providing subsidies for further education and trainings for athletes and to support educational development in impoverished and remote areas in China. In October 2009, Mr. Li was appointed by The United Nations World Food Programme (WFP) as "WFP Goodwill Ambassador against Hunger". Mr. Li is the uncle of Mr. Li Qilin, the Non-executive Director of the Company, and he is also the brother of Mr. Li Chun, a substantial shareholder of the Company as defined in the SFO.

NON-EXECUTIVE DIRECTOR

Mr. Li Qilin, aged 31, is a non-executive Director and a member of remuneration committee of the Company. Mr. Li joined the Group in December 2017, he has considerable experience in financial services industry and was an analyst of Persistent Asset Management Limited during the period from January 2010 to July 2013. Mr. Li serves as an executive director and a member of the executive committee of Viva China Holdings Limited, a company which is listed on the Growth Enterprise Market of Hong Kong Stock Exchange and is a substantial shareholder of the Company. Mr. Li is the nephew of Mr. Li Ning, the Executive Chairman and Interim Chief Executive Officer of the Company, and he is also the son of Mr. Li Chun, a substantial shareholder of the Company as defined in the SFO.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Koo Fook Sun, Louis, aged 61, is an independent non-executive Director and chairman of the audit committee of the Company. Mr. Koo joined the Group in June 2004, he is currently the managing director of Hercules Capital Limited, a corporate finance advisory firm. Prior to the founding of Hercules Capital Limited, Mr. Koo served as the managing director and the head of corporate finance department of a major international bank, and a director and chief executive officer of a company listed on the Main Board of Hong Kong Stock Exchange. Mr. Koo serves as an independent non-executive director of Good Friend International Holdings Inc., Xingda International Holdings Limited and Winfull Group Holdings Limited, all of which are listed on the Main Board of the Hong Kong Stock Exchange, and he retired as an independent non-executive director of Midland Holdings Limited, listed on the Main Board of Hong Kong Stock Exchange, on June 2017. Mr. Koo graduated with a bachelor's degree in business administration from the University of California at Berkeley in the United States and is a certified public accountant.

Ms. Wang Ya Fei, aged 62, is an independent non-executive Director, chairperson of the remuneration committee and a member of the audit committee of the Company. Ms. Wang joined the Group in January 2003, she has over 21 years of experience in management and corporate finance matters. Ms. Wang has been appointed as chairperson of Caelum Asset Management Company with effect from September 2011. She served as an independent director of Xueda Education Group, listed on the New York Stock Exchange, from 1996 to 2016, and was the director and deputy general manager of Beijing Investment Consultants Inc. from 1996 to September 2011, and was a professor and dean assistant in Guanghua School of Management of Peking University (北京大學光華管理學院) from 1995 to September 2011. Ms. Wang holds a bachelor's degree in international politics from Fudan University (復旦大學) in Shanghai and was an exchange scholar in Maryland University, College Park in the United States. Ms. Wang also holds a M.B.A. degree from University of Lancaster in the United Kingdom.

Dr. Chan Chung Bun, Bunny, *GBS, JP*, aged 60, is an independent non-executive Director and a member of the audit committee, the remuneration committee and the nomination committee of the Company. Dr. Chan joined the Group in June 2004, he has more than 31 years of experience in the garment industry and is currently the chairman of Prospectful Holdings Ltd. Dr. Chan has also served as independent non-executive director respectively of Great Harvest Maeta Group Holdings Limited since September 2010 and Speedy Global Holdings Limited since December 2012, both companies are listed on the Main Board of the Hong Kong Stock Exchange. Dr. Chan is active in community affairs in Hong Kong, he is currently the chairman of the Kwun Tong District Council of Hong Kong. He has been appointed as vice-chairperson of the Community Care Fund Task Force of the Commission on Poverty from 1 December 2012 and as member of the Council for Sustainable Development from 1 March 2015 respectively. Dr. Chan was appointed as Justice of Peace in 2002 and was awarded the Bronze Bauhinia Star medal in 2004, Silver Bauhinia Star medal in 2009 and Gold Bauhinia Star medal in 2014 by the Hong Kong Government. In December 2013, Dr. Chan was conferred Doctor of Business Administration, honoris causa, by the Open University of Hong Kong.

Mr. Su Jing Shyh, Samuel, aged 65, is an independent non-executive Director and chairman of the nomination committee of the Company. Mr. Su joined the Group in July 2012, he has retired from Yum! Brands, Inc. ("Yum!"), a company listed on the New York Stock Exchange, on 2016. He was the chairman and chief executive officer of the China Division of Yum! as well as the vice chairman and an executive director of board of directors of Yum!. Mr. Su earned his undergraduate degree at the National Taiwan University, a M.Sc. degree of Chemical Engineering at Pennsylvania State University and an MBA at the Wharton School. Before joining Yum!, Mr. Su worked with Procter & Gamble in Germany and Taiwan. Mr. Su started his career with Yum! in 1989 as KFC International's director of marketing for the North Pacific region. In 1993, he became vice president of North Asia for both KFC and Pizza Hut. Mr. Su was named president of Greater China for Tricon Global Restaurants International upon Pepsi's spin-off of the restaurant business in 1997. Yum!'s China Division today leads the development of the KFC, Pizza Hut Dine-in Restaurants, Pizza Hut Home Service, East Dawning and Little Sheep brands in mainland China. Mr. Su was a non-executive director of Little Sheep Group Limited from June 2009 to February 2012, which was delisted from the Main Board of the Hong Kong Stock Exchange in February 2012.

SENIOR MANAGEMENT

Mr. Tsang, Terence Wah-Fung, aged 56, chief financial officer of the Group, joined the Group in April 2013, and is responsible for finance, internal audit, company secretary and investor relationship. Mr. Tsang has over 26 years of experience in the apparel industry. His previous employment included that for Guess Inc, Ashworth Inc and Levi Strauss Company. Mr. Tsang had held various management roles including as chief financial officer, chief operation officer, Asia president and senior vice president for business unit throughout his career. He is a Certified Public Accountant. Mr. Tsang holds a Bachelor of Science in Accounting and a Master of Business Administration from State University of New York.

Mr. Yang Hai Wei, aged 45, vice president of the Group, joined the Group in January 2000, and is responsible for regional sales, channels, retail, product operation and logistics. Mr. Yang has over 23 years of sales working experience. He worked at a well-known retail group and held various positions such as the Company's channel officer, retail operation officer and regional general manager. Mr. Yang holds a bachelor degree in management engineering from Beijing Wuzi University.

Mr. Hong Yu Ru, aged 52, vice president of the Group, joined the Group in March 1990, and is responsible for the Company's product design, planning, listing and marketing as well as the business of badminton, football and international sales. Prior to joining the Group, Mr. Hong has 9 years of experience of being a professional badminton athlete. After joining the Group, he has been responsible for the Company's regional retailing business in Shanghai; setting up the Company's first division, accessory division; responsible for the strategic collaborations of Beijing Olympics and businesses such as basketball, badminton and international business division.

Mr. Liao Bin, aged 43, vice president of the Group, joined the Group in May 2016, and is responsible for the Group's human resources, legal affairs, administration, information technology, quality system and suppliers management. Mr. Liao has over 14 years of experience in the sportswear and apparel industry. Between 2003 and 2012, he worked at the Company. In his career, Mr. Liao held senior human resources management positions in a number of companies. Mr. Liao holds a bachelor degree and a master degree from Renmin University of China.

Mr. Zhang Xiang Du, aged 62, general manager of the brand project management center of the Group, joined the Group in November 1991, and is responsible for the PR, media management, market research and medal teams' sports marketing. Mr. Zhang has over 36 years of experience in the apparel industry and was the deputy manager of Beijing Dahua Shirt Factory (北京大華襯衫廠). Mr. Zhang served as the manager of Li Ning Shirt Company Limited (李寧襯衫公司), general manager of Li Ning Apparel Company Limited (李寧服裝公司), deputy general manager of Beijing Li Ning Company Limited, special assistant of chairman and acting chief marketing officer of the Group. Mr. Zhang holds a bachelor's degree in politics and administration from Beijing Open University and a bachelor's degree in economic management from Beijing Open University.

Mr. Feng Ye, aged 38, general manager of the e-commerce division of the Group, joined the Group in August 2008, and is responsible for the e-commerce of the Group. Mr. Fung has over 11 years of experience in the areas of Internet and e-commerce. He worked at a number of well-known Internet companies. He holds a bachelor's degree in electronic information engineering from Shanghai Maritime College (now known as Shanghai Maritime University).

Mr. He Can Yu, aged 48, general manager of Apparel R&D and Production Division of the Group, joined the Group in January 2002, and is responsible for businesses such as the R&D, production and procurement of apparel goods. Mr. He has over 24 years of experience in the area of supply chain for sports goods. He worked at internationally renowned sportswear manufacturers. Mr. He graduated from Central South Forestry University with a bachelor's degree in forestry.

Mr. Xu Jian Guang, aged 49, the general manager of the footwear R&D and production division of the Group, joined the Group in March 1998, and is responsible for businesses such as the R&D, production and procurement of footwear goods. Mr. Xu has over 25 years of experience in footwear industry. He worked at internationally renowned sportswear manufacturers. Mr. Xu holds a bachelor's degree in engineering from Nanchang University and a MBA Degree from Renmin University of China.

Mr. Hu Nan, aged 52, general manager of LI-NING YOUNG of the Group, joined the Group in April 2015, and is responsible for the retail operation, channel operation, product planning and marketing of LI-NING YOUNG of the Group. Mr. Hu has over 25 years of experience in the sportswear and apparel industry. Between 1993 and 2010, he worked at the Company. In his career, Mr. Hu held senior management positions in a number of companies. Mr. Hu holds a master degree from Central China Normal University.


STANDING OUT

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and its investment in associates and a joint venture as at 31 December 2017 are set out in notes 10 and 11 respectively, to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated income statement on pages 97 to 98 of this annual report.

During the year, the Company did not declare interim dividend for the six months ended 30 June 2017 (2016: Nil). The Board considers it appropriate to retain cash for the future development of the Group, therefore, it does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: Nil).

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 17 to the consolidated financial statements.

RESERVES

As at 31 December 2017, reserves of the Company amounted to RMB4,136,055,000 (2016: RMB3,809,128,000). Details of movements in reserves of the Company during the year are set out in note 37 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

Sales and purchases of the Group attributable to its major customers and suppliers respectively in the financial year ended 31 December 2017 were as follows:

	Year ended 31 December	
	2017	2016
	% of total revenue	% of total revenue
The largest customer	**3.9**	6.5
Five largest customers	**15.8**	20.0

	% of total purchases	% of total purchases
The largest supplier	**9.4**	11.6
Five largest suppliers	**34.2**	39.0

All of the above five largest customers and suppliers of the Group are independent third parties. To the best knowledge of the Directors, none of the Directors, their associates or any Shareholder holding more than 5% of the issued share capital of the Company, has any interest in any of the Group's five largest customers or suppliers as disclosed above.

BANK BORROWINGS

Bank borrowings of the Group as at 31 December 2017 is nil (2016: RMB200,000,000). Particulars of the borrowings are set out in note 22 to the consolidated financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB3,129,634 (2016: RMB25,868,185).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 6 to the consolidated financial statements.

CONVERTIBLE BONDS

On 19 January 2012, the Company entered into the subscription agreements with TPG ASIA, Inc. (TPG ASIA, INC., and/or its affiliates "TPG") and Tetrad Ventures Pte. Ltd. ("GIC Investor") respectively in relation to the issue of convertible bonds by the Company (the "Convertible Bonds") in an aggregate principal amount of RMB750,000,000 with an initial conversion price of HK$7.74 per Share. The Convertible Bonds bear minimum interest rate of 4% per annum and will be due on the fifth anniversary of the date of issue of the Convertible Bonds. The Company had issued Convertible Bonds in the principal amount of RMB561,000,000 to TPG Stallion Holdings, L.P. (which is an affiliate of TPG) and Convertible Bonds in the principal amount of RMB189,000,000 to GIC Investor on 8 February 2012, respectively.

Nevertheless, on 23 January 2013, the Company entered into deeds of amendment with TPG and GIC Investor respectively to amend certain terms and conditions attached to the Convertible Bonds, among which the conversion price of the Convertible Bonds was reset to HK$4.50 per Share. Please refer to the announcement of the Company dated 25 January 2013 for details.

As a result of the 2015 Open Offer and pursuant to the terms and conditions of the Convertible Bonds, the conversion price of the Convertible Bonds was adjusted from HK$4.50 per Share to HK$4.092 per Share on 2 February 2015. Based on the outstanding Convertible Bonds in the aggregate principal amount of RMB750,000,000 on 2 February 2015, the conversion right attaching to the outstanding Convertible Bonds was adjusted from 205,000,000 Shares to 225,439,882 Shares. Please refer to the announcement of the Company dated 30 January 2015 for details.

GIC Investor exercised the conversion right attached to its Convertible Bonds in the principal amount of RMB189,000,000 on 18 August 2016 in accordance with the terms and conditions of the Convertible Bonds. The Company issued and allotted 56,810,850 new Shares at the conversion price of HK$4.092 each to GIC Investor. The newly issued Shares represented approximately 3.01% of the then issued Shares of the Company.

TPG exercised the conversion right attached to its Convertible Bonds in the principal amount of RMB561,000,000 on 3 February 2017 in accordance with the terms and conditions of the Convertible Bonds. The Company issued and allotted 168,629,032 new Shares at the conversion price of HK$4.092 each to TPG. The newly issued Shares represented approximately 8.41% of the then issued Shares of the Company.

As at the date of this report, the Company has no outstanding Convertible Bonds. Details of the Convertible Bonds are set out in note 23 to the consolidated financial statements.

CONVERTIBLE SECURITIES

On 25 January 2013, the Company announced the open offer of convertible securities (the "2013 Convertible Securities") in the principal amount of approximately HK$1,847.8 million on the basis of each 2013 Convertible Securities in the principal amount of HK$3.50 for every two existing Shares held on 19 March 2013. Details of the 2013 Open Offer and the terms thereof are set out in the Company's announcement dated 25 January 2013 and in the prospectus dated 27 March 2013 respectively.

After the 2013 Open Offer became unconditional, the Company issued the 2013 Convertible Securities with an aggregate principal amount of HK$1,847,838,349 which is convertible into a total of 527,953,814 Shares on 22 April 2013. Please refer to the announcement of the Company dated 18 April 2013 for details.

On 16 December 2014, the Company announced the 2015 Open Offer of offer securities (i.e. new ordinary Shares and/or convertible securities ("2015 Convertible Securities")) ("Offer Securities") on the basis of 5 Offer Securities for every 12 existing Shares held on 8 January 2015. Details of the 2015 Open Offer and the terms thereof are set out in the Company's announcement dated 16 December 2014 and the prospectus dated 9 January 2015 respectively.

After the 2015 Open Offer, the Company issued a total of 597,511,530 Offer Securities, which include 450,630,034 new ordinary Shares and the 2015 Convertible Securities with an aggregate principal amount of HK$381,891,889.60 which is convertible into a total of 146,881,496 Shares on 2 February 2015. Please refer to the announcement of the Company dated 30 January 2015 for details.

As a result of the 2015 Open Offer and pursuant to the terms and conditions of the 2013 Convertible Securities, the conversion price of the 2013 Convertible Securities was adjusted from HK$3.50 per Share to HK$3.183 per Share on 2 February 2015. Based on the outstanding 2013 Convertible Securities in the aggregate principal amount of approximately HK$529,251,713 on 2 February 2015, the conversion rights attaching to the outstanding 2013 Convertible Securities were adjusted from 151,214,775 Shares to 166,274,493 Shares. Please refer to the announcement of the Company dated 30 January 2015 for details.

During the year ended 31 December 2017, the 2013 Convertible Securities in an aggregate principal amount of approximately HK$20,119.74 had been converted into 6,321 Shares.

As at 31 December 2017, the outstanding 2013 Convertible Securities amounted to approximately HK$402,772,514.68 and the outstanding 2015 Convertible Securities amounted to HK$324,322,031.80 which are convertible into a total of 126,538,647 Shares and 124,739,243 Shares respectively.

Assuming all outstanding convertibles securities were converted into shares as at 31 December 2017, set out below is the shareholding structure of the Company before and after such conversion:

Name of Substantial Shareholder *(Note 1)*	No. of shares before conversion of outstanding convertible securities	% of holdings	No. of shares convertible under the convertible securities	No. of shares after including shares convertible under the outstanding convertible securities	% of holdings
Li Ning	306,830,759 *(Note 2)*	14.08%	249,827,543	556,658,302	22.91%
Public	1,871,610,657	85.92%	1,450,347	1,873,061,004	77.09%
Total	2,178,441,416	100.00%	251,277,890	2,429,719,306	100.00%

Notes:

1. The substantial shareholder has the same meaning ascribed to it under the Listing Rules.

2. Mr. Li Ning is interested in 306,830,759 Shares, among which:–

   – 4,895,639 Shares are held as personal interest;

   – 2,561,120 Shares are held by Alpha Talent Management Limited, which is wholly-owned by Mr. Li Ning; and

   – 299,374,000 Shares are held by Viva China Holdings Limited.

   Mr. Li Chun, the brother of Mr. Li Ning and the father of Mr. Li Qilin, is deemed to be interested in the 299,374,000 Shares held by Viva China Holdings Limited. Please refer to Notes 1(a) and 3 in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" of this Report for details of his deemed interest.

   Mr. Li Qilin, the nephew of Mr. Li Ning and the son of Mr. Li Chun, is deemed to be interested in the 299,374,000 Shares held by Viva China Holdings Limited. Please refer to Notes 1(a) and 2 in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" of this Report for details of his deemed interest.

