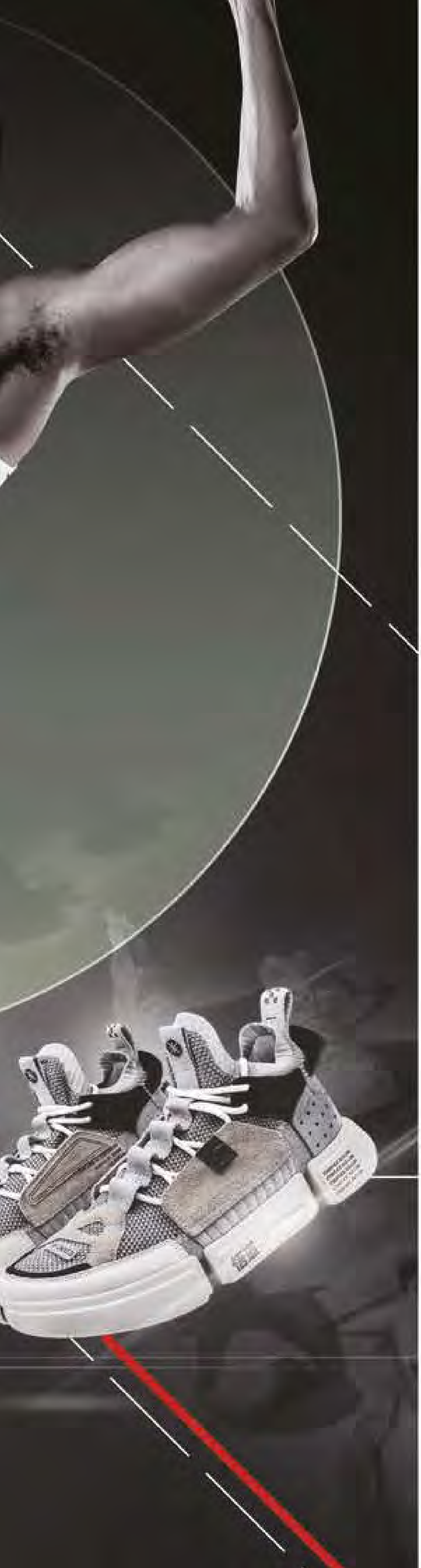
LI-NING

LI NING COMPANY LIMITED
李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

2018 Annual Report



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) and Kason (badminton), which are operated through joint venture/associate with third parties of the Group.

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

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OPERATIONAL HEADQUARTERS

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Zhongguancun Science & Technology Area
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Telephone: +8610 8080 0808
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
LC Lawyers LLP

PRC law
TAHOTA Law Firm

PRINCIPAL BANKERS

Hong Kong
Hang Seng Bank Limited
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

	2018	2017	2016	2015	2014
Operating results:					
Turnover	10,510,898	8,873,912	8,015,293	7,089,495	6,047,195
Operating profit/(loss)	777,177	445,678	385,805	157,069	(643,062)
Profit/(Loss) before taxation	850,321	537,524	287,946	30,814	(777,888)
Profit/(Loss) attributable to equity holders	715,263	515,155	643,254	14,309	(781,481)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	1,252,222	889,271	713,147	393,953	(456,221)
Assets and liabilities:					
Total non-current assets	2,341,051	2,210,967	2,130,054	1,413,942	2,077,087
Total current assets	6,386,254	5,110,382	4,650,440	5,483,516	3,962,719
Total current liabilities	2,777,471	2,127,810	2,673,915	2,471,786	2,679,141
Net current assets	3,608,783	2,982,572	1,976,525	3,011,730	1,283,578
Total assets	8,727,305	7,321,349	6,780,494	6,897,458	6,039,806
Total assets less current liabilities	5,949,834	5,193,539	4,106,579	4,425,672	3,360,665
Capital and reserves attributable to equity holders	5,817,040	5,071,047	3,994,599	3,179,903	1,951,858
Key financial indicators:					
Gross profit margin	48.1%	47.1%	46.2%	45.0%	44.9%
Margin of profit/(loss) attributable to equity holders	6.8%	5.8%	8.0%	0.2%	-12.9%
EBITDA ratio	11.9%	10.0%	8.9%	5.6%	-7.5%
Earnings/(losses) per share					
– basic (RMB cents)	29.63	21.47	29.03	0.66	(49.97)
– diluted (RMB cents)	29.19	20.87	28.95	0.66	(49.97)
Dividend per share (RMB cents)	8.78	–	–	–	–
Return on equity attributable to equity holders	13.1%	11.4%	17.9%	0.6%	-33.7%
Net tangible assets per share (RMB cents)	254.87	219.21	182.47	162.59	94.24
Debt-to-Equity ratio	50.0%	44.3%	69.7%	109.7%	198.3%


LI-NING CLOUD

STANDING OUT

Chairman's Statement

Dear Shareholders,

In 2018, against the backdrop of various challenges including the slowdown of global economic growth and regional trade disputes, the national economy continued to maintain a steady improving trend with the continuous upgrade of national consumption structure and the increase of domestic macro sports demand, resulting in booming development of the domestic sports market. During the year, the Group gave its best efforts in creating LI-NING's experience value to embrace the development opportunities in the sports market. By gradually executing its development strategies and implementing the relevant measures, it has constantly optimized various operational indicators and enhanced the brand image and brand value with satisfactory results.

According to the statistics of the National Bureau of Statistics, China's Gross National Product (GNP) registered a year-on-year increase of 6.6% in 2018, the national disposable income per capita of urban and rural residents recorded a real increase of 6.5%, while Engel coefficient further decreased, reflecting further improvement of the national consumption structure in China. From the perspective of sports consumption, the domestic sports industry continued to grow rapidly with more refined and mature demand in the sports market. In recent years, with the growing demand for tournaments and events stemming from healthcare, entertainment and athletic competition, sports consumption witnessed a fundamental change from simple consumption for sports competition to consumption for sportsmanship, demonstrating huge potential of China's sports market in the future. According to the statistics of the General Administration of Sport of China, the number of people regularly participating in physical exercises in the country showed a rising trend and amounted to 550 million in 2017, up by approximately 25% as compared to 2016.

During 2018, revenue of the Group maintained a stable growth with our profitability improving continuously. The profit attributable to equity holders increased from RMB520 million in 2017 to RMB720 million. During the year, we continued to optimise the retail business model with the goal of being "Precise + Swift". We also adopted a development strategy of "Single brand, Multi-categories, Diversified channels" with a view to creating and enhancing LI-NING's experience value. 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 launch professional products for athletes and sports enthusiasts. Creativity and imagination, on the other hand, is guiding LI-NING brand to be more trend-setting by integrating fashion, culture, entertainment and leisure elements with professional sports, therefore establishing our brand personality and providing consumers with more precise consumption experience. During the year, the brand also adequately demonstrated its product competitiveness through the International Fashion Week shows, thus gaining positive feedbacks and good reputation and further consolidating the brand's influence among consumers as well as the influence of domestic brands on the international stage.

ENHANCED OPERATIONAL INDICATORS AND PROFITABILITY DRIVEN BY OPTIMIZED RETAIL BUSINESS MODEL

In 2018, the Group's various key operational indicators continued to improve. During the year, revenue of the Group grew by 18%, while the net profit margin rose from 5.8% last year to 6.8%. Cash flow from operating activities increased by 44% to RMB1,672 million. Meanwhile, working capital optimized steadily, with the Cash Conversion Cycle (CCC) shortened from 49 days in 2017 to 40 days in 2018. With improved confidence of distributors, in terms of tag price, trade fair orders for LI-NING brand products (excluding LI-NING YOUNG) from franchised distributors, which from the latest trade fair held in December 2018 for the third quarter of 2019 registered a low-teens growth on a year-on-year basis.

Mr. LI Ning

Executive Chairman and
Interim Chief Executive Officer

Catering to the increasingly mature and refined consumption demand, during the year, we focused on the reform of products, channels and retail capability, and supply chain management and gradually established a business model that is more efficient, vitalized and retail-oriented, thereby enhancing and consolidating LI-NING's experience value in full swing. We also introduced new retail concept through digitalization strategy and enhanced the sales efficiency both online and offline. Meanwhile, we focused on enhancing product competitiveness and efficiency and continued to optimize the business model of LI-NING, thereby establishing a logistic supporting system that is in line with retail efficiency and effective operation, which has in turn enhanced the efficiency of sales channels, optimized the overall retail operation capability of the Company and enabled sustainable and steady business growth. During the year, the retail sell-through for the overall platform (including online and offline) increased by mid-teens (e-commerce registered a high-forties growth); while the same-store-sales registered a low-teens growth on a year-on-year basis.