As the Company has no contractual obligation to settle the 2013 Convertible Securities and the 2015 Convertible Securities (collectively, the "CS") in cash, it is at the Company's own discretion to determine whether or not to redeem all or part of the principal amount of the CS. The CS holders have substantially the same economic interest as the equity holders (other than voting rights) and the CS are already included in the basic earning per share calculation. For details, please refer to note 31 to the consolidated financial statements.

In view of the above, an analysis on the Company's share price at which it would be equally financially advantageous for the CS holders to convert or redeem the CS based on implied internal rate of return at a range of dates in the future is not applicable.

FIVE-YEAR FINANCIAL HIGHLIGHTS

A summary of the results, assets and liabilities of the Group for the last five financial years is set out on page 4 of this annual report.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands where the Company is incorporated.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Executive Director

Mr. Li Ning *(Executive Chairman and Interim CEO)*

Non-executive Directors

Mr. Chen Yue, Scott
Mr. Wu, Jesse Jen-Wei
Mr. Li Qilin *(appointed on 13 December 2017)*

Independent non-executive Directors

Mr. Koo Fook Sun, Louis *(re-elected on 16 June 2017)*
Ms. Wang Ya Fei *(re-elected on 16 June 2017)*
Dr. Chan Chung Bun, Bunny, *GBS, JP*
Mr. Su Jing Shyh, Samuel *(re-elected on 16 June 2017)*

In accordance with article 87 of the Company's Articles of Association and the Corporate Governance Code ("Corporate Governance Code") as set out in Appendix 14 to the Listing Rules, Mr. Li Ning and Dr. Chan Chung Bun, Bunny shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the 2018 AGM.

In accordance with article 86(3) of the Company's Articles of Association, Mr. Li Qilin, who has been appointed by the Board as non-executive Director with effect from 13 December 2017, shall hold office until the 2018 AGM and shall then be eligible for re-election.

Dr. Chan Chung Bun, Bunny has served on the Board for more than nine years. The Board considers Dr. Chan to be independent of management and free of any relationship which could materially affect the exercise of his independent judgement. The Board has assessed and reviewed the annual confirmation of independence based on the criteria set out in Rule 3.13 of the Listing Rules, and affirmed that Dr. Chan remain independent. The Board considers that in a long-term, complex and technologically advanced business environment, it is essential that independent non-executive Directors have the opportunity to acquire, over a number of years, the experience and knowledge of the business and the sectors within which the Company operates. Hence, the Board considers that the long service provided by Dr. Chan would not affect his exercise of independent judgement when serving the Company, and recommends Dr. Chan to be re-elected as an independent non-executive Director at the 2018 AGM.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of the Directors and senior management of the Group are set out in the section titled "Directors and Senior Management" of this annual report.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the 2018 AGM has an unexpired service contract which is not determinable by the Company or its subsidiaries within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in this report, no contracts of significance in relation to the Company's business to which the Company or its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

PERMITTED INDEMNITY PROVISIONS

Under the Articles of Association, and subject to the applicable laws and regulations, the directors and officers of the Group shall be indemnified out of the assets and profits of the Company from or against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain in or about the execution of their duty in their offices. Such permitted indemnity provision has been in force throughout the Year. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and officers of the Group.

PENSION SCHEMES

In the PRC, the Group contributes on a monthly basis to various defined contribution retirement benefit plans established and operated by relevant Chinese municipal and provincial governments (the "Pension Schemes"). The municipal and provincial governments have undertaken to pay all the retirement benefits accrued to employees under the Pension Schemes upon their retirement. The Group has no further obligation for payment of post-retirement benefits to employees beyond the contributions made by the Group to the Pension Schemes.

The Group also participates in the provident fund plans, which are defined contribution retirement benefit plans, mandated by the Hong Kong Government and South Korea Government.

None of the Pension Schemes or abovementioned provident fund plans has provision for the forfeiture of contributions made to the provident fund. Contributions to these plans are listed as expenses as incurred. The Group's contributions to retirement benefit schemes charged to the consolidated income statement for the year ended 31 December 2017 were RMB60,379,000 (2016: RMB50,194,000).

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2017, save for the Convertible Bonds, the Convertible Securities, the 2014 Share Option Scheme and the 2016 Restricted Share Award Scheme of the Company (as set out in the sections of "Convertible Bonds", "Convertible Securities", "Share Option Schemes" and "Restricted Share Award Scheme" in this report), the Company has not entered into any equity-linked agreement, nor did any equity linked agreement subsist at the end of the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

LONG-TERM INCENTIVE SCHEMES

Share Option Scheme

At the annual general meeting of the Company held on 30 May 2014, the Shareholders approved (i) the adoption of 2014 Share Option Scheme and (ii) the termination of 2004 Share Option Scheme. The 2014 Share Option Scheme will be valid and effective for a period of 10 years commencing on 30 May 2014.

The purpose of the 2014 Share Option Scheme is to provide incentives to the new participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are employees, officers, agents, consultants or representatives of any member of the Group (including any executive and non-executive directors of any member of the Group) who, as the Board may determine in its absolute discretion, have made valuable contribution to the business of the Group based on his/her performance and/or years of service, or is regarded as valuable human resources of the Group based on his/her work experience, knowledge in the industry and other relevant factors.

The maximum number of Shares in respect of which options may be granted under the 2014 Share Option Scheme together with any options outstanding and yet to be exercised under the 2014 Share Option Scheme and any other scheme(s) of the Group in aggregate shall not exceed 30% of the Shares in issue from time to time. In addition, subject to the restrictions imposed by the Listing Rules, the total number of Shares which may be issued upon exercise of all options to be granted under the 2014 Share Option Scheme, together with all options to be granted under any other share option scheme(s) of the Group shall not in aggregate exceed 10% of the nominal amount of all the issued Shares as at 30 May 2014, being the date of adoption of the 2014 Share Option Scheme. On the basis of 1,370,236,257 Shares in issue on the date of adoption of the 2014 Share Option Scheme, the maximum number of Shares that may be issued upon exercise of options that may be granted under the 2014 Share Option Scheme is 137,023,625 Shares. Details of the 2014 Share Option Scheme and the terms thereof are set out in the Company's circular dated 10 April 2014.

The options granted under the 2004 Share Option Scheme which remained outstanding immediately prior to its termination on 30 May 2014 shall continue to be valid and exercisable in accordance with their terms of grant and the rules of the 2004 Share Option Scheme. The outstanding options granted under the 2004 Share Option Scheme as at 31 December 2017 entitled the holders to subscribe for 10,681,639 Shares. Details of movements of the options granted under the 2004 Share Option Scheme for the year ended 31 December 2017 are set out below and in note 34 to the consolidated financial statements.

Grantees	Date of grant	Exercise price per Share HK$	Adjusted exercise price per Share upon the 2015 Open Offer HK$ (Note 2)	Number of Shares: As at 01/01/2017	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31/12/2017	Vesting Period	Exercise Period
Executive Director											
Li Ning	17/01/2014	7.00	6.35	1,509,470	–	–	–	–	1,509,470	17/01/2014 – 31/12/2014	17/01/2014 – 31/12/2018
Non-executive Director											
Chen Yue, Scott	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Independent non-executive Directors											
Koo Fook Sun, Louis	15/07/2011	9.09 (Note 1)	8.25	250,873	–	–	250,873	–	–	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Wang Ya Fei	15/07/2011	9.09 (Note 1)	8.25	250,873	–	–	250,873	–	–	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chan Chung Bun, Bunny	15/07/2011	9.09 (Note 1)	8.25	250,873	–	–	250,873	–	–	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Su Jing Shyh, Samuel	20/12/2012	4.92 (Note 1)	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Employees of the Group											
In aggregate	15/07/2011	9.09 (Note 1)	8.25	737,146	–	–	737,146	–	–	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
In aggregate	20/12/2012	4.92 (Note 1)	4.47	3,961,731	–	1,006,789 (Note 3(a))	–	–	2,954,942	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
In aggregate	13/08/2013	5.07	4.60	1,683,532	–	567,285 (Note 3(b))	54,914	–	1,061,333	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	18/12/2013	6.79	6.16	301,753	–	–	301,753	–	–	19/12/2014 – 19/12/2018	19/12/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	6.35	1,124,386	–	37,485 (Note 3(c))	67,479	–	1,019,422	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
In aggregate	04/04/2014	5.10	4.63	203,358	–	–	98,792	–	104,566	05/04/2015 – 05/04/2019	05/04/2015 – 31/12/2020
Other participants											
In aggregate	13/08/2013	5.07	4.60	122,914	–	–	–	–	122,914	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	6.35	2,148,402	–	–	–	–	2,148,402	17/01/2014 – 01/09/2016	17/01/2014 – 30/09/2019
In aggregate	17/01/2014	7.00	6.35	36,875	–	–	–	–	36,875	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
				14,305,901	–	1,611,559	2,012,703	–	10,681,639		

Notes:

1. As a result of the 2013 Open Offer, the exercise prices were adjusted in accordance with the 2004 Share Option Scheme on 22 April 2013. Please refer to the announcement of the Company dated 25 April 2013 for details.

2. As a result of the 2015 Open Offer, the exercise prices were adjusted in accordance with the 2004 Share Option Scheme on 2 February 2015. Please refer to the announcement of the Company dated 30 January 2015 for details.

3. (a) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$5.84.

   (b) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$5.49.

   (c) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$7.00.

Details of movements of the options granted under the 2014 Share Option Scheme for the year ended 31 December 2017 are set out below and in note 34 to the consolidated financial statements.

Grantees	Date of grant	Exercise price per Share HK$	As at 01/01/2017	Granted during the year	Number of Shares Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31/12/2017	Vesting Period	Exercise Period
Employees of the Group										
In aggregate	01/04/2015	4.44	24,500,000	–	2,877,166 *(Note 2)*	1,366,834	–	20,256,000	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
In aggregate	08/06/2016	3.30	3,000,000	–	–	–	–	3,000,000	08/06/2017 – 08/06/2019	08/06/2017 – 07/06/2026
In aggregate	20/12/2017	6.12	–	53,425,800 *(Note 1)*	–	–	–	53,425,800	01/09/2019 – 01/09/2021	01/09/2019 – 31/12/2022
Other participants										
In aggregate	01/04/2015	4.44	800,000	–	–	–	–	800,000	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
			28,300,000	53,425,800	2,877,166	1,366,834	–	77,481,800		

Notes:

1. The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 20 December 2017 is HK$6.15 per Share.

2. The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$6.02.

Details of valuation of the share options granted during the year ended 31 December 2017 under the 2004 Share Option Scheme and 2014 Share Option Scheme are set out in note 34 to the consolidated financial statements. The fair values are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

Restricted Share Award Scheme

At the Board meeting of the Company held on 2 June 2016, the Board adopted the 2016 Restricted Share Award Scheme with effect from 14 July 2016, the date on which the 2006 Restricted Share Award Scheme expired. The purpose of the 2016 Restricted Share Award Scheme is to facilitate the Company's objectives of attracting new talents, motivating existing talents and retaining both in the Company. Any individual being a director (including executive and non-executive director), employee, officer, agent or consultant of the Company or any of its subsidiaries is entitled to participate. 2016 Restricted Share Award Scheme shall be valid for a term of 10 years from 14 July 2016 and is administered by the administrative committee and the trustee of the scheme.

Pursuant to the 2016 Restricted Share Award Scheme, the Company shall transfer cash to the trustee from time to time for the acquisition of Shares to be held upon trust for the benefits of the selected participants. Shares granted to the selected participants (the "Restricted Shares") are subject to restrictions and limitations and will become unrestricted upon vesting at the end of each vesting period. No Restricted Shares will be granted under the 2016 Restricted Share Award Scheme if the number of Restricted Shares granted at any time during the scheme period has exceeded 5% of the Company's share capital in issue from time to time. Apart from the expenses incurred by the trustee attributable or payable in connection with any sale, purchase, vesting or transfer of the Restricted Shares which shall be borne by the selected participants, vested Shares shall be transferred at no cost to the selected participants. As at the date of adoption of 2016 Restricted Share Award Scheme, the number of issued Shares of the Company is 1,885,494,074 Shares and the maximum number of Shares which may be administered under the Scheme is 94,274,703 Shares. Details of the 2016 Restricted Share Award Scheme and the terms thereof are set out in the announcement of the Company dated 14 July 2016.

The Restricted Shares granted under the 2006 Restricted Share Award Scheme which remained outstanding immediately prior to its expiry on 14 July 2016 shall continue to be valid and vest in accordance with their terms of grant and the rules of the 2006 Restricted Share Award Scheme. As at 31 December 2017, the number of unvested Restricted Shares granted under the 2006 Restricted Share Award Scheme is 9,471,565 Shares. Details of movements of the Restricted Shares granted under the 2006 Restricted Share Award Scheme for the year ended 31 December 2017 are set out below and in note 34 to the consolidated financial statements.

Date of grant	Fair value per Restricted Share HK$ (Note)	As at 01/01/2017	Number of Restricted Shares Granted during the year	Vested during the year	Lapsed during the year	As at 31/12/2017	Vesting period
17/06/2016	3.20	14,483,800	–	4,809,467	202,768	9,471,565	01/04/2017 – 01/04/2019
		14,483,800	–	4,809,467	202,768	9,471,565	

Note: The fair values of the Restricted Shares were based on the closing price per Share at the date of grant.

Details of movements of the Restricted Shares under the 2016 Restricted Share Award Scheme for the year ended 31 December 2017 are as follows:

Date of grant	Fair value per Restricted Share HK$ (Note)	As at 01/01/2017	Number of Restricted Shares Granted during the year	Vested during the year	Lapsed during the year	As at 31/12/2017	Vesting period
15/08/2016	4.66	225,500	–	75,166	–	150,334	01/04/2017 – 01/04/2019
06/09/2017	5.74	–	6,407,400	–	–	6,407,400	06/09/2019 – 06/09/2021
23/11/2017	6.18	–	114,800	–	–	114,800	06/09/2019 – 06/09/2021
20/12/2017	6.12	–	19,317,500	–	–	19,317,500	01/09/2019 – 01/09/2021
		225,500	25,839,700	75,166	–	25,990,034	

Note: The fair values of the Restricted Shares were based on the closing price per Share at the date of grant.

Save as disclosed above, at no time during the year was the Company or its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares	Total (Long Position)	Approximate % of total issued Shares*
Li Ning	Personal interest & Interests of controlled corporations	306,830,759	262,376,380	569,207,139 *(Note 1)*	26.13%
Chen Yue, Scott	Personal interest	–	344,743 *(Note 2)*	344,743	0.02%
Li Qilin	Beneficiary of a discretionary trust and beneficiary of a trust (other than a discretionary trust)	299,374,000	249,827,543	549,201,543 *(Note 3)*	25.21%
Koo Fook Sun, Louis	Personal interest	489,387	344,743 *(Note 2)*	834,130	0.04%
Wang Ya Fei	Personal interest	491,645	344,743 *(Note 2)*	836,388	0.04%
Chan Chung Bun, Bunny	Personal interest	268,387	344,743 *(Note 2)*	613,130	0.03%
Su Jing Shyh, Samuel	Personal interest	–	344,743 *(Note 2)*	344,743	0.02%

* The percentage has been calculated based on 2,178,441,416 Shares in issue as at 31 December 2017.

Notes:

1. Mr. Li Ning ("Mr. Li") is interested in 306,830,759 Shares, among which 4,895,639 Shares are held as personal interest, and he is deemed to be interested in an aggregate of 301,935,120 Shares held by Viva China Holdings Ltd ("Viva China BVI") and Alpha Talent. Moreover, Mr. Li is deemed to be interested in 262,376,380 underlying Shares, among which (i) 1,509,470 Shares are share options granted by the Company, (ii) 11,039,367 Shares are unvested Restricted Shares granted by the Company, and (iii) the convertible securities in the total amount of HK$722,478,136 which is convertible into 249,827,543 Shares, is held by Viva China BVI. Details are as follows:

    (a) Viva China BVI, a wholly-owned subsidiary of Viva China Holdings Limited ("Viva China"), is interested in 299,374,000 Shares and 249,827,543 underlying Shares, which comprise of (i) convertible securities in the total amount of HK$398,156,304 which is convertible into 125,088,377 Shares at the conversion price of HK$3.183 each, and (ii) convertible securities in the total amount of HK$324,321,831.60 which is convertible into 124,739,166 Shares at the conversion price of HK$2.60 each. Viva China is owned as to approximately 19.07% by Victory Mind Assets Limited ("Victory Mind"), approximately 24.21% by Lead Ahead Limited ("Lead Ahead") and approximately 22.70% by Dragon City Management (PTC) Limited ("Dragon City") respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li and 40% by his brother, Mr. Li Chun, a substantial shareholder of the Company, respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor). As a result, by virtue of the SFO, Mr. Li is deemed to be interested in the 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. Mr. Li is also an executive director, the chairman and chief executive officer of Viva China.

    (b) 2,561,120 Shares are held by Alpha Talent, which is solely owned by Mr. Li. By virtue of the SFO, Mr. Li is therefore deemed to be interested in the 2,561,120 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.

    (c) Mr. Li is interested in 1,509,470 share options granted under the 2004 Share Option Scheme at an exercise price of HK$6.35 each, and a total of 11,039,367 unvested Restricted Shares under the 2006 Restricted Share Award Scheme and 2016 Restricted Share Award Scheme.

2. The underlying Shares are the share options granted by the Company to the respective Directors under the 2004 Share Option Scheme.