In terms of sales channel, we continued to seek breakthroughs in channel diversification by consistently promoting the execution and implementation of the strategy of high store productivity based on differentiated demand of various regions. We have also effectively rationalized our offline channels by closing and reforming low productivity and loss-making stores, which has in turned optimized the structure of sales channels and thus enhanced efficiency. Adhering to our tradition to make new attempts and breakthroughs in sports fashion concepts, we opened 23 China LI-NING casual stores during the year. We have conveyed the creative interpretation of LI-NING brand's sports fashion concept by creating these stores for modern and trendy shopping experience. For online sales, we continued to improve our data analysis and forecast system. Meanwhile, we have invested more resources in content marketing and event marketing, and enhanced our product competitiveness by offering diversified online experience in tandem with hot topics such as Tmall Day, New York Fashion Week, Paris Fashion Week, and specific offerings for e-commerce. At the same time, we have expanded our consumer base through online marketing and facilitated an omni-channel experience by integrating online and offline channels.

In respect of the optimization of the supply chain, the establishment of a supply chain management system that is business demand-oriented remained our focus. We strived to cater to the demand for efficient and quality channels and products by keeping abreast of the differentiated demand in these two aspects, at the same time accelerating the optimization and improvement in terms of use of materials and quality standards. During the year, we gradually commenced the integration of upstream resources with a view to enhancing our own supply chain capabilities. We have also rented a manufacturing factory for our footwear products in Nanning,

Guangxi so as to gradually accumulate the core capabilities of the industry and integrate them into our own supply chain system. In terms of overall supplier management, we adopted a policy of eliminating weaker competitors to maintain the vitality of the supply chain.

ADOPTED THE STRATEGY OF "SINGLE BRAND, MULTI-CATEGORIES, DIVERSIFIED CHANNELS" WITH A FOCUS ON BRAND AND PRODUCT COMPETITIVENESS

During the year, we placed more emphasis on the professional sports attributes of our products, while constantly exploring rooms for integration of sports with fashion, leisure, culture and entertainment. By doing so, we have not only enhanced our product competitiveness, but also further consolidated the influence of LI-NING brand through marketing on multiple levels and dimension via the integration of professional competition resources and fashion trends.

On the professional product level, we continued to accumulate and explore knowledge of sports during the year and applied more new technology and new materials to our products. We offered exclusive and highly professional experience to sports players, thereby enhancing LI-NING brand's competitiveness in mainstream mass sports in China. During the year, LI-NING brand first launched products under the top-notch running shoes series, "Wind Chaser" (追風) and "Battle Axe" (戰斧). The products under this series offer superior shock-absorbing function with the shock-absorbing technology of our self-developed LI-NING Cloud LITE adopted for midsole, and the shock-relieving technology of DRIVE FOAM used in the heel.

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 enhancing brand experience. During the year, we organized the Ultra-light Vertical Running Activity for the "Super Light 15th" running shoes in Shanghai, during which we simultaneously launched online running activity via cross-sector collaboration with running APPs, which has attracted more than 100,000 participants and provided another close interactive experience for our end consumers. Meanwhile, we have captured consumer demand more precisely and enhanced the interaction with consumers and solidified the brand recognition among consumers by coordinating sports resources for tournament marketing at all levels, thereby consolidating our brand image in all domains. During the year, we integrated resources from tournaments and players such as China Basketball Association (CBA) Professional League. As a result, LI-NING brand and the underlying products firmly dominated China's most professional basketball leagues at all levels. Leveraging promotion by marathon sponsorship, and exposure in professional competitions, we have demonstrated the spirit of professionalism and breakthrough of LI-NING running shoes, at the same time assisting the athletes to achieve good results.

In addition to developing professional products, we also proactively studied and sought ways to integrate professional products more closely with cultural life, including diversified marketing initiatives such as endorsements by famous players/leagues, KOL promotion in professional fields and exposure at Fashion Weeks. Furthermore, we organized product launching activities that are in line with our channel and product features, hence boosting sales and becoming a hot topic.

During the year, we continued to cooperate with sports stars such as Dwyane Wade, a renowned NBA star, while delivering and integrating elements of their personality and lifestyle into the products and provided a diversified chic style for consumers. Consequently, the apparel products of WADE series achieved a sales performance of over 4.4 million pieces. Meanwhile, we focused on the trends amongst young consumers in order to keep up with the current fashion trend and topics. We have sparked discussion, attracted more attention from young consumers and increased our brand competitiveness through New York Fashion Week and Paris Fashion Week and the crossover collaboration with the DISNEY Company and BMW X2. During the year, we participated in New York Fashion Week with our "China LI-NING" (中國李寧) brand and "Essence" (悟道) product series and gained positive feedbacks while "Butterfly 2018" (蝴蝶2018) has become one of the hottest topics of New York Fashion Week. This has enhanced the perception and recognition in the international market of domestic brands and Chinese culture. In addition, we continued to pursue in-depth cooperation with fashion and trendy media to achieve effective communication with young consumers through the incorporation of entertainment elements. We have also explored the fan economy and increased the fashionable elements in our brand, providing consumers with more fashionable product choices.