3. Mr. Li Qilin is deemed to be interested in 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China by virtue of the SFO. He is the nephew of Mr. Li Ning and the son of Mr. Li Chun, a substantial shareholder of the Company. He is also an executive director of Viva China.

Save as disclosed above, so far as was known to any Director, as at 31 December 2017, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the register of substantial shareholders kept under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions which represent 5% or more of the Company's issued share capital:

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares	Total (Long Position)	Approximate % of total issued Shares*
Li Ning	Personal interest & Interests of controlled corporations	306,830,759	262,376,380	569,207,139 *(Note 1)*	26.13%
Li Qilin	Beneficiary of a discretionary trust and beneficiary of a trust (other than a discretionary trust)	299,374,000	249,827,543	549,201,543 *(Note 2)*	25.21%
Li Chun	Interest of controlled corporations	299,374,000	249,827,543	549,201,543 *(Note 3)*	25.21%
Viva China Holdings Limited	Interest of controlled corporation	299,374,000	249,827,543	549,201,543 *(Note 1(a))*	25.21%
FIL Limited	Investment manager	171,990,882	–	171,990,882	7.90%
Ministry of Finance of the People's Republic of China	Interest of controlled corporations	–	137,796,671	137,796,671 *(Note 4)*	6.33%
Lou Yunli	Interest of controlled corporations	134,583,330	–	134,583,330 *(Note 5)*	6.18%
James Christopher Kralik	Interest of controlled corporations	134,583,330	–	134,583,330 (Note 5)	6.18%
AllianceBernstein L.P.	Investment manager	132,132,500	–	132,132,500	6.07%
Marathon Asset Management LLP	Investment manager	131,838,216	–	131,838,216	6.05%

* The percentage has been calculated based on 2,178,441,416 Shares in issue as at 31 December 2017.

Notes:

1. Mr. Li Ning is interested in 306,830,759 Shares, among which 4,895,639 Shares are held as personal interest, and he is deemed to be interested in an aggregate of 301,935,120 Shares held by Viva China BVI and Alpha Talent. Moreover, Mr. Li is deemed to be interested in 262,376,380 underlying Shares, among which (i) 1,509,470 Shares are share options granted by the Company, (ii) 11,039,367 Shares are unvested Restricted Shares granted by the Company, and (iii) the convertible securities in the total amount of HK$722,478,136 which is convertible into 249,827,543 Shares, is held by Viva China BVI. Details are as follows:

   (a) Viva China BVI, a wholly-owned subsidiary of Viva China, is interested in 299,374,000 Shares and 249,827,543 underlying Shares, which comprise of (i) convertible securities in the total amount of HK$398,156,304 which is convertible into 125,088,377 Shares at the conversion price of HK$3.183 each, and (ii) convertible securities in the total amount of HK$324,321,831.60 which is convertible into 124,739,166 Shares at the conversion price of HK$2.60 each. Viva China is owned as to approximately 19.07% by Victory Mind, approximately 24.21% by Lead Ahead and approximately 22.70% by Dragon City respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li and 40% by his brother, Mr. Li Chun respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor). As a result, by virtue of the SFO, Mr. Li is deemed to be interested in the 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. Mr. Li is also an executive director, the chairman and chief executive officer of Viva China.

   (b) 2,561,120 Shares are held by Alpha Talent, which is solely owned by Mr. Li. By virtue of the SFO, Mr. Li is therefore deemed to be interested in the 2,561,120 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.

   (c) Mr. Li is interested in 1,509,470 share options granted under the 2004 Share Option Scheme at an exercise price of HK$6.35 each, and a total of 11,039,367 unvested Restricted Shares under the 2006 Restricted Share Award Scheme and 2016 Restricted Share Award Scheme.

2. Mr. Li Qilin is deemed to be interested in 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China by virtue of the SFO. He is the nephew of Mr. Li Ning and the son of Mr. Li Chun, a substantial shareholder of the Company. He is also an executive director of Viva China.

3. As disclosed in Note 1(a) above, Mr. Li Chun is deemed to be interested in 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. He is the brother of Mr. Li Ning and the father of Mr. Li Qilin.

4. According to the corporate substantial shareholder notice filed to the Stock Exchange by Ministry of Finance of the People's Republic of China ("MOF"), MOF is deemed to be interested in such long position of unlisted and physically settled derivative interest in 137,796,671 underlying Shares held by Lake Tai Investment Holdings Limited which is in turn wholly-owned by Huarong (HK) International Holdings Limited. China Huarong International Holdings Limited is owned as to 88.10% and 11.90% by Huarong Real Estate Co., Ltd. ("Huarong Real Estate") and Huarong Zhiyuan Investment & Management Co., Ltd. ("Huarong Zhiyuan") respectively. Both Huarong Real Estate and Huarong Zhiyuan are wholly-owned by China Huarong Asset Management Co., Ltd. which is in turn owned as to 77.49% by MOF.

5. Linden Street Capital Limited ("Linden"), a company owned as to 50% by Lou Yunli and 50% by James Christopher Kralik, is deemed to be interested in 134,583,330 Shares, among which 70,833,330 Shares are held by Milestone Capital Strategic Holdings Limited and 63,750,000 Shares are held by Milestone Sports Limited.

Save as disclosed above, as at 31 December 2017, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

CONTINUING CONNECTED TRANSACTIONS WITH VIVA CHINA

The Company and Viva China (Viva China and its subsidiaries, collectively the "Viva China Group") entered into a master agreement on 31 August 2010 ("Master Agreement") whereby the Viva China Group provided the Group with services in relation to (i) brand or product endorsement; (ii) sponsorship; and (iii) event management (the "Viva China Transactions") for three financial years ended 31 December 2012. The Master Agreement expired on 31 December 2012.

On 4 January 2013, the Company and Viva China entered into an agreement (the "2013 Renewed Master Agreement") to renew the Master Agreement with effect from 4 January 2013 to 31 December 2015. Please refer to the announcement of the Company dated 4 January 2013 in regard to the 2013 Renewed Master Agreement for details. The 2013 Renewed Master Agreement expired on 31 December 2015.

On 24 December 2015, the Company and Viva China entered into an agreement (the "2016 Renewed Master Agreement") to renew the Master Agreement with effect from 1 January 2016 to 31 December 2018 or the day on which Viva China ceases to be a connected person of the Company (whichever is earlier). Pursuant to the 2016 Renewed Master Agreement, the annual caps for the Viva China Transactions payable by the Group to the Viva China Group for the three financial years ending 31 December 2016, 2017 and 2018 are RMB140,000,000, RMB154,000,000 and RMB170,000,000 respectively. As the applicable percentage ratios for the annual caps under the 2016 Renewed Master Agreement for the three financial periods ending 31 December 2016, 2017 and 2018 are less than 5%, the Viva China Transactions are exempt from independent shareholders' approval but are subject to the reporting, announcement and annual review requirements under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 24 December 2015 in regard to the 2016 Renewed Master Agreement for details.

On 10 January 2018, the Board approved the increase of the original annual cap for the financial year ending 31 December 2018 from RMB170,000,000 to RMB340,000,000 (the "Revision of Annual Cap"). As the applicable percentage ratios in respect of the Revision of Annual Cap for the continuing connected transactions under the 2016 Renewed Master Agreement are more than 1% but less than 5%, the transactions are subject to the reporting, announcement and annual review requirements but exempt from approval by the independent Shareholders under the Listing Rules. The Company has re-complied with the provisions of Chapter 14A of the Listing Rules pursuant to Rule 14A.54 under the Listing Rules and published an announcement in this respect. Please refer to the announcement of the Company dated 10 January 2018 in regard to the Revision of Annual Cap for details.

For the year ended 31 December 2017, there was an aggregate contracted amount of approximately RMB124,834,000 for the Viva China Transactions under the 2016 Renewed Master Agreement. The Company has complied with the relevant disclosure requirements in respect of such continuing connected transactions in accordance with Chapter 14A of the Listing Rules.

The independent non-executive Directors have reviewed the Viva China Transactions and confirmed that these transactions were entered into:

(1) in the ordinary and usual course of business of the Group;

(2) in accordance with the Group's pricing policies for transactions involving the provision of services to the Group;

(3) on normal commercial terms; and

(4) in accordance with the relevant agreements governing them and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

PricewaterhouseCoopers, the auditor of the Company, was engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants and reported their conclusions to the Board that the transactions:

(1) have been approved by the Board;

(2) have been in accordance with the pricing policies of the Group (for transactions involving the provision of services to the Group);

(3) have been entered into in accordance with the relevant agreements governing the transactions during the year; and

(4) have not exceeded the annual caps disclosed in the announcement of the Company dated 24 December 2015.

RELATED-PARTY TRANSACTIONS

The Viva China Transactions also constituted related-party transactions which, among others, are set out in note 36 to the consolidated financial statements.

Apart from the Viva China Transactions, other related-party transactions set out in note 36 to the consolidated financial statements did not constitute connected transactions or continuing connected transactions which are subject to the reporting, annual review, announcement and/or independent shareholders approval requirements under Chapter 14A of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

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

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief or exemption available to the Shareholders by reason of their holdings of the Company's securities.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, throughout the year ended 31 December 2017 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2017, the Company has applied all the principles and complied with the code provisions of the Corporate Governance Code, except for certain deviations specified with considered reason as explained in the Corporate Governance Report.

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report of this annual report.

BUSINESS REVIEW

A fair review of the business of the Company and further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, important events affecting the Group that have occurred since the end of the financial year 2017, if any, and an indication of likely future developments of the Group's business, can be found in the Chairman's Statement, the Management Discussion and Analysis, the Corporate Governance Report set out on pages 8 to 11, pages 14 to 33 and pages 34 to 50 of this annual report, respectively and the notes to the consolidated financial statements.

In addition, matters in relation to the Group's environment, employee, customer and supplier as well as compliance with the relevant laws and regulations that have a significant impact on the Company can be found in the Corporate Governance Report and the Environmental, Social and Governance Report set out on pages 34 to 50 and pages 51 to 64 of this annual report, respectively.

The discussions referred to above form a part of this Directors' Report.

AUDITOR

PricewaterhouseCoopers will retire as auditor of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Company will be proposed at the 2018 AGM.

By order of the Board
Li Ning
Executive Chairman and Interim CEO

Hong Kong, 21 March 2018

INDEPENDENT AUDITOR'S REPORT

pwc

羅兵咸永道

To the Shareholders of Li Ning Company Limited
(incorporated in Cayman Islands with limited liability)

Opinion

What we have audited

The consolidated financial statements of Li Ning Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 95 to 179, which comprise:

- the consolidated balance sheet as at 31 December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code"), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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INDEPENDENT AUDITOR'S REPORT

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Allowance for impairment of trade receivables
- Inventory provision

Key Audit Matter	How our audit addressed the Key Audit Matter
Allowance for impairment of trade receivables Refer to note 4 and note 13 to the consolidated financial statements As at December 31, 2017, the balance of trade receivables was RMB1,138 million (net of allowance for impairment of trade receivables of RMB402 million). Allowance for impairment of trade receivables reflects management's best estimate of amounts that are potentially uncollectible. This estimate requires significant management judgment based on a collective consideration of factors such as the credit-worthiness of each customer, default rates of prior years, historical payment pattern, ageing profile of receivable balances, and settlements subsequent to year end.	Our audit procedures to address the risk of material misstatement relating to allowance for impairment of trade receivables mainly included: • Understood, evaluated and validated key controls over the estimation of allowance for impairment; • Challenged management's judgment in estimating the amounts which are potentially uncollectible by performing procedures such as (1) inquiring management regarding the credit worthiness of individual customers, (2) checking historical payment pattern of customers, (3) analysing historical trade receivable turnover days and benchmarking against industry average, (4) testing the accuracy of the ageing schedule of trade receivables, and (5) obtaining and comparing to other external market information such as industry reports; • Sent out confirmations to major customers on sample basis to verify the receivables balances; • Conducted interviews with customers whom have significant trade receivable balances and newly added customers during the year, in order to understand their intention and ability to pay receivables when fall due; and • Checked subsequent settlements up to 28 February 2018 against cash receipts or other supporting documents. Based on the results of the procedures above, we found that management's judgments in assessing the impairment of trade receivables as at 31 December 2017 to be reasonable.

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INDEPENDENT AUDITOR'S REPORT

Key Audit Matter	How our audit addressed the Key Audit Matter
Inventory provision Refer to note 4 and note 12 to the consolidated financial statements The Group's balance of gross inventories as at 31 December 2017 was RMB1,233 million, against which a provision of RMB130 million was made. The estimation of inventory provision involves significant management judgments based on consideration of key factors such as future sales projection, current year sales, and retail price per latest sales transaction.	Our audit procedures relating to inventory provision included: • Evaluated and validated key controls over the generation of inventory ageing schedule and the estimation of inventory provisions; • Assessed the reasonableness of methods and assumptions applied to estimate inventory provision by (1) inquiring of management and other relevant employees, (2) comparing against historical sales pattern and prior year experience including key inventory ratios (e.g. inventory turnover days) to estimate future sales projection, (3) assessing the impact of known external factors considered by management on inventory provision, (4) testing the accuracy of provision calculation by reviewing inventory ageing schedule, testing inventory movements to confirm that they were assigned to the correct ageing category by the system, and performing mathematic recalculation, and (5) comparing the selling price used in the net realisable value ("NRV") to actual selling price subsequent to year end; and • Observed physical condition of inventories during stocktake to identify slow moving, damaged, or obsolete inventories, and inquired management if appropriate inventory provision had been provided for those inventories. Based on the results of the procedures above, we found that management's judgements in estimating the inventory provision at 31 December 2017 to be reasonable.

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INDEPENDENT AUDITOR'S REPORT

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Audit Committee for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Audit Committee are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit Committee, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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INDEPENDENT AUDITOR'S REPORT

From the matters communicated with Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ng Ping Fai.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2018

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CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	838,185	827,677
Land use rights	7	75,986	77,887
Intangible assets	8	257,947	282,696
Deferred income tax assets	24	234,327	207,458
Available-for-sale financial assets	9	14,000	14,000
Investments accounted for using the equity method	11	689,071	625,008
Derivative financial instruments		–	319
Other receivables and prepayments	14	101,451	95,009
Total non-current assets		2,210,967	2,130,054
Current assets			
Inventories	12	1,102,538	965,422
Trade receivables	13	1,138,034	1,370,254
Other receivables and prepayments – current portion	14	339,867	360,175
Restricted bank deposits	15	721	1,001
Cash and cash equivalents	15	2,529,222	1,953,588
Total current assets		5,110,382	4,650,440
Total assets		7,321,349	6,780,494
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	17	203,347	188,021
Share premium	17	3,189,792	2,539,355
Shares held for Restricted Share Award Scheme	17	(69,600)	(50,605)
Other reserves	18	1,086,613	1,171,526
Retained earnings	18	660,895	146,302
		5,071,047	3,994,599
Non-controlling interests in equity		2,550	2,550
Total equity		5,073,597	3,997,149

CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	**2017 RMB'000**	2016 RMB'000
LIABILITIES			
Non-current liabilities			
License fees payable	*21*	**39,203**	44,464
Derivative financial instruments		**5,584**	1,343
Deferred income tax liabilities	*24*	**18,323**	6,799
Deferred income	*25*	**56,832**	56,824
Total non-current liabilities		**119,942**	109,430
Current liabilities			
Trade payables	*19*	**1,145,113**	1,047,323
Other payables and accruals	*20*	**929,263**	807,885
License fees payable – current portion	*21*	**33,392**	41,603
Current income tax liabilities		**20,042**	9,118
Borrowings	*22*	**–**	200,000
Convertible bonds	*23*	**–**	567,986
Total current liabilities		**2,127,810**	2,673,915
Total liabilities		**2,247,752**	2,783,345
Total equity and liabilities		**7,321,349**	6,780,494

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

The financial statements on pages 95 to 179 were approved by the Board of Directors on 21 March 2018 and were signed on its behalf.

Li Ning	**Li Qilin**
Executive Director & Chairman	*Non-executive Director*

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	2017 RMB'000	2016 RMB'000
Continuing operations			
Revenue	5	8,873,912	8,015,293
Cost of sales	26	(4,697,429)	(4,310,065)
Gross profit		4,176,483	3,705,228
Distribution expenses	26	(3,273,375)	(2,969,341)
Administrative expenses	26	(501,066)	(424,129)
Other income and other gains – net	27	43,636	74,047
Operating profit		445,678	385,805
Finance income	29	43,577	7,460
Finance expenses	29	(25,537)	(115,035)
Finance income / (expenses) – net	29	18,040	(107,575)
Share of profit of investments accounted for using the equity method	11	73,806	9,716
Profit before income tax		537,524	287,946
Income tax expense	30	(22,369)	(32,435)
Profit from continuing operations		515,155	255,511
Discontinued operations			
Profit for the year	16	–	132,157
Gain on disposal of 10% equity interest in discontinued operations, net of income tax	16	–	313,201
Profit from discontinued operations		–	445,358
Profit for the year		515,155	700,869
Attributable to:			
Equity holders of the Company		515,155	643,254
Non-controlling interests		–	57,615
Profit attributable to equity holders of the Company arises from:			
Continuing operations		515,155	255,511
Discontinued operations	16	–	387,743
		515,155	643,254

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	**2017 RMB'000**	2016 RMB'000
Earnings per share from continuing and discontinued operations attributable to equity holders of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share	*31*		
From continuing operations		**21.47**	11.53
From discontinued operations		**–**	17.50
		21.47	29.03
Diluted earnings per share	*31*		
From continuing operations		**20.87**	11.50
From discontinued operations		**–**	17.45
		20.87	28.95

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2017 RMB'000**	2016 RMB'000
Profit for the year		**515,155**	700,869
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
Currency translation differences	18	**(3,850)**	1,213
Total comprehensive income for the year		**511,305**	702,082
Attributable to:			
Equity holders of the Company		**511,305**	644,467
Non-controlling interests		**–**	57,615
Total comprehensive income for the year		**511,305**	702,082
Total comprehensive income attributable to equity holders of the Company arises from:			
Continuing operations		**511,305**	256,724
Discontinued operations	16	**–**	387,743
		511,305	644,467

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company							
	Ordinary shares RMB'000 *(Note 17)*	Share premium RMB'000 *(Note 17)*	Shares held for Restricted Share Award Scheme RMB'000 *(Note 17)*	Other reserves RMB'000 *(Note 18)*	Retained earnings/ (accumulated deficits) RMB'000 *(Note 18)*	Subtotal RMB'000	Non-controlling interests in equity RMB'000	Total equity RMB'000
As at 1 January 2016	177,492	2,168,867	(2,084)	1,308,230	(472,602)	3,179,903	230,637	3,410,540
Total comprehensive income for the year	–	–	–	1,213	643,254	644,467	57,615	702,082
Transactions with owners:								
Net proceeds from share issuance pursuant to share option schemes	160	7,101	–	–	–	7,261	–	7,261
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	–	31,806	–	31,806	–	31,806
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	5,811	–	(5,811)	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	4,656	(4,656)	–	–	–	–
Shares purchased for Restricted Share Award Scheme	–	–	(53,177)	–	–	(53,177)	–	(53,177)
Appropriations to statutory reserves	–	–	–	24,350	(24,350)	–	–	–
Shares converted from convertible securities	5,469	149,561	–	(155,030)	–	–	–	–
Dividends to non-controlling interests of a subsidiary	–	–	–	–	–	–	(74,288)	(74,288)
Net proceeds from share issuance upon convertible bonds conversion	4,900	208,015	–	(28,576)	–	184,339	–	184,339
Release of non-controlling interests upon disposal of equity interest in a subsidiary	–	–	–	–	–	–	(211,414)	(211,414)
As at 31 December 2016	188,021	2,539,355	(50,605)	1,171,526	146,302	3,994,599	2,550	3,997,149

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company							
	Ordinary shares RMB'000 *(Note 17)*	Share premium RMB'000 *(Note 17)*	Shares held for Restricted Share Award Scheme RMB'000 *(Note 17)*	Other reserves RMB'000 *(Note 18)*	Retained earnings RMB'000 *(Note 18)*	Subtotal RMB'000	Non-controlling interests in equity RMB'000	Total equity RMB'000
As at 1 January 2017	188,021	2,539,355	(50,605)	1,171,526	146,302	3,994,599	2,550	3,997,149
Total comprehensive income for the year	–	–	–	(3,850)	515,155	511,305	–	511,305
Transactions with owners:								
Net proceeds from share issuance pursuant to share option schemes	388	16,983	–	–	–	17,371	–	17,371
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	–	28,876	–	28,876	–	28,876
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	2,557	–	(2,557)	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	23,109	(23,109)	–	–	–	–
Shares purchased for Restricted Share Award Scheme	–	–	(42,104)	–	–	(42,104)	–	(42,104)
Appropriations to statutory reserves	–	–	–	562	(562)	–	–	–
Shares converted from convertible securities	1	15	–	(16)	–	–	–	–
Net proceeds from share issuance upon convertible bonds conversion	14,937	630,882	–	(84,819)	–	561,000	–	561,000
As at 31 December 2017	203,347	3,189,792	(69,600)	1,086,613	660,895	5,071,047	2,550	5,073,597

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
	Note	**2017 RMB'000**	2016 RMB'000
Cash flows from operating activities			
Cash generated from operations	33	**1,185,933**	1,059,481
Income tax paid		**(26,790)**	(64,005)
Net cash generated from operating activities		**1,159,143**	995,476
Cash flows from investing activities			
– purchases of property, plant and equipment		**(389,370)**	(382,944)
– purchases of intangible assets		**(38,243)**	(93,213)
– proceeds on disposal of property, plant and equipment		**3,616**	5,913
– interest received		**29,141**	8,230
– dividends from associates		**52,784**	–
– payment for investment in associates		**–**	(2,000)
– loan repayments from joint venture		**–**	5,237
– (payment for)/proceeds from the disposal of available-for-sale financial assets and partial disposal of a subsidiary		**(444)**	138,471
Net cash used in investing activities		**(342,516)**	(320,306)
Cash flows from financing activities			
– dividends paid to non-controlling interests of a subsidiary		**–**	(42,475)
– proceeds from issuance of ordinary shares		**17,371**	7,261
– shares purchased for Restricted Share Award Scheme		**(42,104)**	(53,177)
– proceeds from borrowings and loans		**2,000**	10,000
– repayments of borrowings and loans		**(202,000)**	(374,819)
– interest paid		**(7,760)**	(55,817)
Net cash used in financing activities		**(232,493)**	(509,027)
Net increase in cash and cash equivalents		**584,134**	166,143
Cash and cash equivalents at beginning of year		**1,953,588**	1,989,265
Exchange (losses)/gains on cash and cash equivalents		**(8,500)**	2,494
Cash of disposal group classified as held for sale		**–**	(204,314)
Cash and cash equivalents at end of year		**2,529,222**	1,953,588

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

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

2. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of Li Ning Company Limited and its subsidiaries.

2.1 Basis of preparation

(i) Compliance with IFRS and HKCO

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

(ii) Historical cost convention

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

(iii) New and amended standards adopted by the Group

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

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

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

The amendments to IAS 7 require disclosure of changes in liabilities arising from financial activities, see Note 33 (b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

(iv) New standards and interpretations not yet adopted

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

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

(1) Effective for the accounting period beginning on 1 January 2018

(2) Effective for the accounting period beginning on 1 January 2019

(3) Effective for the accounting period beginning on 1 January 2021

(4) The effective date is to be determined.

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

IFRS 9 Financial Instruments

Nature of change

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

Impact

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

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

Date of adoption by Group

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

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

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

IFRS 15 Revenue from Contracts with Customers

Nature of change

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

Impact

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

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

Date of adoption by Group

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

IFRS 16 Leases

Nature of change

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

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB800,572,000, see Note 35. The Group has not yet assessed what adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options, or what exceptions will be taken. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

2. Summary of significant accounting policies *(Continued)*

2.1 Basis of preparation *(Continued)*

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

IFRS 16 Leases (Continued)

Date of adoption by Group

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

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

2.2 Principles of consolidation and equity accounting

(i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to Note 2.3).

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognised at cost.

(iii) Joint arrangements

Under IFRS 11 Joint Arrangements investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures.

2. Summary of significant accounting policies *(Continued)*

2.2 Principles of consolidation and equity accounting *(Continued)*

(iii) Joint arrangements *(Continued)*

Joint ventures

Interests in joint ventures are accounted for using the equity method (see (iv) below), after initially being recognised at cost in the consolidated balance sheet.

(iv) Equity accounting

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in the consolidated income statement, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.11.

(v) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in the consolidated income statement. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

2. Summary of significant accounting policies *(Continued)*

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated income statement as a bargain purchase.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in the consolidated income statement.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in the consolidated income statement.

2. Summary of significant accounting policies *(Continued)*

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Management that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i. assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

ii. income and expenses for each consolidated income statement and consolidated statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and

iii. all resulting exchange differences are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.7 Property, plant and equipment

Property, plant and equipment (excluding construction-in-progress) is stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes the purchase price of the asset and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged in the consolidated income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to net of their residual values, over their estimated useful lives as follows:

Buildings	20 – 40 years
Leasehold improvement	Shorter of 2 years or the remaining lease terms
Mould	2 – 3 years
Machinery	3 -10 years
Office equipment and motor vehicles	1 – 8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the consolidated income statement.

Construction-in-progress represents buildings, plant and/or machinery under construction or pending installation and is stated at cost less accumulated impairment losses. Cost includes the costs of construction of buildings, the costs of plant and machinery, installation, testing and other direct costs. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use.

2.8 Land use rights

Land use rights are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 20 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

2. Summary of significant accounting policies *(Continued)*

2.9 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates, joint ventures and business and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree. Goodwill on acquisitions of subsidiaries is included in "intangible assets". Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The units or groups of units are identified at the lowest level at which goodwill is monitored for internal management purposes, being the operating segments (Note 5).

(b) License rights

License rights are stated at historical cost less accumulated amortisation and accumulated impairment losses. They are initially measured at the fair value of the consideration given to acquire the license at the time of the acquisition, which represents historical cost comprising the capitalised present values of the fixed minimum periodic payments to be made on date of acquisition and in the subsequent years in respect of the acquisition of the license rights.

License rights are amortised using the straight-line method to allocate the cost of the licenses over the period of the respective contractual rights varying from 2 to 10 years.

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 3 years.

(d) Trademarks, customer relationships and non-compete agreements

Separately acquired trademarks, customer relationships and non-compete agreements are shown at historical cost. Trademarks, customer relationships and non-compete agreements acquired in business combination are recognised at fair value at the acquisition date. Trademarks, customer relationships and non-compete agreements that have finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of 10 to 20 years, and the cost of customer relationships and non-compete agreements over their estimated useful lives of 3 to 8 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.10 Disposal group held-for-sale and discontinued operations

The disposal group is classified as held for sale when the carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The disposal group (except for certain assets as explained below), is stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in Note 2.

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the disposal group constituting the discontinued operation. Comparatives figures are reclassified for consistent presentation purpose.

2.11 Impairment of investments in subsidiaries, investments accounted for using the equity method and other non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2.12 Financial assets

(i) Classification

The Group classifies its financial assets into the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group's financial assets primarily comprise loans and receivables, available-for-sale financial assets and derivative instrument.

2. Summary of significant accounting policies *(Continued)*

2.12 Financial assets *(Continued)*

(i) Classification *(Continued)*

a) Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

b) Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are included within trade receivables, other receivables, restricted bank deposits and cash and cash equivalents in the balance sheets (Notes 2.16 and 2.17).

c) Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or Management intends to dispose of it within 12 months of the end of the reporting period.

(ii) Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

(iii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

2. Summary of significant accounting policies *(Continued)*

2.12 Financial assets *(Continued)*

(iv) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated income statement.

Loans and receivables and held-to-maturity investments are subsequently carried at amortised cost using the effective interest method.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Gains or losses arising from changes in the fair value are recognised as follows:

- for 'financial assets at fair value through profit or loss' – in the consolidated income statement within other income or other expenses.

- for available-for-sale financial assets that are monetary securities denominated in a foreign currency – translation differences related to changes in the amortised cost of the security are recognised in the consolidated income statement and other changes in the carrying amount are recognised in other comprehensive income.

- for other monetary and non-monetary securities classified as available-for-sale – in other comprehensive income.

Dividends on financial assets at fair value through profit or loss and available-for-sale equity instruments are recognised in the consolidated income statement as part of revenue from continuing operations when the Group's right to receive payments is established.

Interest income from financial assets at fair value through profit or loss is included in the net gains/(losses). Interest on available-for-sale securities, held-to-maturity investments and loans and receivables calculated using the effective interest method is recognised in the consolidated income statement as part of revenue from continuing operations.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

2. Summary of significant accounting policies *(Continued)*

2.14 Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(a) Assets carried at amortised cost

For loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

(b) Assets classified as available for sale

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement.

Impairment losses on equity instruments that were recognised in the consolidated income statement are not reversed through profit or loss in a subsequent period.

If the fair value of a debt instrument classified as available-for-sale increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss is reversed through profit or loss.

2.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises costs of merchandise, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.16 Trade receivables and other receivables

Trade receivables are amounts due from customers for goods sold in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade receivables and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for trade receivables and other receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

2.17 Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

2.18 Share capital/Convertible securities

(a) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's owners.

(b) Convertible securities

Convertible securities with no contractual obligation to be settled in cash are classified as equity upon initial recognition.

2. Summary of significant accounting policies *(Continued)*

2.19 Trade payables

Trade payables represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured, and are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.20 License fees payable

License fees payable are initially recorded at the fair value, which represents the present value of the fixed minimum periodic payments to be made in subsequent years. They are subsequently stated at amortised cost using the effective interest method less payments made.

Interests incurred on license fees payable are charged to the consolidated income statement as interest expense. Changes in estimate of the expected cash flows are recognised as distribution costs in the consolidated income statement. The revised expected cash flows are discounted using the original effective rate to arrive at the carrying amount of the liability.

2.21 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.22 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

2. Summary of significant accounting policies *(Continued)*

2.23 Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in convertible bonds reserves. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition, except on conversion or expiry.

The liability component of a convertible instrument is classified as current unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.24 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of reporting period in the countries where the Group operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

2. Summary of significant accounting policies *(Continued)*

2.24 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

2.25 Employee benefits

The Group operates various post-employment schemes, including defined contribution pension plans and post-employment medical plans.

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal governments undertake to assume the retirement benefit obligations of all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made.

In Hong Kong, the Group makes contributions to the scheme under the Mandatory Provident Fund Schemes ("MPF") Ordinance, the assets of which are generally held in separate trustee-administrated funds. The pension plans are generally funded by payments from employees and by the Group. There are similar pension schemes in the United States and South Korea to which the Group also makes contributions.

Contributions to these plans are expensed as incurred. The Group has no other post-employment obligations under the employment contracts.

(b) Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans. These plans comprise share option schemes and a share award scheme. The fair value of the employee services received in exchange for the grant of the options or shares is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options or shares granted as at date of grant, including any market performance conditions and excluding the impacts of any non-market service and performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period) as well as any non-vesting conditions (for example, the requirement for employees to save). Non-market vesting conditions are included in assumptions about the number of options or shares that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.25 Employee benefits *(Continued)*

(b) Share-based compensation *(Continued)*

At the end of each reporting period, the Group revises its estimates of the number of options and shares that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Other benefits

Other directors' and employees' obligations are recorded as a liability and charged to the consolidated income statement when the Group is contractually obliged or when there is a past practice that has created a constructive obligation.

2.26 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

2.27 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entities and when specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sales have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customers, the type of transactions and specifics of each arrangement.

2. Summary of significant accounting policies *(Continued)*

2.27 Revenue recognition *(Continued)*

(a) Sales of goods – wholesale

For wholesale business, sales of goods are recognised when a Group entity has delivered products to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Revenue is adjusted for the value of expected returns. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products of the Group are often sold with volume discounts; customers have a right to return faulty products within certain days in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases. No element of financing is deemed present as the sales are made with a credit term of 90 days, which is consistent with the market practice.

(b) Sales of goods – retail

For retail business, sales of goods are recognised when a Group entity sells a product to the customer. Retail sales are usually in cash or by credit card. Accumulated experience is used to estimate and provide for amount of sales returns at each financial reporting date.

(c) Sales of goods – internet

Revenue from the sale of goods on the internet is recognised at the point that the risks and rewards of the inventory have passed to the customer, which is the point of dispatch. Transactions are settled by credit or payment card or through on-line payment platforms. Provisions are made for internet credit sales based on the expected level of returns, which in turn is based upon the historical rate of returns.

(d) Interest income

Interest income is recognised using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Dividend income

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence.

(f) License fee income

License fee income is recognised on an accrual basis in accordance with the substance of the relevant agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

2. Summary of significant accounting policies *(Continued)*

2.28 Operating leases (as the lessee for operating leases)

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

2.29 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement as other income over the period necessary to match them with the costs they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment and land use right are included in non-current liabilities as deferred income and are recognised in the consolidated income statement as other income on a straight-line basis over the expected lives of the related assets.

2.30 Dividend distribution

Dividend distribution to the Company's equity holders, is recognised as a liability in the Group and the Company's financial statements in the period in which the dividends are approved by the Company's equity holders in case of final dividend and the Company's directors in case of interim/special dividend.

3. Financial risk management

3.1 Financial risk factors

The activities of the Group expose it to a variety of financial risks: market risks (including foreign exchange risk and cash flow/fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by core management team of the Group under policies approved by the board of directors.

(a) Market risks

(i) Foreign exchange risk

The Group mainly operates in the PRC with most of the transactions settled in RMB. Certain of the Group's cash and bank deposits, and trade receivables are denominated in Hong Kong dollars (HK$), United States dollars (US$), EURO (EUR) or South Korean Won (KRW) (Note 15). In addition, the Company is required to pay certain license fees, borrowings and other payables in foreign currencies. Any foreign currency exchange rate fluctuations against RMB may have a financial impact to the Group. The Group did not use any financial instruments to hedge against its foreign currency risk as at 31 December 2017.

As at 31 December 2017 and 2016, if RMB strengthened/weakened by 5% against HK$/US$/EUR/KRW with all other variables held constant, the post-tax profit for each year would have changed mainly as a result of foreign exchange gains/losses on translation of HK$, US$, EUR and KRW denominated cash and cash equivalents, trade receivables, borrowings, license fees and other payables.

		2017 RMB'000	2016 RMB'000
Post-tax profit from continuing operations (decrease)/increase			
– Strengthened	5%	(2,411)	(1,699)
– Weakened	5%	2,411	1,699

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no assets bearing significant interest. Financial assets and liabilities at fixed rates expose the Group to fair value interest-rate risk. On 8 February 2012, the Company issued convertible bonds with principal amount of RMB750 million due on 8 February 2017. The convertible bonds are interest-bearing at the fixed interest rate of 4% per annum and payable semi-annually in arrears (Note 23). The Group currently does not hedge its exposure to interest rate risk.