OPTIMIZED OPERATION-SUPPORTED PLATFORM AND ENHANCED RETAIL CAPABILITY

In 2018, we continued to improve various aspects such as diversified channel development, matrix display of store image and omni-channel operation to further optimize operation-supported platform and enhance retail capability.

During the year, we continued to optimize product operation model with a view to responding accurately to market changes to meet terminal sales requirements. Meanwhile, we are committed to optimizing and enhancing omni-channel logistics supporting capacity, continuously enhancing the service capability to consumers and providing a fast and convenient shopping experience.

For retail operation, we persisted on improving the retail operation-supported platform and adopted a shopping experience-oriented approach to enhance in-store sport experience and re-shape retail experience at stores constantly. Moreover, 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 launched a differentiated market layout for product coverage. In addition, we attached great importance to refining the retail operation standards of stores. The refined standard procedures for all store categories have enabled the Group to improve and unify our store images. We have also improved the training system to provide integrated training both online and offline, and strengthened the training for terminal sales personnel and teambuilding of sport consultation team, thereby enhancing our staff's professional knowledge on products and customer service standards, which has in turn allowed us to offer customer with a fast and comfortable shopping experience.

OUTLOOK

With urbanization and the shift of consumers' consumption structure towards a more refined and mature direction, there will be more rooms for the development of the sport industry. The popularity of nationwide fitness and upgrade of sports consumption will bring stronger consumer demand to the sport industry. Meanwhile, the rapid development of artificial intelligence and wide application of new materials will offer more new business opportunities to the industry in aspects such as competition, healthcare and entertainment. Looking forward, the Group will continue to improve the following core business focuses, enhance LI-NING's experience value and focus on improving efficiency with a view to achieving healthy and sustainable profit growth for the Company, at the same time achieving real sports value:

– Maintaining sustainable profit growth for the Company. Aiming to enhance our product competitiveness and operation efficiency and focusing on continuous efficiency improvement, we will steadily improve our profitability and further expand our business scale;

– Improving our operation efficiency and implementing precise plans. Continuing to improve our products and retail operation efficiency, we will upgrade the business model and optimize the "Precise + Swift" operation model for higher retail efficiency and effective operation. We will also accurately capture consumer demand and improve online and offline sales efficiency through new retail initiatives and big data analysis;

– Continuing to promote the strategy of "Single brand, Multi-categories, Diversified channels" and further enhancing LI-NING experience value. Conducting tests and researches for LI-NING's products, we will deeply explore creative culture and fashion trends by applying new technologies and new materials, thereby facilitating better integration of professional sports with fashion, entertainment and leisure elements. We will also enhance product competitiveness and consolidate the influence of LI-NING brand among consumers through the development of our digitalization strategy and comprehensive marketing layout;

– For our new businesses, with the enhancement of single store profitability remains our focus, we will carve out business opportunities and market potential by utilizing resources in a reasonable and prudent manner, thereby creating new business opportunities for the Company's development and profit growth in the long term.

In the future, with continuous economic development and technology advancement, the consumer market environment will be more complicated and ever-changing. We will insist on devoting major resources into learning sports knowledge, research and development on sports technology and LI-NING brand experience development, striving to explore and broaden room for business development, strengthen our brand values and enhance LI-NING experience value so as to inject more vitality and creativity to the brand. 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. Meanwhile, I would like to express my sincere gratitude to our dedicated and hardworking staff. The management and I will spare no efforts to steer the Company forward towards further development in the future, forging a more professional and unique LI-NING brand in a new era. "Anything is Possible"!