Management does not anticipate significant impact resulting from the changes in interest rates because the borrowings bear fixed interest rates. The weighted average effective interest rates per annum of the borrowings were 4.93% (2016: 4.66%) for bank borrowings denominated in RMB and nil (2016: 4.41%) for bank borrowings denominated in HK$ as disclosed in Note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions. For banks and financial institutions, only parties with good credit ratings are accepted. For wholesale customers, the Group assesses the credit quality of each customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Management. The utilisation of credit limits is regularly monitored. All of these major customers are with good credit history. The Group's historical experience in collection of trade and other receivables falls within the recorded allowance and the directors are of the opinion that adequate provision for uncollectible receivables has been made in the consolidated financial statements. Sales to retail customers are settled in cash or using major credit cards.

The table below shows the balances with the three major banks as at the end of the reporting period.

	2017 RMB'000	2016 RMB'000
Banks*		
Bank A	1,381,690	1,102,456
Bank B	407,616	281,804
Bank C	327,432	395,352
	2,116,738	1,779,612

* All banks are prominent nationwide bank in the PRC (including the Hong Kong Special Administrative Region), or branch of international commercial bank in the PRC (including the Hong Kong Special Administrative Region) with good credit ratings.

Trade receivables were due within 90 days from the date of billing. The Company has launched a series of plans to manage the credit risk of the customers. Allowance is made for the balances past due when Management considers the loss from non-performance by these counterparties is likely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Management. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (Note 22) at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

The table below analyses the Group's and Company's financial liabilities (which does not include statutory liabilities) that will be settled into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
As at 31 December 2017				
License fees payable	**34,217**	**15,601**	**15,000**	**27,000**
Trade payables	**1,145,113**	**–**	**–**	**–**
Other payables	**463,044**	**–**	**–**	**–**
	1,642,374	**15,601**	**15,000**	**27,000**
As at 31 December 2016				
Borrowings	200,000	–	–	–
Convertible bonds *(a)*	572,220	–	–	–
License fees payable	42,842	17,538	18,703	32,000
Trade payables	1,047,323	–	–	–
Other payables	431,220	–	–	–
	2,293,605	17,538	18,703	32,000

Note:

(a) The Company issued convertible bonds on 8 February 2012. Unless early redeemed, converted, or purchased and canceled, these convertible bonds will be redeemed at the outstanding principal amount together with the unpaid interest upon maturity. The annual interest payment is RMB30 million. For details and subsequent conversion in February 2017, please refer to Note 23.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

3. Financial risk management *(Continued)*

3.2 Capital risk management

The Group's objectives when managing capital are to

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders, and

- maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by capital and reserves attributable to equity holders of the Company as shown in the consolidated balance sheet.

3.3 Fair value estimation

The carrying values less any estimated credit adjustments for the Group's financial assets and liabilities with a maturity of less than one year, including cash at bank and in hand, time deposits, trade receivables and other receivables, trade payables and other payables are assumed to approximate their fair values. The fair value of these financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

The fair value of financial instruments that are not traded in an active market is determined by using valuation technique.

4. Critical accounting estimates and judgements

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the group's accounting policies.

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

4. Critical accounting estimates and judgements *(Continued)*

(a) Allowance for impairment of trade receivables and other receivables

The Group's Management determines the allowance for impairment of trade receivables and other receivables in accordance with the accounting policy stated in Note 2.16. Such allowance for impairment is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The Company's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant judgment. The Group's customers mainly are distributors of sports products, and they vary in size and types of products to be distributed. In making the judgment on the allowance for impairment, the Company evaluates, among other factors, the historical payment pattern and credit-worthiness of each customer, default rates of prior years, ageing of receivable balances and latest communication with individual customers. To the extent the financial condition of any customer deteriorates which results in an inability to make payments on time, or the customers significantly exceed their credit term and ask for payment extension, or if the Company incurs more bad debt than their original estimates, additional allowance may be required. This assessment is based on the specific facts and circumstances of each customer. Management reassesses the allowance at each end of the reporting period to ensure the current allowance is still appropriate.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. Management reassesses the estimations at each end of the reporting period.

(c) Estimated impairment of goodwill, intangible assets, and other non-current assets

The Group tests whether goodwill, intangible assets and other non-current assets have suffered any impairment, in accordance with the accounting policy stated in Note 2.9 and Note 2.11 respectively. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions (See Note 8). If future events do not correspond to such assumptions, the value in use amount will need to be revised, and this may have an impact on the Group's results of operation or balance sheet.

(d) Income taxes

The Group is mainly subject to income taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Dividends derived from the Company's subsidiaries in the PRC earned after 1 January 2008 are subject to withholding tax at the rate of 5%. The Group reassessed its needs to make distributions out of its subsidiaries in the PRC. As a result, withholding income tax has been provided for the dividends already distributed during the period and undistributed profits to the extent they are expected to be distributed in future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

5. Segment information

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

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

Management assesses the performance of the operating segments based on operating profit. Segment information provided to Management for decision making is measured in a manner consistent with that in the financial statements.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

5. Segment information *(Continued)*

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

5. Segment information *(Continued)*

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

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

Geographical information of revenue

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

Revenue by geographical location is determined on the basis of destination of shipment/delivery.

The Group has a large number of customers. For the years ended 31 December 2017 and 2016, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

6. Property, plant and equipment

	Buildings RMB'000	Leasehold improvement RMB'000	Mould RMB'000	Machinery RMB'000	Office equipment and motor vehicles RMB'000	Total RMB'000
As at 1 January 2016						
Cost	527,915	319,489	283,263	101,710	196,356	1,428,733
Accumulated depreciation	(126,750)	(130,992)	(230,906)	(43,960)	(155,820)	(688,428)
Net book amount	401,165	188,497	52,357	57,750	40,536	740,305
Year ended 31 December 2016						
Opening net book amount	401,165	188,497	52,357	57,750	40,536	740,305
Additions	30	334,604	28,846	4,477	15,467	383,424
Disposals	(146)	(17,696)	(6,105)	(232)	(1,814)	(25,993)
Depreciation charge	(18,525)	(200,974)	(29,118)	(9,512)	(11,930)	(270,059)
Closing net book amount	382,524	304,431	45,980	52,483	42,259	827,677
As at 31 December 2016						
Cost	527,685	582,750	251,057	105,040	194,810	1,661,342
Accumulated depreciation	(145,161)	(278,319)	(205,077)	(52,557)	(152,551)	(833,665)
Net book amount	382,524	304,431	45,980	52,483	42,259	827,677
Year ended 31 December 2017						
Opening net book amount	**382,524**	**304,431**	**45,980**	**52,483**	**42,259**	**827,677**
Additions	**–**	**311,084**	**29,557**	**4,178**	**15,762**	**360,581**
Disposals	**(103)**	**(26,135)**	**(138)**	**(351)**	**(1,316)**	**(28,043)**
Depreciation charge	**(18,522)**	**(256,302)**	**(26,228)**	**(10,065)**	**(10,913)**	**(322,030)**
Closing net book amount	**363,899**	**333,078**	**49,171**	**46,245**	**45,792**	**838,185**
As at 31 December 2017						
Cost	**527,582**	**779,402**	**278,318**	**107,414**	**196,377**	**1,889,093**
Accumulated depreciation	**(163,683)**	**(446,324)**	**(229,147)**	**(61,169)**	**(150,585)**	**(1,050,908)**
Net book amount	**363,899**	**333,078**	**49,171**	**46,245**	**45,792**	**838,185**

Depreciation expenses (excluding the portion attributable to discontinued operations) of RMB29,404,000 (2016: RMB36,080,000) has been charged to cost of sales, RMB274,924,000 (2016: RMB218,992,000) to distribution expenses and RMB17,702,000 (2016: RMB14,987,000) to administrative expenses.

As at 31 December 2017, no buildings were pledged as securities for the Group's borrowings. As at 31 December 2016, buildings with net book value of RMB369,121,000 were pledged as securities for the Group's borrowings (Note 22).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

7. Land use rights

	RMB'000
As at 1 January 2016	
Cost	95,558
Accumulated amortisation	(15,770)
Net book amount	79,788
Year ended 31 December 2016	
Opening net book amount	79,788
Amortisation charge	(1,901)
Closing net book amount	77,887
As at 31 December 2016	
Cost	95,558
Accumulated amortisation	(17,671)
Net book amount	77,887
Year ended 31 December 2017	
Opening net book amount	**77,887**
Amortisation charge	**(1,901)**
Closing net book amount	**75,986**
As at 31 December 2017	
Cost	**95,558**
Accumulated amortisation	**(19,572)**
Net book amount	**75,986**

All the Group's land use rights are located in the PRC and are held under leases for periods varying from 20 to 50 years.

As at 31 December 2017, no land use rights were pledged as securities for the Group's borrowings. As at 31 December 2016, land use rights with net book value of RMB77,804,000 were pledged as securities for the Group's borrowings (Note 22).

Amortisation (excluding the portion attributable to discontinued operations) of RMB1,901,000 (2016: RMB1,901,000) has been charged to administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

8. Intangible assets

	Goodwill RMB'000	Trademarks and patents RMB'000	Computer software RMB'000	License rights RMB'000	Customer relationships & Non-compete agreements RMB'000	Total RMB'000
As at 1 January 2016						
Cost	139,474	25,682	191,131	292,129	61,279	709,695
Accumulated amortisation and impairment	–	(10,733)	(136,908)	(257,108)	(39,376)	(444,125)
Net book amount	139,474	14,949	54,223	35,021	21,903	265,570
Year ended 31 December 2016						
Opening net book amount	139,474	14,949	54,223	35,021	21,903	265,570
Additions	–	–	28,060	35,328	–	63,388
Amortisation charge	–	(1,299)	(22,717)	(14,801)	(6,849)	(45,666)
Disposal	–	–	(596)	–	–	(596)
Closing net book amount	139,474	13,650	58,970	55,548	15,054	282,696
As at 31 December 2016						
Cost	139,474	25,682	218,595	327,457	61,279	772,487
Accumulated amortisation and impairment	–	(12,032)	(159,625)	(271,909)	(46,225)	(489,791)
Net book amount	139,474	13,650	58,970	55,548	15,054	282,696
Year ended 31 December 2017						
Opening net book amount	**139,474**	**13,650**	**58,970**	**55,548**	**15,054**	**282,696**
Additions	**–**	**–**	**8,907**	**12,200**	**–**	**21,107**
Amortisation charge	**–**	**(1,299)**	**(20,054)**	**(17,654)**	**(6,849)**	**(45,856)**
Closing net book amount	**139,474**	**12,351**	**47,823**	**50,094**	**8,205**	**257,947**
As at 31 December 2017						
Cost	**139,474**	**25,682**	**227,502**	**339,657**	**61,279**	**793,594**
Accumulated amortisation and impairment	**–**	**(13,331)**	**(179,679)**	**(289,563)**	**(53,074)**	**(535,647)**
Net book amount	**139,474**	**12,351**	**47,823**	**50,094**	**8,205**	**257,947**

Note:

Amortisation (excluding of the portion attributable to discontinued operations) of RMB17,654,000 (2016: RMB14,801,000) to distribution expenses and RMB28,202,000 (2016: RMB30,865,000) to administrative expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

8. Intangible assets *(Continued)*

Impairment tests for goodwill

Goodwill is monitored by Management at the operating segment level (i.e. at the brand level). The following is a summary of goodwill allocation for each operating segment.

	Li Ning brand RMB'000	**Kason brand** RMB'000
As at 1 January and 31 December 2016	67,087	72,387
As at 1 January and 31 December 2017	**67,087**	**72,387**

The recoverable amounts for the CGUs have been determined based on values-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by Management. The weighted average revenue growth rate used for the sixth year to the tenth year for Li Ning brand and Kason brand are 5% and 0% per annum respectively. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operate. The pre-tax discount rates used are 11.2% and 15.1% which reflect specific risks relating to Li Ning brand and Kason brand respectively.

Management's assessment of the values-in-use of Li Ning brand and Kason brand exceeds their carrying values, therefore no impairment provision was recorded by Management.

9. Available-for-sale financial assets

The Group's available-for-sale financial assets include investments in two private companies, and one of them has been impaired.

	2017 **RMB'000**	2016 RMB'000
Unlisted investments, at cost	**14,000**	14,000

	2017 **RMB'000**	2016 RMB'000
As at 1 January	**14,000**	26,000
Disposals	**–**	(12,000)
As at 31 December	**14,000**	14,000

The Group disposed its shares in Hubei Jie Zhi Xing Sports Industry Development Co., Ltd for RMB13,479,000 in May 2016, which resulted in a net disposal gain of RMB1,479,000 with income tax of RMB370,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Subsidiaries

The following is a list of the Group's subsidiaries as at 31 December 2017:

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
Directly held:				
RealSports Pte Ltd.	The British Virgin Islands, 8 October 2002 Limited liability company	US$1,000	100%	Investment holding
Indirectly held:				
Li Ning Sports Technology Development (Hong Kong) Co., Ltd. (李寧體育科技發展(香港)有限公司)	Hong Kong, 28 May 2004 Limited liability company	HK$1	100%	Research and development
Li Ning Sports (Hong Kong) Co., Ltd. (李寧體育(香港)有限公司)	Hong Kong, 19 March 2003 Limited liability company	HK$100	100%	Provision of administrative services
李寧體育(上海)有限公司 (Li Ning Sports (Shanghai) Co., Ltd.)	The PRC, 25 August 1997 Limited liability company	US$8,000,000	100%	Sale of sports goods
上海狐步信息系統有限公司 (Shanghai Hubu Information System Co., Ltd.)	The PRC, 20 April 2000 Limited liability company	RMB2,000,000	100%	Provision of information technology service
上海少昊體育用品研發有限公司 (Shanghai Shao Hao Sports Goods Research and Development Co., Ltd.)	The PRC, 18 December 2001 Limited liability company	RMB3,000,000	100%	Product design, research and development
上海悦奧體育用品有限公司 (Shanghai Yue Ao Sports Goods Co., Ltd.)	The PRC, 5 March 2003 Limited liability company	RMB3,000,000	100%	Sale of sports goods
佛山李寧體操學校服務有限公司 (Foshan Li Ning Gymnastic School Services Co., Ltd.)	The PRC, 31 October 1996 Limited liability company	RMB1,000,000	100%	Property management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Subsidiaries *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
李寧(中國)體育用品有限公司 (Li Ning (China) Sports Goods Co., Ltd.)	The PRC, 6 July 2007 Limited liability company	RMB1,416,670,000	100%	Sale of sports goods
Li Ning Korea Sports Ltd. (李寧韓國有限公司)	South Korea, 21 August 2013 Limited liability company	KRW100,000,000	100%	Research and development
單仕競(上海)體育用品有限公司 (Danskin (Shanghai) Sports Goods Co., Ltd.)	The PRC, 21 November 2016 Limited liability company	RMB5,000,000	100%	Sale of sports goods
單仕競(上海)實業發展有限公司 (Danskin (Shanghai) Industry Development Co., Ltd.)	The PRC, 19 May 2017 Limited liability company	RMB1,000,000	100%	Sale of sports goods
李寧(北京)體育用品商業有限公司 (Li Ning (Beijing) Sports Goods Commercial Co., Ltd.)	The PRC, 19 December 2007 Limited liability company	HK$10,000,000	100%	Sale of sports goods
上海一動體育發展有限公司 (Shanghai Edosports Development Co., Ltd.)	The PRC, 9 July 2001 Limited liability company	RMB10,000,000	100%	Sale of sports goods
鄭州一動體育用品銷售有限公司 (Zhengzhou Edosports Goods Sales Co., Ltd.)	The PRC, 25 June 1998 Limited liability company	RMB2,750,000	100%	Sale of sports goods
廣州一動體育用品銷售有限公司 (Guangzhou Edosports Goods Sales Co., Ltd.)	The PRC, 6 October 1998 Limited liability company	RMB3,200,000	100%	Sale of sports goods
瀋陽一動體育用品銷售有限公司 (Shenyang Edosports Goods Sales Co., Ltd.)	The PRC, 10 June 1999 Limited liability company	RMB3,000,000	100%	Sale of sports goods

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(All amounts in RMB unless otherwise stated)

10. Subsidiaries *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
濟南一動體育用品銷售有限公司 (Jinan Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003 Limited liability company	RMB1,000,000	100%	Sale of sports goods
武漢一動體育用品銷售有限公司 (Wuhan Edosports Goods Sales Co., Ltd.)	The PRC, 2 June 1999 Limited liability company	RMB1,000,000	100%	Sale of sports goods
北京李寧體育用品銷售有限公司 (Beijing Li Ning Sports Goods Sales Co., Ltd.)	The PRC, 4 November 1997 Limited liability company	RMB5,000,000	100%	Sale of sports goods
上海一動體育用品銷售有限公司 (Shanghai Edosports Goods Sales Co., Ltd.)	The PRC, 8 August 2000 Limited liability company	RMB5,000,000	100%	Sale of sports goods
天津一動體育用品銷售有限公司 (Tianjin Edosports Goods Sales Co., Ltd.)	The PRC, 14 December 1999 Limited liability company	RMB3,500,000	100%	Sale of sports goods
南京一動體育用品銷售有限公司 (Nanjing Edosports Goods Sales Co., Ltd.)	The PRC, 15 April 2003 Limited liability company	RMB1,000,000	100%	Sale of sports goods
新疆一動體育用品銷售有限公司 (Xinjiang Edosports Goods Sales Co., Ltd.)	The PRC, 4 February 2005 Limited liability company	RMB1,000,000	100%	Sale of sports goods
長沙一動體育用品銷售有限公司 (Changsha Edosports Goods Sales Co., Ltd.)	The PRC, 26 August 1998 Limited liability company	RMB1,000,000	100%	Sale of sports goods
南寧一動體育用品銷售有限公司 (Nanning Edosports Goods Sales Co., Ltd.)	The PRC, 29 July 1998 Limited liability company	RMB1,500,000	100%	Sale of sports goods

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(All amounts in RMB unless otherwise stated)

10. Subsidiaries *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
西安一動體育用品銷售有限公司 (Xian Edosports Goods Sales Co., Ltd.)	The PRC, 23 January 2006 Limited liability company	RMB1,000,000	100%	Sale of sports goods
成都一動體育用品銷售有限公司 (Chengdu Edosports Goods Sales Co., Ltd.)	The PRC, 4 February 2008 Limited liability company	RMB1,000,000	100%	Sale of sports goods
昆明一動體育用品銷售有限公司 (Kunming Edosports Goods Sales Co., Ltd.)	The PRC, 24 September 2008 Limited liability company	RMB1,000,000	100%	Sale of sports goods
蘭州一動體育用品銷售有限公司 (Lanzhou Edosports Goods Sales Co., Ltd.)	The PRC, 13 May 2009 Limited liability company	RMB1,000,000	100%	Sale of sports goods
廈門悅奧商貿有限公司 (Xiamen Yue Ao Trading Co., Ltd.)	The PRC, 26 October 2009 Limited liability company	RMB1,000,000	100%	Sale of sports goods
大連悅奧商貿有限公司 (Dalian Yue Ao Trading Co., Ltd.)	The PRC, 13 June 2010 Limited liability company	RMB3,000,000	100%	Sale of sports goods
杭州悅奧體育用品銷售有限公司 (Hangzhou Yue Ao Sports Goods Sales Co., Ltd.)	The PRC, 17 December 2010 Limited liability company	RMB1,000,000	100%	Sale of sports goods
合肥一動體育用品銷售有限公司 (Hefei Edosports Goods Sales Co., Ltd.)	The PRC, 21 March 2011 Limited liability company	RMB1,000,000	100%	Sale of sports goods
李寧體育(天津)有限公司 (Lining Sports (Tianjin) Co., Ltd.)	The PRC, 19 January 2009 Limited liability company	RMB330,000,000	100%	Sale of sports goods

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Subsidiaries *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
上海李寧體育用品電子商務有限公司 (Shanghai Li Ning Sports Goods E-business Co.,Ltd.)	The PRC, 27 July 2011 Limited liability company	RMB10,000,000	100%	Sale of sports goods
樂途體育用品有限公司 (Lotto Sports Goods Co., Ltd.)	The PRC, 19 January 2009 Limited liability company	RMB400,000,000	100%	Sale of sports goods
李寧(福建)羽毛球科技發展有限公司 (Li Ning (Fujian) Badminton Technology Development Co., Ltd.)	The PRC, 30 June 2008 Limited liability company	RMB20,000,000	100%	Manufacture and sale of sports goods
Kason Sports (Hong Kong) Ltd. (凱勝體育(香港)有限公司)	Hong Kong, 15 January 2008 Limited liability company	HK$1	100%	Investment holding
Li Ning International Trading (Hong Kong) Co., Ltd. (李寧國際貿易(香港)有限公司)	Hong Kong, 27 August 2010 Limited liability company	HK$2	100%	Sales of sports goods
李寧(湖北)體育用品有限公司 (Li Ning (Hubei) Sports Goods Co., Ltd.)	The PRC, 2 November 2010 Limited liability company	RMB411,844,000	100%	Manufacture and sale of sports goods
湖北李寧鞋業有限公司 (Hubei Li Ning Footwear Co., Ltd.)	The PRC, 18 April 2013 Limited liability company	RMB50,000,000	95%	Manufacture and sale of sports goods
哈爾濱一動體育用品銷售有限公司 (Harbin Edosports Goods Sales Co., Ltd.)	The PRC, 25 December 2013 Limited liability company	RMB1,000,000	100%	Sale of sports goods
大慶悅動體育用品銷售有限公司 (Daqing Yue Dong Sports Goods Sales Co., Ltd.)	The PRC, 25 December 2013 Limited liability company	RMB1,000,000	100%	Sale of sports goods
寧波一動體育用品有限公司 (Ningbo Edosports Goods Co., Ltd.)	The PRC, 2 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

10. Subsidiaries *(Continued)*

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
重慶悅奧體育用品銷售有限公司 (Chongqing Yue Ao Sports Goods Sales Co., Ltd.)	The PRC, 15 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
溫州一動體育用品有限公司 (Wenzhou Edosports Goods Co., Ltd.)	The PRC, 22 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
貴陽悅奧體育用品有限公司 (Guiyang Yue Ao Sports Goods Co., Ltd.)	The PRC, 23 May 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
深圳悅奧商貿有限公司 (Shenzhen Yue Ao Trading Co., Ltd.)	The PRC, 7 December 2015 Limited liability company	RMB1,000,000	100%	Sale of sports goods
海口一動體育用品銷售有限公司 (Haikou Edosports Goods Sales Co., Ltd.)	The PRC, 6 June 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods

11. Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	2017 RMB'000	2016 RMB'000
Associates	**637,304**	587,335
Joint ventures	**51,767**	37,673
As at 31 December	**689,071**	625,008

The profit/(loss) recognised in the income statement are as follows:

	2017 RMB'000	2016 RMB'000
Associates	**59,712**	(161)
Joint ventures	**14,094**	9,877
For the year ended 31 December	**73,806**	9,716

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

11. Investments accounted for using the equity method *(Continued)*

Investment in associates

The following is a list of the associates as at 31 December 2017:

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Group	Principal activities	Measurement method
Tianjin Kuan Mao Mi Children's Products Company Limited ("Tianjin Kuan Mao Mi")	The PRC, 24 May 2011 Limited liability company	RMB30,000,000	13.30%	Sale of sports goods	Equity
Tianjin Yue Hao Tuo Outdoor Sports Company Limited ("Tianjin Yue Hao Tuo")	The PRC, 3 August 2011 Limited liability company	RMB20,790,000	14.82%	Sale of sports goods	Equity
上海紅雙喜股份有限公司 (Shanghai Double Happiness Co., Ltd.) *	The PRC, 26 December 1995 Limited liability company	RMB112,000,000	47.5%	Manufacture and sale of sports goods	Equity
北京悦網金服信息科技有限公司 (Beijing Yue Wang Jin Fu Information Technology Co., Ltd.)("Yue Wang Jin Fu")	The PRC, 16 November 2015 Limited liability company	RMB5,000,000	40%	Investment	Equity

* The Group's Management and shareholders had approved the disposal of 10% equity interest in Double Happiness on 23 October 2015, and 4 December 2015, respectively. The disposal transaction was completed in December 2016.

The Group exercises significant influence over these associated companies by virtue of its contractual right to appoint director to the board of directors of the associated companies and has the power to participate in the financial and operating policy decisions of the associated companies.

The Group does not have any share of loss from continuing operations and total comprehensive income of Tianjin Kuan Mao Mi and Tianjin Yue Hao Tuo for the year ended 31 December 2017 and 2016. The Group does not have nay share of Loss from continuing operations and total comprehensive income of Yue Wang Jin Fu for the year ended 31 December 2017 (2016: RMB 161,000)

The Group received RMB52,784,000 dividend from Double Happiness for the year ended 31 December 2017 (2016: RMB53,917,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

11. Investments accounted for using the equity method *(Continued)*

Summarised financial information for associates

Set out below are the summarised financial information for Double Happiness which are accounted for using the equity method.

Summarised balance sheet

	2017 **RMB'000**	2016 RMB'000
Current		
Assets	**656,609**	338,166
Liabilities	**627,858**	375,545
Non-current		
Assets	**994,423**	982,192
Liabilities	**158,650**	164,912

Summarised statement of comprehensive income

	2017 **RMB'000**	2016 RMB'000
Revenue	**717,264**	700,181
Profit before income tax	**137,560**	172,908
Income tax expense	**(30,002)**	(40,751)
Profit for the year	**107,558**	132,157
Other comprehensive income	**–**	–
Total comprehensive income	**107,558**	132,157

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

11. Investments accounted for using the equity method *(Continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates

Summarised financial information

	2017 RMB'000	2016 RMB'000
Opening net assets 1 January	779,901	–
Profit for the year	107,558	–
Non-controlling interests	(2,359)	–
Net assets of an associate as at 31 December	885,100	779,901
Interest in an associate (47.5%)	420,422	370,453
Goodwill	216,882	216,882
Carrying value	637,304	587,335

Investment in joint venture

	2017 RMB'000	2016 RMB'000
As at 1 January	37,673	27,796
Share of profit	14,094	9,877
As at 31 December	51,767	37,673

The joint venture listed below has share capital consisting solely of ordinary shares, which is indirectly held by the Group.

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Group	Principal activities
Li-Ning Aigle Ventures Company Limited ("Li-Ning Aigle Ventures")	Hong Kong, 3 July 2005 Limited liability company	HK$48,600,000	50%	Investment holding

The Group has a 50% equity interest in Li-Ning Aigle Ventures which is a company jointly controlled by the Group and Aigle International S.A., a company incorporated in France. Li-Ning Aigle Ventures and its subsidiary are principally engaged in the manufacture, marketing and distribution of AIGLE brand apparel and footwear products in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

12. Inventories

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

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

13. Trade receivables

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

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

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

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(All amounts in RMB unless otherwise stated)

13. Trade receivables *(Continued)*

Customers are normally granted credit terms within 90 days. As at 31 December 2017, trade receivables of RMB461,673,000 (31 December 2016: RMB699,874,000) were past due. As discussed in Note 4 (c), the Group's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, ageing of the trade receivable, and the latest communication with individual customers. Management have been closely monitoring the credit risk of each customer and actively pursuing collection of those receivables until all efforts are exhausted. An allowance for impairment of RMB401,845,000 has been made as at 31 December 2017 (31 December 2016: RMB414,137,000).

The impairment was firstly assessed against individually significant balances, and the remaining balances were grouped for collective assessment according to their ageing groups and historical default rates as these customers were of similar credit risk.

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

14. Other receivables and prepayments

	2017 RMB'000	2016 RMB'000
Prepaid rentals and other deposits	**278,726**	264,852
Advances to suppliers	**9,526**	18,812
Dividend receivable	**–**	43,042
Loans to a joint venture *(a)*	**17,322**	18,536
Prepayment for advertising expenses	**3,453**	1,812
Staff advances and other payments for employees	**1,333**	1,095
Licence fees receivable	**10,563**	15,687
Others	**120,395**	91,348
	441,318	455,184
Less: non-current portion	**(101,451)**	(95,009)
Current portion	**339,867**	360,175

Other receivables and prepayment do not contain impaired assets. Non-current portion mainly comprised prepaid rentals and deposits and advances to suppliers.

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of other receivables mentioned above. The Group does not hold any collateral as security.

(a) As at 31 December 2017, loan of HK$20,000,000 to Li-Ning Aigle Ventures was unsecured, interest free, and with no fixed maturity date.

15. Cash, cash equivalents and restricted bank deposits

As at 31 December 2017, the Group had the following cash, cash equivalents and restricted bank deposits mainly held at banks in the PRC (including the Hong Kong Special Administrative Region):

	2017 RMB'000	2016 RMB'000
Cash and cash equivalents	**2,529,222**	1,953,588
Restricted bank deposits	**721**	1,001
	2,529,943	1,954,589

15. Cash, cash equivalents and restricted bank deposits *(Continued)*

An analysis of cash, cash equivalents and restricted bank deposits by denomination currency is as follows:

	2017 RMB'000	2016 RMB'000
Denominated in RMB	**2,488,113**	1,909,348
Denominated in HK$	**11,306**	31,004
Denominated in US$	**27,215**	13,460
Denominated in EUR	**1,765**	414
Denominated in KRW	**1,544**	363
	2,529,943	1,954,589

At present, Renminbi is not a freely convertible currency in the international market. The conversion of Renminbi into foreign currencies and remittance of Renminbi out of the PRC is subject to the rules and regulations of exchange control promulgated by the PRC government.

Cash at banks, short-term deposits and restricted bank deposits are neither past due nor impaired and are deposits with banks which are mainly prominent nationwide state-owned banks or PRC branches of international commercial banks with good credit ratings.

Restricted bank deposits are restricted for certain banking facilities. The maximum exposure to credit risk at the reporting date is the carrying amounts of the Group's restricted bank deposits mentioned above.

16. Discontinued operations

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

16. Discontinued operations *(Continued)*

(a) Discontinued operations:

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

Note:

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

16. Discontinued operations *(Continued)*

(a) Discontinued operations *(Continued)*

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

(b) Cash flows

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

17. Ordinary shares and shares held for Restricted Share Award Scheme

Issued and fully paid

	Number of share of HK$0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Subtotal RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
As at 1 January 2016	1,885,248	177,492	2,168,867	2,346,359	(2,084)	2,344,275
Net proceeds from share issuance pursuant to share option schemes *(Note (a))*	1,854	160	7,101	7,261	–	7,261
Shares converted from convertible securities *(Note 18(d))*	61,163	5,469	149,561	155,030	–	155,030
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	5,811	5,811	–	5,811
Shares vested under Restricted Share Award Scheme	1,590	–	–	–	4,656	4,656
Shares purchased under Restricted Share Award Scheme	(13,650)	–	–	–	(53,177)	(53,177)
Net proceeds from share issuance upon convertible bonds conversion *(Note 23)*	56,811	4,900	208,015	212,915	–	212,915
As at 31 December 2016	1,993,016	188,021	2,539,355	2,727,376	(50,605)	2,676,771
As at 1 January 2017	**1,993,016**	**188,021**	**2,539,355**	**2,727,376**	**(50,605)**	**2,676,771**
Net proceeds from share issuance pursuant to share option schemes *(Note (a))*	**4,489**	**388**	**16,983**	**17,371**	**–**	**17,371**
Shares converted from convertible securities *(Note 18 (d))*	**6**	**1**	**15**	**16**	**–**	**16**
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	**–**	**–**	**2,557**	**2,557**	**–**	**2,557**
Shares vested under Restricted Share Award Scheme	**4,885**	**–**	**–**	**–**	**23,109**	**23,109**
Shares purchased under Restricted Share Award Scheme	**(8,866)**	**–**	**–**	**–**	**(42,104)**	**(42,104)**
Net proceeds from share issuance upon convertible bonds conversion *(Note 23)*	**168,629**	**14,937**	**630,882**	**645,819**	**–**	**645,819**
As at 31 December 2017	**2,162,159**	**203,347**	**3,189,792**	**3,393,139**	**(69,600)**	**3,323,539**

(a) During the year ended 31 December 2017, the Company issued 4,489,000 shares (2016: 1,854,000 shares) to certain directors and employees of the Group at weighted-average issue price of HK$4.48 (2016: HK$4.53) per share pursuant to the Company's 2004 and 2014 Share Option Scheme (see Note 34).

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(All amounts in RMB unless otherwise stated)

18. Reserves

	Capital reserves RMB'000	Statutory reserve funds RMB'000	Share-based compensation reserves RMB'000	Convertible bonds reserves RMB'000	Convertible securities reserves RMB'000	Currency translation difference RMB'000	Subtotal RMB'000	Retained Earnings/ (accumulated deficit) RMB'000	Total RMB'000
As at 1 January 2016	118,030	285,538	75,353	113,395	712,491	3,423	1,308,230	(472,602)	835,628
Profit for the year	–	–	–	–	–	–	–	643,254	643,254
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	31,806	–	–	–	31,806	–	31,806
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(5,811)	–	–	–	(5,811)	–	(5,811)
Appropriations to statutory reserves	–	24,350	–	–	–	–	24,350	(24,350)	–
Shares vested under Restricted Share Award Scheme	–	–	(4,656)	–	–	–	(4,656)	–	(4,656)
Share options lapsed	19,253	–	(19,253)	–	–	–	–	–	–
Shares converted from convertible securities *(Note)*	–	–	–	–	(155,030)	–	(155,030)	–	(155,030)
Shares converted from convertible bonds *(Note 23)*	–	–	–	(28,576)	–	–	(28,576)	–	(28,576)
Translation difference of foreign currency financial statements	–	–	–	–	–	1,213	1,213	–	1,213
As at 31 December 2016	137,283	309,888	77,439	84,819	557,461	4,636	1,171,526	146,302	1,317,828
As at 1 January 2017	137,283	309,888	77,439	84,819	557,461	4,636	1,171,526	146,302	1,317,828
Profit for the year	–	–	–	–	–	–	–	515,155	515,155
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	28,876	–	–	–	28,876	–	28,876
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(2,557)	–	–	–	(2,557)	–	(2,557)
Appropriations to statutory reserves	–	562	–	–	–	–	562	(562)	–
Shares vested under Restricted Share Award Scheme	–	–	(23,109)	–	–	–	(23,109)	–	(23,109)
Share options lapsed	3,643	–	(3,643)	–	–	–	–	–	–
Shares converted from convertible securities *(Note)*	–	–	–	–	(16)	–	(16)	–	(16)
Shares converted from convertible bonds *(Note 23)*	–	–	–	(84,819)	–	–	(84,819)	–	(84,819)
Translation difference of foreign currency financial statements	–	–	–	–	–	(3,850)	(3,850)	–	(3,850)
As at 31 December 2017	140,926	310,450	77,006	–	557,445	786	1,086,613	660,895	1,747,508

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

18. Reserves *(Continued)*

(a) In April 2013, the Company issued convertible securities (the "2013 CS") in the aggregate principal amount of approximately HK$1,847,838,000 (equivalent to approximately RMB1,480,488,000). The 2013 CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK$3.5 per ordinary share of the Company (subject to standard anti-dilution adjustments). Upon issuance, the 2013 CS can be converted into 527,953,814 ordinary shares of the Company.