Li Ning
Executive Chairman and Interim Chief Executive Officer

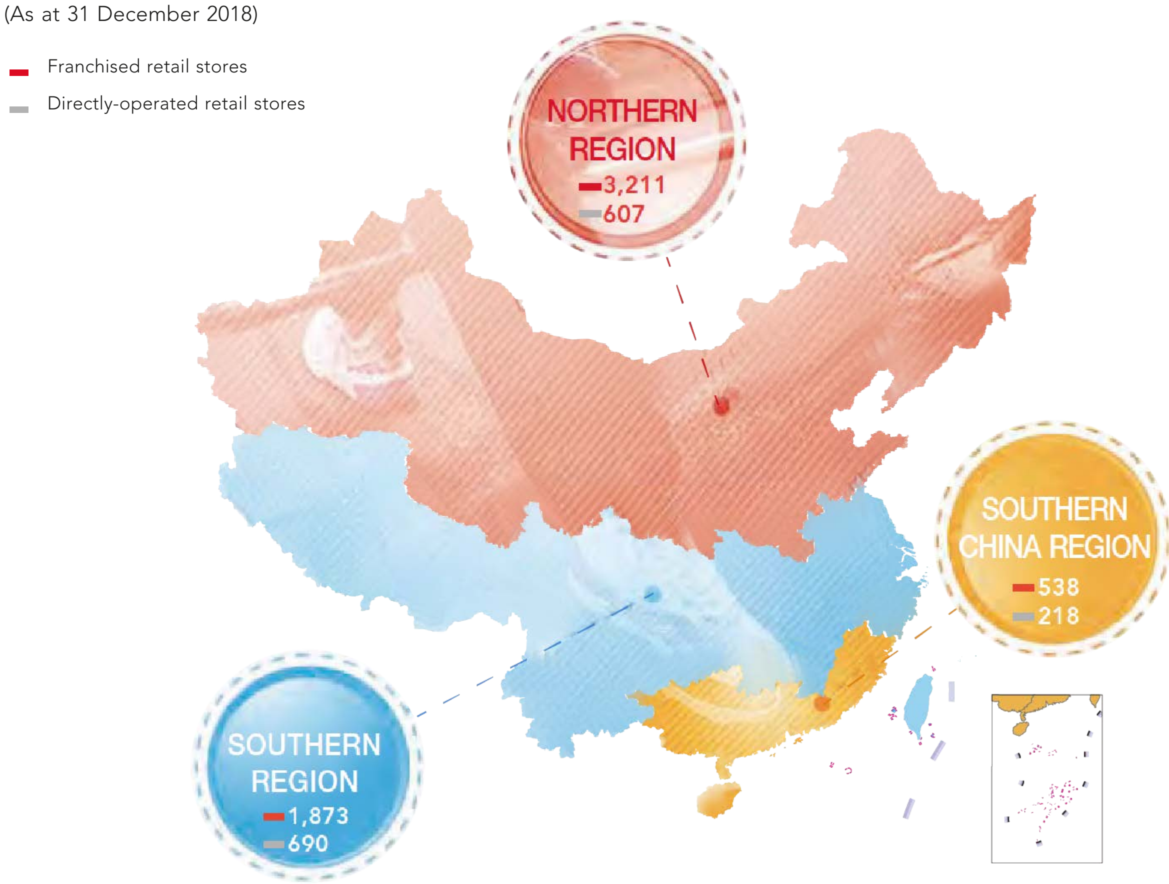
Hong Kong, 21 March 2019

SPORTSMANSHIP

Management Discussion and Analysis

NATIONWIDE DISTRIBUTION OF FRANCHISED AND RETAIL POS

(As at 31 December 2018)



	Franchised	Directly-operated retail	Total
Northern region (Note 1)	3,211	607	3,818
Southern region (Note 2)	1,873	690	2,563
Southern China region (Note 3)	538	218	756
Total	**5,622**	**1,515**	**7,137**

Notes:

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

FINANCIAL OVERVIEW

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

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

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

Notes:

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

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

3. Including profit attributable to equity holders for the period from 1 January to 30 September 2018: RMB470,075,000.

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

5. Total assets at 30 September 2018: RMB8,746,141,000.

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

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

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

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

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

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

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

Revenue

The Group's revenue for the year ended 31 December 2018 amounted to RMB10,510,898,000, representing an increase of 18.4% as compared to that of 2017, with a higher year-on-year increment. The growth in revenue was mainly attributed to: (a) the rapid development of e-commerce channel in recent years and thus the contribution to revenue continued to increase and the growth rate is still significantly higher than other business channels despite a slower pace of growth; (b) benefited from the all-rounded enhancement of products, control over channels and operation capability, the market recognition of LI-NING brand and its products has improved, and the satisfactory performance of terminal sales results in double-digit growth in both sales revenue from direct operation and revenue generated by the franchised distributors; and (c) the Company focused its investment in the basketball and sports casual categories, both of which have achieved excellent performance; while kidswear also gained positive market response with a significant year-on-year increment.

Revenue breakdown by product category

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

Revenue breakdown (in %) by sales channel

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

Revenue breakdown by geographical location

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

Notes:

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

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

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

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

Cost of Sales and Gross Profit

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

Distribution Expenses

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

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

Administrative Expenses

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

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

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

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

Finance Income

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

Income Tax Expense

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

Overall Profitability Indicators

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

Provision for Inventories

The Group's policy in respect of provision for inventories for 2018 was the same as that in 2017. Inventories of the Group are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy to be adequate in ensuring appropriate provision for inventories is made by the Group.

As at 31 December 2018, the accumulated provision for inventories was RMB124,639,000 (31 December 2017: RMB130,352,000). During the year, despite the increase in gross value of inventories, the growth rate was lower than that of the revenue, coupled with the improvement of inventory ageing structure, the balance of provision for inventories has decreased.

Provision for Doubtful Debts

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

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

Liquidity and Financial Resource

The Group's net cash from operating activities for the year ended 31 December 2018 amounted to RMB1,671,869,000 (2017: RMB1,159,143,000). As at 31 December 2018, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB3,671,542,000, representing a net increase of RMB1,142,320,000 as compared with the position as at 31 December 2017. The increase was due to the following items:

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

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

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

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

Foreign Exchange Risk

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

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

Pledge of Assets

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

Contingent Liabilities

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

BUSINESS REVIEW

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

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

Latest trade fair orders and operational update

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

For the fourth quarter ended 31 December 2018, in respect of LI-NING POS which have been in operation since the beginning of the same quarter last year, the same-store-sales for the overall platform registered a mid-teens growth on a year-on-year basis. In terms of channels, both retail (direct operation) and wholesale (franchised distributors) channels registered a mid-single-digit growth, while the e-commerce virtual stores business registered a mid-fifties growth on a year-on-year basis.

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

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

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

IMPLEMENTING THE STRATEGY OF "SINGLE BRAND, MULTI-CATEGORIES, DIVERSIFIED CHANNELS" TO OPTIMIZE RETAIL BUSINESS MODEL

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Allocating marketing resources in multiple categories to create comprehensive value experience

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

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

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

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

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

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

– During the year, we have achieved more effective communication with young consumers through the incorporation of entertainment elements. We explored the fan economy with the product endorsements of showbiz artists and key opinion leaders (KOL), which in turn effectively explored more potential customers. By making our brand more fashionable, we provided existing users with more fashionable product choices. With the influence of the Fashion Weeks, the scope of our cooperative artists has expanded rapidly. Famous artists such as Jolin Tsai (蔡依林), Vic Chou (周渝民), Huang Jingyu (黃景瑜), Joe

Chen (陳喬恩), Angela Chang (張韶涵), Qi Wei (戚薇), Li Chen (李晨), Wei Daxun (魏大勛), Timmy Xu (許魏洲), Qin Lan (秦嵐) and Wu Jinyan (吳謹言) wore our products during shooting or their daily lives. Our products also received positive feedbacks from cooperative media, artists and fans. The model of collaboration has become more diversified. We have increased the exposure of our products and expanded the potential consumer groups by means of print advertisement, snapshot of celebrities in their personal street fashion, collaboration with variety shows and styling for celebrity activities, etc.. Meanwhile, we have enhanced the brand's popularity among target consumer groups through the influence of the huge fans base of young celebrities.

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

Seeking diversified sales channels development

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

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



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

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

Number of LI-NING Brand POS by geographical location

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

Notes:

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

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

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

Enhancing Retail Capability and Improving Efficiency of Sales Channels

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Strengthening Construction of Logistics Supporting Capacity

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

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

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

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

Enhancing the supply chain management centering on business needs

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

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

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

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

NEW BUSINESS

LI-NING YOUNG

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

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

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

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

– For marketing, LI-NING YOUNG has gradually established its own digital marketing matrix including Weibo, WeChat and Douyin (抖音) official accounts. Meanwhile, leveraging various promotional channels such as KOL in maternity and childcare field, sportsman, celebrities, partners and others media, we have delivered real-time information on brand news and new product launch and interacted with our consumers with a view to enhancing customer loyalty. Apart from online promotion, LI-

NING YOUNG also organized opening ceremonies, festival discounts and membership activities in key stores nationwide, thereby facilitating brand and product promotion through participation in events such as "Way of Wade Tour China" (韋德中國行), "Family Fun Run" (家庭趣跑節), "Hangzhou Marathon" (杭州馬拉松) and CBA cheer halftime performance.