(b) In January 2015, the Company issued offer securities (qualifying shareholders can select either of subscribing ordinary shares or convertible securities collectively; referred to as "Offer Securities") in the aggregate principal amount of approximately HK$1,553,530,000 (equivalent to approximately RMB1,229,930,000), under which 450,630,034 ordinary shares and 146,881,496 convertible securities (the "2015 CS") were issued. The 2015 CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK$2.6 per ordinary share of the Company (subject to standard anti-dilution adjustments). Upon issuance, the 2015 CS can be converted into 146,881,496 ordinary shares of the Company.

(c) The 2013 CS and 2015 CS (collectively referred to as "CS") cannot be redeemed unless the Company exercises the pre-emption right (but shall not be obliged) to redeem (or procure the purchase of) all or part of the principal amount of the CS.

The CS do not meet the definition of financial liabilities under International Accounting Standards 32 "Financial Instruments: Presentation", as (1) the Company has no contractual obligation to settle the CS in cash, it is the Company's own choice to redeem all or part of the principal amount of the CS, the CS holder has no right to receive and the Company has no obligation to deliver cash (i.e. there will be no exchange of cash for shares when the holders exercise the conversion right) or any financial assets; and (2) both the principal amount and the conversion price of the CS are denominated in HK$, the number of shares to be issued upon conversion is therefore fixed. As a result, all of the CS are classified as equity upon initial recognition.

(d) As at 31 December 2017, CS with carrying value of HK$1,459,015,000 (equivalent to approximately RMB1,177,474,000) had been converted into ordinary shares of the Company, amongst which carrying value of HK$18,000 (equivalent to approximate RMB16,000) were converted into 6,000 ordinary shares of the Company during the year ended 31 December 2017 (Note 17).

19. 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 date is as follows:

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

20. Other payables and accruals

	2017 RMB'000	2016 RMB'000
Accrued sales and marketing expenses	267,930	293,222
Wages and welfare payables	128,375	101,712
Advances from customers	55,647	84,655
Other tax payables	116,950	35,405
Payable for property, plant and equipment	6,726	12,693
Others	353,635	280,198
	929,263	807,885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

21. License fees payable

The Group entered into several license agreements with entities and athletes to obtain exclusive product development and marketing rights. Pursuant to the agreements, consideration shall be paid by the Group in tranches during the lives of the licenses.

Movement in license fees payable during the year is analysed as follows:

	RMB'000
As at 1 January 2016	91,243
Additions	47,869
Payment of license fees	(65,152)
Amortisation of discount *(Note 29)*	9,146
Adjustment for exchange difference	2,961
As at 31 December 2016	86,067
As at 1 January 2017	**86,067**
Additions	**43,073**
Payment of license fees	**(60,209)**
Amortisation of discount *(Note 29)*	**5,792**
Adjustment for exchange difference	**(2,128)**
As at 31 December 2017	**72,595**

	2017 **RMB'000**	2016 RMB'000
Analysis of license fees payable:		
Non-current		
– the second to fifth year	**25,280**	28,426
– more than five years	**13,923**	16,038
Current	**33,392**	41,603
	72,595	86,067

The license fees payable are mainly denominated in RMB, US$ and EUR.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

21. License fees payable *(Continued)*

The maturity profile of the Group's license fees based on contractual undiscounted cash flows is as follows:

	2017 RMB'000	2016 RMB'000
Less than 1 year	**34,217**	42,842
Between 1 and 5 years	**30,601**	36,241
Over 5 years	**27,000**	32,000
	91,818	111,083

22. Borrowings

	2017 RMB'000	2016 RMB'000
Borrowings		
– current	**–**	200,000
Borrowings denominated in		
– RMB	**–**	200,000
Borrowings		
– secured	**–**	200,000

The carrying amounts of the borrowings at the respective balance sheet date approximate their fair value as the impact of discounting is not significant.

The weighted average effective interest rates per annum of the borrowings were 4.93% (2016: 4.66%) for those borrowings denominated in RMB and nil (2016: 4.41%) for those borrowings denominated in other currencies for the year ended 31 December 2017.

As at 31 December 2017, no borrowings are secured by the Group's buildings and land use rights. Bank borrowings amounting to RMB200,000,000 were secured by the Group's buildings and land use rights, as at 31 December 2016 (Notes 6 and 7).

As at 31 December 2017, the Group has undrawn borrowing facilities within one year amounting to RMB1,065,000,000 (2016: RMB900,000,000).These facilities have been arranged to finance the Group's working capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

22. Borrowings *(Continued)*

Movement in borrowings is analysed as follows:

	RMB'000
As at 1 January 2016	566,499
Additions	10,000
Effect of change in exchange rate	(1,680)
Repayments	(374,819)
As at 31 December 2016	200,000
As at 1 January 2017	**200,000**
Additions	**2,000**
Repayments	**(202,000)**
As at 31 December 2017	**–**

The exposure of the Group's borrowings to interest-rate changes and the contractual repricing dates at the balance sheet date are as follows:

	2017 RMB'000	2016 RMB'000
– Between 6 and 12 months	**–**	200,000

23. Convertible bonds

On 8 February 2012, the Company issued convertible bonds (the "CB") in the aggregate principal amount of RMB750,000,000 to TPG and the GIC Investor (existing shareholders of the Company). The CB bears a minimum interest rate of 4% per annum and due on 7 February 2017 (the "Maturity Date"). The initial conversion price is HK$7.74 per ordinary share of the Company (subject to anti-dilutive adjustments). It was subsequently reset to HK$4.50 per ordinary share of the Company (as a result of the amendment agreement which modified the initial conversion price) and to HK$4.092 per ordinary share of the Company (as a result of the issuance of the 2015 CS) on 23 January 2013 and 30 January 2015, respectively.

The CB cannot be redeemed prior to maturity, unless due to events of default, upon which the holders have the right to require early redemption at 130% of the outstanding principal amount of the CB plus any unpaid interests.

The initial fair value of the liability component and the equity conversion component was determined based on net proceeds at issuance. The fair value of the liability component was calculated by using a market interest rate for an equivalent non-convertible bond. The residual amount of RMB113,395,000, representing the value of the equity conversion component, was included in shareholders' equity as other reserves.

CB with a carrying amount of RMB189,000,000 was converted into the ordinary shares of the Company on 18 August 2016. CB with a carrying amount of RMB561,000,000 was converted into the ordinary shares of the Company on 3 February 2017. The net proceeds from share issuance upon convertible bonds conversion was RMB645,819,000 (2016: RMB212,915,000) (Note 17).

The convertible bonds recognised in the consolidated balance sheet were calculated as follows:

	2017 **RMB'000**	2016 RMB'000
Liability component as at 1 January	**567,986**	722,533
Payment of interest	**–**	(30,000)
Interest expenses	**4,234**	59,792
Reversal of accrued interest expenses upon conversion	**(11,220)**	–
Conversion into ordinary shares and share premium	**(561,000)**	(184,339)
Liability component as at 31 December	**–**	567,986
Less: current portion	**–**	(567,986)
Non-current portion	**–**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

24. Deferred income tax

Movements in deferred income tax assets/(liabilities) are analysed as follows:

	Provisions RMB'000	Unrealised profit on intra-group sales RMB'000	Fair value gains RMB'000	Accumulated tax losses RMB'000	Accruals RMB'000	Others RMB'000	Total RMB'000
Deferred income tax assets							
As at 1 January 2016	6,908	23,369	–	7,080	167,388	26,123	230,868
(Charged)/credited to income statement	(5,960)	1,244	–	29,885	(61,735)	13,156	(23,410)
As at 31 December 2016	948	24,613	–	36,965	105,653	39,279	207,458
As at 1 January 2017	**948**	**24,613**	**–**	**36,965**	**105,653**	**39,279**	**207,458**
Credited/(Charged) to income statement	**–**	**11,689**	**–**	**28,533**	**(24,193)**	**10,840**	**26,869**
As at 31 December 2017	**948**	**36,302**	**–**	**65,498**	**81,460**	**50,119**	**234,327**
Deferred income tax liabilities							
As at 1 January 2016	–	–	(9,014)	–	–	(2,489)	(11,503)
Credited to income statement	–	–	1,976	–	–	2,728	4,704
As at 31 December 2016	–	–	(7,038)	–	–	239	(6,799)
As at 1 January 2017	**–**	**–**	**(7,038)**	**–**	**–**	**239**	**(6,799)**
Credited/(Charged) to income statement	**–**	**–**	**1,976**	**–**	**–**	**(13,500)**	**(11,524)**
As at 31 December 2017	**–**	**–**	**(5,062)**	**–**	**–**	**(13,261)**	**(18,323)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

24. Deferred income tax *(Continued)*

The amounts expected to be recovered for deferred income tax assets/(liabilities) are as follows:

	2017 RMB'000	2016 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	142,167	134,101
– to be recovered after more than 12 months	92,160	73,357
	234,327	207,458
Deferred income tax liabilities		
– to be recovered within 12 months	(2,362)	(1,737)
– to be recovered after more than 12 months	(15,961)	(5,062)
	(18,323)	(6,799)

Deferred income tax assets are recognised for tax loss carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. The Group did not recognise deferred income tax assets of RMB157,456,000 (2016: RMB335,727,000) in respect of tax losses amounting to RMB629,825,000 (2016: RMB1,342,909,000) that can be carried forward against future taxable income and will expire between 2018 and 2022 as Management believes it is more likely than not that such tax losses would not be utilised before they expire.

Deferred income tax liabilities of RMB1,549,000 (2016: RMB7,329,000) have not been recognised for the withholding tax that would be payable on the distributable retained profits of the Company's subsidiaries in the PRC earned after 1 January 2008. Such amounts totaling RMB30,986,000 (2016: RMB146,575,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

25. Deferred income

Deferred income consists of government grants, and vouchers granted and points accumulated under the customer loyalty programme.

	Government grants RMB'000	Customer loyalty programme RMB'000	Total RMB'000
As at 1 January 2016	61,984	3,726	65,710
Addition	330	4,880	5,210
Credited to income statement	(6,945)	(7,151)	(14,096)
As at 31 December 2016	55,369	1,455	56,824
As at 1 January 2017	**55,369**	**1,455**	**56,824**
Addition	**160**	**6,254**	**6,414**
Credited to income statement	**(2,263)**	**(4,143)**	**(6,406)**
As at 31 December 2017	**53,266**	**3,566**	**56,832**

26. Expenses by nature

	2017 RMB'000	2016 RMB'000
Cost of inventories recognised as expenses and included in cost of sales	**4,598,262**	4,214,265
Depreciation on property, plant and equipment *(Note a)*	**322,030**	270,059
Amortisation of land use rights and intangible assets	**47,757**	47,567
Advertising and marketing expenses	**980,769**	983,086
Commission and trade fair related expenses	**158,088**	117,435
Staff costs, including directors' emoluments *(Note 28)*	**903,509**	778,355
Operating lease rentals in respect of land and buildings and related expenses	**829,600**	771,091
Research and product development expenses *(Note a)*	**169,724**	125,682
Transportation and logistics expenses	**317,303**	302,221
Reversal of provision for impairment of trade receivables	**(10,985)**	(61,121)
Auditor's remuneration	**5,662**	5,357
– Audit services	**4,700**	4,400
– Non-audit services	**962**	957
Management consulting expenses	**55,348**	50,144
Travelling and entertainment expenses	**49,053**	40,139

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

27. Other income and other gains – net

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

28. Staff costs

	2017 RMB'000	2016 RMB'000
Wages and salaries	346,883	295,990
Contributions to retirement benefit plan *(Note b)*	60,379	50,194
Share options and restricted shares granted to directors and employees	28,876	31,806
Housing benefits	24,557	18,585
Other costs and benefits	442,814	381,780
	903,509	778,355

28. Staff costs *(Continued)*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one (2016: one) director for the years ended 31 December 2017, and his emoluments are reflected in the analysis shown in Note 38. The aggregate amounts of emoluments paid and payable to the remaining four (2016: four) individuals whose emoluments were the highest in the Group for the years are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and allowances	10,875	9,800
Other benefits	5,053	6,211
Contributions to retirement benefit scheme	326	317
	16,254	16,328

The emoluments fell within the following bands:

	Number of individuals	
	2017	2016
Emoluments bands		
HK$3,000,001 to HK$3,500,000	–	1
HK$3,500,001 to HK$4,000,000	1	–
HK$4,000,001 to HK$4,500,000	1	–
HK$4,500,001 to HK$5,000,000	1	2
HK$5,500,001 to HK$6,000,000	1	1
	4	4

(b) Pensions – defined contribution plans

The employees of the Group participate in certain defined contribution pension plans organised by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to these plans at rates ranging from 5% to 22% of the employees' basic salary dependent upon the applicable local regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

29. Finance income and expenses

	2017 RMB'000	2016 RMB'000
Interest income on bank balances and deposits	29,141	7,460
Net foreign currency exchange gain	3,216	–
Reversal of accrued interest expenses on convertible bonds	11,220	–
Finance income	43,577	7,460
Amortisation of discount – license fees payable *(Note 21)*	(5,792)	(9,146)
Interest expense on bank and other borrowings	(6,876)	(15,401)
Interest expense on convertible bonds	(4,234)	(59,792)
Net foreign currency exchange loss	–	(4,642)
Others	(8,635)	(26,054)
Finance expenses	(25,537)	(115,035)
Finance income / (expenses) – net	18,040	(107,575)

30. Income tax expense

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

Notes:

(a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2017 (2016: 16.5%).

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

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

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30. Income tax expense *(Continued)*

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of 25% as follows:

	2017 RMB'000	2016 RMB'000
Profit before income tax	**537,524**	287,946
Tax calculated at a tax rate of 25% (2016: 25%)	**134,381**	71,987
Effects of different overseas tax rates	**(4,360)**	(1,787)
Temporary differences and tax losses for which no deferred income tax asset is recognised	**3,666**	33,932
Utilisation of previously unrecognized tax losses	**(174,152)**	(146,539)
Expenses not deductible for tax purposes	**53,461**	72,603
Income not subject to tax	**(166)**	–
Withholding tax on interest income	**9,539**	2,239
Tax charge	**22,369**	32,435

31. Earnings per share

Basic

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

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company had completed the issuance of Offer Securities. The below market subscription price of these two events had effectively resulted in 57,690,000 ordinary shares (31 December 2016: 70,553,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share. The shares issued for nil consideration arising from the issuance of offer securities have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2016.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

31. Earnings per share *(Continued)*

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential shares. The Company's dilutive potential shares comprise shares to be issued under convertible bonds, share option schemes and Restricted Share Award Scheme. In relation to shares issued under share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

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

Note:

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

32. Dividends

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

33. Statement of cash flows

Reconciliation of profit before income tax including discontinued operations to cash used in operations are as follows:

	2017 RMB'000	2016 RMB'000
Profit before income tax including discontinued operations	537,524	790,466
Adjustments for:		
Depreciation	322,030	270,059
Amortisation	47,757	47,567
Loss on disposal of property, plant and equipment and land use rights	24,427	23,809
Gain on disposal of available-for-sale financial assets	–	(1,479)
Gain on partial disposal of a subsidiary	–	(329,612)
Reversal of provision for impairment of trade receivables	(10,985)	(61,121)
Reversal of provision for write-down of inventories to net realisable value	(12,851)	(26,494)
Share options and restricted shares granted to directors and employees	28,876	31,806
Finance (income)/expenses – net	(26,106)	92,036
Amortisation of deferred income	(6,406)	(14,096)
Share of profit of investments accounted for using the equity method	(73,806)	(9,716)
Fair value adjustment to derivatives	4,560	(319)
Operating profit before working capital changes	835,020	812,906
(Increase)/Decrease in inventories	(124,265)	45,327
Decrease in trade receivables	243,205	109,362
Increase in other receivables and prepayments	(23,378)	(63,660)
Increase in trade payables	97,790	80,316
Increase in other payables and accruals	157,281	75,736
Decrease/(increase) in restrict bank deposits	280	(506)
Cash generated from operations	1,185,933	1,059,481

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2017 RMB'000	2016 RMB'000
Net book amount	28,043	29,081
Loss on disposal of property, plant and equipment	(24,427)	(23,809)
Decrease in other receivables and prepayments	–	641
Proceeds from disposal of property, plant and equipment	3,616	5,913

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. Share-based compensation

(a) 2004 Share Option Scheme

Pursuant to a shareholders' resolution passed on 5 June 2004, the Company adopted a share option scheme (the "2004 Share Option Scheme"). The 2004 Share Option Scheme will remain in force for a period of 10 years commencing from 5 June 2004.

The purpose of the 2004 Share Option Scheme is to provide incentives to eligible participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are any individuals being employees, officers, agents, consultants or representatives of any member of the Group who, based on the board of directors' discretion, have made valuable contributions to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge of the industry and other factors.

HK$1 is payable by the participant who accepts the grant of an option. The subscription price for the shares under the option to be granted will be determined by the Company's board of directors and will be the highest of: (a) the closing price of the shares of the Company as stated in The Hong Kong Stock Exchange Limited's daily quotations sheets on the date of the grant of the option; (b) the average closing price of the shares of the Company as stated in The Hong Kong Stock Exchange Limited's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (c) the nominal value of the shares of the Company.

The maximum number of shares that may be granted under the 2004 Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. Lapsed or cancelled options may be re-granted in accordance with the terms of the 2004 Share Option Scheme.

An option may be exercised in accordance with the terms of the 2004 Share Option Scheme at any time during a period to be notified by the Company's board of directors, which must not be more than 10 years from the date of the grant.

Any share of the Company allotted and issued on the exercise of options will rank pari passu with the other shares of the Company in issue on the date of allotment.

The 2004 Share Option Scheme was terminated on 30 May 2014. The options which have been granted and remained outstanding as of that date shall continue to follow the provisions of the 2004 Share Option Scheme.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

34. Share-based compensation *(Continued)*

(a) 2004 Share Option Scheme *(Continued)*

Movements in the number of share options outstanding during the year under this scheme and their weighted average exercise prices are as follows:

	2017		2016	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	5.551	14,306	5.535	30,457
Exercised	4.559	(1,612)	4.592	(1,121)
Lapsed	7.596	(2,012)	5.589	(15,030)
As at 31 December	5.316	10,682	5.551	14,306
Exercisable as at 31 December	5.313	9,523	5.763	10,493

Share options outstanding under this scheme as at the end of the years have the following expiry date and exercise price:

	2017		2016	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
15 July 2017	8.250	–	8.250	1,490
31 December 2018	4.470	4,680	4.470	5,686
31 December 2018	6.350	1,509	6.350	1,510
30 September 2019	6.350	2,148	6.350	2,148
31 December 2019	4.600	1,184	4.600	1,806
31 December 2019	6.160	–	6.160	302
31 December 2020	6.350	1,056	6.350	1,161
31 December 2020	4.630	105	4.630	203
		10,682		14,306

The fair value of the 2004 Share Option Scheme is charged/reversed to the consolidated income statement over the vesting period of the option. The amount charged during the year ended 31 December 2017 was RMB547,000 (2016: reversed RMB2,045,000).

34. Share-based compensation *(Continued)*

(b) 2014 Share Option Scheme

Pursuant to a shareholders' resolution passed on 30 May 2014, the Company approved (i) the adoption of a new share option scheme (the "2014 Share Option Scheme"), and (ii) the termination of the 2004 Share Option Scheme. The 2014 Share Option Scheme will be valid and effective for a period of 10 years commencing on 30 May 2014.

The Board proposes the adoption of the 2014 Share Option Scheme with the purposes, similar to the 2004 Share Option Scheme, to provide such incentives to participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. There is no material difference between the terms of the 2004 Share Option Scheme and the 2014 Share Option Scheme.

Movements in the number of share options outstanding during the year under this scheme and their weighted average exercise prices are as follows:

	2017		2016	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	4.319	28,300	4.440	33,200
Granted	6.120	53,426	3.300	3,000
Exercised	4.440	(2,877)	4.440	(733)
Lapsed	4.440	(1,367)	4.440	(7,167)
As at 31 December	5.554	77,482	4.319	28,300
Exercisable as at 31 December	4.360	14,289	4.440	8,367

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

34. Share-based compensation *(Continued)*

(b) 2014 Share Option Scheme

Share options outstanding under this scheme as at 31 December 2017 and 31 December 2016 have the following expiry date and exercise price:

	2017		2016	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
31 December 2020	4.440	21,056	4.440	25,300
7 June 2026	3.300	3,000	3.300	3,000
31 December 2022	6.120	53,426	–	–
		77,482		28,300

The fair value of the options granted under the 2014 Share Option Scheme during the years ended 31 December 2017 and 2016 determined by using Black-Scholes valuation model were as follows:

	2017 RMB'000	2016 RMB'000
The 2014 Share Option Scheme	108,879	4,316

Significant inputs into the model were as follows:

	2017	2016
The 2014 Share Option Scheme		
Weighted average share price (HK$)	6.120	3.300
Weighted average exercise price (HK$)	6.120	3.300
Expected volatility	49.9%	51.3%
Expected option life (years)	3.97	5.95
Weighted average annual risk free interest rate	1.4%	1.2%
Expected dividend yield	0.0%	0.0%

The expected volatility at date of grant is estimated based on the daily trading prices of the Company's shares since its date of listing (28 June 2004).

The fair value of the 2014 Share Option Scheme is charged to the consolidated income statement over the vesting period of the option. The amount charged during the year ended 31 December 2017 was RMB7,301,000 (2016: RMB13,298,000).

34. Share-based compensation *(Continued)*

(c) 2006 Restricted Share Award Scheme

The Company adopted Restricted Share Award Scheme (the "2006 Restricted Share Award Scheme") on 14 July 2006 with a duration of 10 years commencing from the adoption date. The objective of 2006 Restricted Share Award Scheme is to encourage and retain selected participants which include directors, employees, officers, agents and consultants of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals.

The Group has set up the Li Ning Company Limited Restricted Share Award Scheme Trust ("Restricted Share Trust") to administer and hold the Company's shares before they are vested and transferred to selected participants. As the financial and operational policies of the Restricted Share Trust are governed by the Group, and Group benefits from the Restricted Share Trust's activities, the Restricted Share Trust is consolidated in the Group's financial statements as a special purpose entity.

Upon granting of shares to selected participants ("Restricted Shares"), the Restricted Share Trust purchases the Company's shares awarded from the open market with funds provided by the Company by way of contributions. Restricted Shares vest gradually after selected participants complete a period of service in the Group of 12 to 36 months from the date of grant. The vested shares are transferred to selected participants at nil consideration. Dividends on Restricted Shares are used to purchase additional shares and allocate to selected participants on a pro rata basis.

The maximum number of Restricted Shares shall not exceed 5% of the Company's share capital in issue from time to time. For each selected participant, the maximum number of Restricted Shares granted in aggregate shall not exceed 10,278,000 shares, being 1% of the Company's issued share capital as at the adoption date of 14 July 2006.

The fair value of 2006 Restricted Share Award Scheme was based on the market value of the Company's shares at the grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

34. Share-based compensation *(Continued)*

(c) 2006 Restricted Share Award Scheme *(Continued)*

Movements in the number of 2006 Restricted Share Award Scheme granted and related fair value are as follows:

	2017		2016	
	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)
As at 1 January	3.200	14,484	9.005	1,590
Granted	–	–	3.200	15,866
Vested	3.200	(4,810)	9.005	(1,590)
Lapsed	3.200	(203)	3.200	(1,382)
As at 31 December	3.200	9,471	3.200	14,484

The fair value of Restricted Shares charged to the consolidated income statement was RMB16,174,000 during the year ended 31 December 2017 (2016: RMB20,252,000).

(d) 2016 Restricted Share Award Scheme

Following the expiration of the 2006 Restricted Share Award Scheme on 14 July 2016, the Company approved the adoption of a new Restricted Share Award Scheme (the "2016 Restricted Share Award Scheme") on 2 June 2016. The 2016 Restricted Share Award Scheme will be valid and effective for a period of 10 years commencing on 14 July 2016.

The Board proposes the adoption of the 2016 Restricted Share Award Scheme with the purposes, similar to the 2006 Restricted Share Award Scheme, to attract new talents, motivate existing talents and retain both in the Company which include directors, employees, officers, agents or consultants of the Company or any of its subsidiaries.

The maximum number of Restricted Shares under 2016 Restricted Share Award Scheme shall not exceed 5% of the Company's share capital in issue from time to time. For each selected participant, the maximum number of Restricted Shares under 2016 Restricted Share Award Scheme granted in aggregate shall not exceed 18,855,000 shares, being 1% of the Company's issued share capital as at the adoption date of 14 July 2016. There is no material difference between the terms of the 2006 Restricted Share Award Scheme and the 2016 Restricted Share Award Scheme.

The fair value of 2016 Restricted Share Award Scheme was based on the market value of the Company's shares at the grant date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

34. Share-based compensation *(Continued)*

(d) 2016 Restricted Share Award Scheme *(Continued)*

Movements in the number of 2016 Restricted Share Award Scheme granted and related fair value are as follows:

	2017		2016	
	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)
As at 1 January	4.660	225	–	–
Granted	6.026	25,840	4.660	225
Vested	4.660	(75)	–	–
As at 31 December	6.018	25,990	4.660	225

The fair value of 2016 Restricted Share Award Scheme charged to the consolidated income statement was RMB4,854,000 during the year ended 31 December 2017 (2016: RMB301,000).

35. Commitments

(a) Operating lease commitments – where any group companies are the lessee

The Group has commitments to make the following aggregate minimum payments under non-cancelable operating leases in respect of its office premises and shops:

	2017 RMB'000	2016 RMB'000
Not later than 1 year	338,664	331,982
Later than 1 year and not later than 5 years	457,126	473,695
Later than 5 years	4,782	17,337
	800,572	823,014

36. Related-party transactions

Related party is a party that is related to the Group if directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group (including the Company or its wholly or non-wholly owned subsidiaries); or the party has an interest in the Group that gives it significant influence over the Group; or the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual who is a member of the key management personnel of the Group.

Besides as disclosed elsewhere in these consolidated financial statements, the Group has following related-party transactions during the year:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

36. Related-party transactions *(Continued)*

(a) Sales of goods to:

	2017 RMB'000	2016 RMB'000
Subsidiary of Viva China	346	–

(b) Purchases of goods from:

	2017 RMB'000	2016 RMB'000
Subsidiary of Li-Ning Aigle Ventures	11,278	10,707
Tianjin Yue Hao Tuo (an associate of the Group)	–	441
	11,278	11,148

The Group completed the disposal of 10% equity interest of Double Happiness in December 2016. Therefore the related companies of Double Happiness were no longer the Group's related companies.

(c) Sales of services to:

	2017 RMB'000	2016 RMB'000
License fee from:		
Tianjin Kuan Mao Mi (an associate of the Group)	11,587	15,624
Rental fee from:		
Subsidiary of Viva China	1,301	1,301
Subsidiary of Li-Ning Aigle Ventures	716	728
	13,604	17,653

(d) Purchases of services from:

	2017 RMB'000	2016 RMB'000
Subsidiaries of Viva China*	124,834	62,057
Shanghai Double Happiness Co., Ltd.	5,924	–
	130,758	62,057

* The purchase of services from subsidiaries of Viva China include payments that Viva China collect on behalf of other service providers.

In the opinion of the directors, these transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

36. Related-party transactions *(Continued)*

(e) Key management compensation

Details of compensation paid or payable to key management of the Group are as follows:

	2017 RMB'000	2016 RMB'000
Salaries and other benefits	17,365	14,898
Contribution to retirement benefit scheme	454	388
Employee share schemes for value of services provided	11,471	15,482
	29,290	30,768

(f) Year-end balances

	2017 RMB'000	2016 RMB'000
Receivables from related parties:		
Prepayments to subsidiaries of Viva China	37,011	35,425
Tianjin Kuan Mao Mi	10,500	15,624
Shanghai Double Happiness Co., Ltd.	–	46,042
Subsidiary of Viva China	–	153
	47,511	97,244
Payables to related parties:		
Subsidiaries of Viva China	11,900	500

The receivables from related parties arise mainly from sale transactions and are due three months after the date of sales. The receivables are unsecured in nature and bear no interest. No provisions are held against receivables from related parties (2016: nil).

The payables to related parties arise mainly from purchase transactions and on average are due two months after the date of purchase. The payables bear no interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

37. Balance sheet and reserve movement of the Company

	Note	As at 31 December 2017 RMB'000	2016 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		3,649,352	3,835,464
Total non-current assets		3,649,352	3,835,464
Current assets			
Dividends receivable		691,615	740,100
Cash and cash equivalents		1,310	1,474
Total current assets		692,925	741,574
Total assets		4,342,277	4,577,038
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		203,347	188,021
Share premium		3,189,792	2,539,355
Other reserves	*(Note a)*	714,247	795,872
Retained earnings	*(Note a)*	232,016	473,901
Total equity		4,339,402	3,997,149
LIABILITIES			
Current liabilities			
Other payables and accruals		2,875	11,903
Convertible bonds		–	567,986
Total current liabilities		2,875	579,889
Total liabilities		2,875	579,889
Total equity and liabilities		4,342,277	4,577,038

The balance sheet of the Company was approved by the Board of Directors on 21 March 2018 and was signed on its behalf

Li Ning	**Li Qilin**
Executive Director & Chairman	*Non-executive Director*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

37. Balance sheet and reserve movement of the Company *(Continued)*

(a) Reserve movement of the Company

	Retained earnings RMB'000	Capital reserves RMB'000	Share-based compensation reserves RMB'000	Convertible bonds reserves RMB'000	Convertible securities reserves RMB'000	Total RMB'000
As at 1 January 2016	106,042	56,900	75,353	113,395	712,491	1,064,181
Total comprehensive income for the year	367,859	–	–	–	–	367,859
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	31,806	–	–	31,806
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(5,811)	–	–	(5,811)
Shares vested under Restricted Share Award Scheme	–	–	(4,656)	–	–	(4,656)
Share options lapsed	–	19,253	(19,253)	–	–	–
Shares converted from convertible bonds	–	–	–	(28,576)	–	(28,576)
Shares converted from convertible securities	–	–	–	–	(155,030)	(155,030)
As at 31 December 2016	473,901	76,153	77,439	84,819	557,461	1,269,773
As at 1 January 2017	**473,901**	**76,153**	**77,439**	**84,819**	**557,461**	**1,269,773**
Total comprehensive loss for the year	**(241,885)**	**–**	**–**	**–**	**–**	**(241,885)**
Value of services provided under share option schemes and Restricted Share Award Scheme	**–**	**–**	**28,876**	**–**	**–**	**28,876**
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	**–**	**–**	**(2,557)**	**–**	**–**	**(2,557)**
Shares vested under Restricted Share Award Scheme	**–**	**–**	**(23,109)**	**–**	**–**	**(23,109)**
Share options lapsed	**–**	**3,643**	**(3,643)**	**–**	**–**	**–**
Shares converted from convertible bonds	**–**	**–**	**–**	**(84,819)**	**–**	**(84,819)**
Shares converted from convertible securities	**–**	**–**	**–**	**–**	**(16)**	**(16)**
As at 31 December 2017	**232,016**	**79,796**	**77,006**	**–**	**557,445**	**946,263**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

38. Benefits and interests of directors

The remuneration of each director for the year ended 31 December 2017 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Allowance and benefits in kind *(Note (i))* RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Mr. Li Ning	–	3,710	7,840	113	11,663
Mr. Wu, Jesse Jen-Wei	215	–	–	–	215
Ms. Wang Ya Fei	270	–	23	–	293
Mr. Koo Fook Sun, Louis	270	–	23	–	293
Mr. Chan Chung Bun, Bunny	250	–	23	–	273
Mr. Chen Yue, Scott	215	–	23	–	238
Mr. Su Jing Shyh, Samuel	270	–	23	–	293
Mr. Li Qilin *(Note (ii))*	–	–	–	–	–

The remuneration of each director for the year ended 31 December 2016 is set out below:

Name of Director	Fees RMB'000	Salary RMB'000	Allowance and benefits in kind (Note (i)) RMB'000	Employer's contribution to a retirement benefit scheme RMB'000	Total RMB'000
Mr. Li Ning	–	3,710	9,557	106	13,373
Mr. Wu, Jesse Jen-Wei	215	–	–	–	215
Ms. Wang Ya Fei	270	–	50	–	320
Mr. Koo Fook Sun, Louis	270	–	50	–	320
Mr. Chan Chung Bun, Bunny	250	–	50	–	300
Mr. Chen Yue, Scott	215	–	50	–	265
Mr. Su Jing Shyh, Samuel	270	–	50	–	320

(i) Other benefits include insurance premium and fair value of share options charged to the consolidated income statement during the year.

(ii) Mr. Li Qilin appointed to be a non-executive director of the Company with effect from 13 December 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

38. Benefits and interests of directors *(Continued)*

The following disclosures are made pursuant to section 383 (1)(a) to (f) of the Companies Ordinance Cap. 622 and Parts 2 to 4 of the Companies (Disclosure of Information about Benefits of Directors) Regulation Cap. 622G:

During the year, no emoluments, retirement benefits, payments or benefits in respect of termination of directors' services were paid or made, directly or indirectly, to the directors; nor are any payable (2016: nil). No consideration was provided to or receivable by third parties for making available directors' services (2016: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2016: none).

No director of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which the Company was or is a party that subsisted at the end of the year or at any time during the year (2016: none).

No director of the Company and their connected entities had a material interest, directly or indirectly, in any significant transactions, arrangements and contracts in relation to the Company's business to which another group undertaking was a party that subsisted at the end of the year or at any time during the year (2016: none).

GLOSSARY

In this annual report, unless the context states otherwise, the following expressions have the following meanings:

"2004 Share Option Scheme"	the share option scheme adopted by the Company on 5 June 2004, amended on 15 May 2009 and 11 October 2012 and terminated on 30 May 2014
"2006 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006, as amended on 30 April 2009 and 4 July 2012 and expired on 14 July 2016
"2013 Open Offer"	the open offer of convertible securities issued by the Company as set out in the listing document of the Company dated 27 March 2013
"2014 Share Option Scheme"	the share option scheme adopted by the Company on 30 May 2014
"2015 Open Offer"	the open offer of offer securities issued by the Company as set out in the listing document of the Company dated 9 January 2015
"2016 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2016
"Alpha Talent"	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning
"Articles of Association"	the articles of association of the Company
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company" or "Li Ning Company"	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	the director(s) of the Company
"Group" or "Li Ning Group"	the Company and its subsidiaries
"HK$"	Hong Kong Dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules
"PRC" or "China"	the People's Republic of China
"Restricted Shares"	shares granted under the 2006 Restricted Share Award Scheme or the 2016 Restricted Share Award Scheme which are subject to restrictions and limitations
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholders"	shareholders of the Company
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	per cent.

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