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

DANSKIN Brand

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

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

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

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

HUMAN RESOURCES

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

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

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

– In terms of remuneration package, the Company continued to optimize the incentive mechanism for retail front and various business units and improve the assessment incentive model based on product categories. We also implemented long-term incentive schemes for our senior management team and core personnel and newly added various timely and short-term incentive measures so as to encourage employees to achieve excellent performance, motivate core talents and enhance the market competitiveness of core talents' remuneration.

– Regarding the brand-building of employer side, an official WeChat account "LI-NING Recruitment" was launched as a window to showcase the Company's results in this area through a series of events organised or participated in by it. During this year, the Company was awarded various employer brand awards such as the "2018 Best Practice Enterprise" (2018年度最佳實踐企業) and "Top 100 Best Employer in China" (中國最佳卓越僱主百強).

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

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

OUTLOOK

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

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

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

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

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

– In respect of new business, on the basis of continuing to enhance single store profitability, we will make reasonable and prudent use of resources to explore business opportunities and potential market, in order to foster new opportunities for the Company's profit growth in the long run.

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

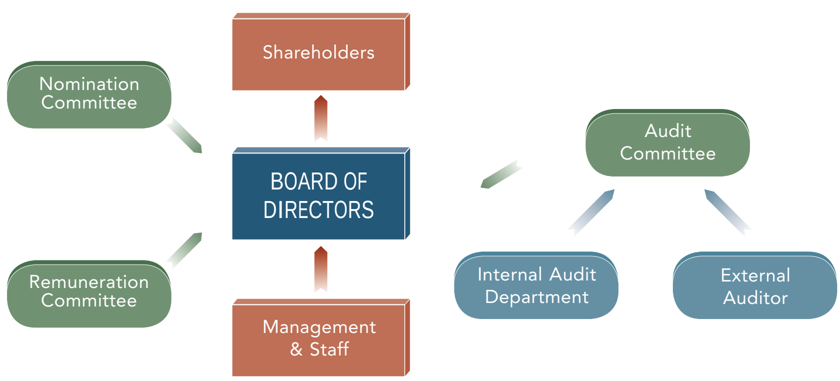
Corporate Governance Report

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 2018, 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 2018, 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 ("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 Directors; 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 six Directors, with a majority of whom being independent non-executive Directors, of which two are executive Directors and four are independent non-executive Directors. During the year of 2018 and up to the date of this report, the composition of the Board and its changes are as follows:

Name of Director

Executive Directors

Mr. Li Ning	*(Executive Chairman and Interim Chief Executive Officer)*
Mr. Li Qilin	*(re-designated as an executive Director on 19 June 2018)*

Non-executive Directors

Mr. Chen Yue, Scott	*(resigned on 22 March 2018)*
Mr. Wu, Jesse Jen-Wei	*(resigned on 22 March 2018)*

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.

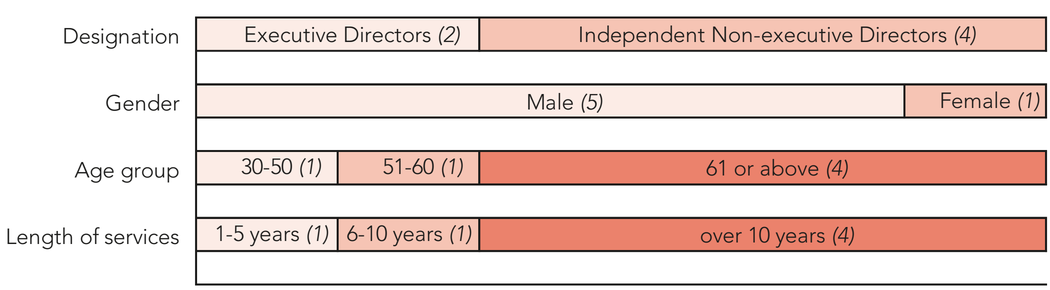
All Directors have disclosed to the Company the number and nature of offices they held in other public companies or organisations and other significant commitments, with the identity of the public companies or organisations, and an indication of the time involved. They are also reminded to notify the 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

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. The Board approved and adopted a board diversity policy of the Company ("Diversity Policy") setting out the approach to achieve diversity of the Board members.

In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board, and the ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

As at the date of this report, the Board's composition under diversified perspectives was summarized as follows:



The nomination committee of the Company ("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 and the Diversity Policy.

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, and monitor the implementation of Diversity Policy. The Company has complied with paragraph A.5.6 of the Code Provisions (which has been upgraded to Rule 13.92 of the Listing Rules with effect from 1 January 2019), 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.

Nomination Policy

The Board approved and adopted a nomination policy of the Company ("Nomination Policy") setting out the guidelines for the administration of the nomination, evaluation and termination of each Board member. Nomination Policy shall be administered by the Board, and the Board shall commission the Nomination Committee to revise, replace, or abolish any term in the Nomination Policy, and delegate the Nomination Committee to execute the functions of appointment and termination under the Nomination Policy.

The Board shall consist of the number and ratio of Directors as required by the Articles of Association and the Listing Rules, and shall be composed of members with balance of skills, experience and diversity of perspectives. All Board appointments will be based on meritocracy, and with respect to the selection of candidates, the Board should consider the board diversity from a number of aspects including but not limited to gender, skill and length of service etc as well as the contribution that the selected candidates will bring to the Board.

The Nomination Committee will review the Nomination Policy, as appropriate, to ensure the effectiveness of the Nomination Policy. The Nomination Committee will also discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

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 2018, Mr. Li Ning, the Executive Chairman and Interim CEO of the Company, assumed the role of chief executive officer of the Company during the year. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles 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 2018, the Company, together with its legal adviser, organized a training session to provide the Directors on "Recent development of Listing Rules and relevant laws and regulations" and "Guidelines for new Listing Rules".

According to the records maintained by the Company, the Directors received the following trainings and updates in 2018:

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 Directors		
Mr. Li Ning *(Executive Chairman and Interim CEO)*	✓	✓
Mr. Li Qilin *(re-designated as an executive Director on 19 June 2018)*	✓	✓
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	✓	✓

Independent Non-executive Directors

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 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 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 Nomination Committee, the remuneration committee ("Remuneration Committee") and the audit committee ("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.

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 Nomination 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 2018:

- nomination of Mr. Li Qilin to act as an executive Director;
- assessing the independence of each of the independent non-executive Directors;
- 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;
- reviewing the Nomination Policy and the Diversity Policy; and
- reviewing the Board performance during the year.

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 the Diversity Policy requirements, including but not limited to gender, age, cultural and educational background, ethnicity, professional expertise, skills, 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 Remuneration Committee)*	Independent non-executive Director
Mr. Li Qilin	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/or restricted shares award 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 2018 are set out in note 35 to the consolidated financial statements. The remuneration of Senior Management for the year ended 31 December 2018 are set out in note 25 to the consolidated financial statements.

The following is a summary of the major tasks carried out by the Remuneration Committee in 2018:

- making recommendations to the Board on the remuneration packages of all the Directors and Senior Management for the year 2018, which including the remuneration adjustment of Mr. Li Qilin who re-designated as the executive Director;
- reviewing and approving the bonus plan for the year 2018;
- reviewing and approving the salary adjustment plan for the year 2018;
- reviewing, monitoring and approving the implementation of ESOP (employee share option program) and Restricted Share Award Scheme for the year 2018;
- reviewing and approving the recommendation of short-term and long-term incentives for the year 2018;
- reviewing, monitoring and approving the human resources work plans for the year 2018; and
- approving the budget of human resources expenses for the year 2019.

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 Audit 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 ("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 2018, 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 2018:

- 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 2017 and the interim results announcement and interim financial statements for the six months ended 30 June 2018 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 2018 internal audit findings and recommendations and approving 2019 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.

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 2018			
Name of Director	**Board**	**Nomination Committee**	**Remuneration Committee**	**Audit Committee**
Executive Directors				
Mr. Li Ning *(Executive Chairman and Interim CEO)*	4/4	2/2	N/A	N/A
Mr. Li Qilin *(re-designated as an executive Director on 19 June 2018)*	4/4	N/A	2/2	N/A
Non-executive Directors				
Mr. Chen Yue, Scott *(resigned on 22 March 2018)*	1/1	N/A	N/A	N/A
Mr. Wu, Jesse Jen-Wei *(resigned on 22 March 2018)*	1/1	N/A	N/A	N/A
Independent non-executive Directors				
Mr. Koo Fook Sun, Louis	4/4	N/A	N/A	2/3
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 2018, 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 2018, 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 2018, the fees for the audit services and non-audit services provided by the external auditor are as follows:

Type of Service	2018 (RMB)	2017 (RMB)
Audit fee for the Group	5,200,000	4,700,000
Tax compliance and other advisory services	1,290,000	962,000
Total	6,490,000	5,662,000

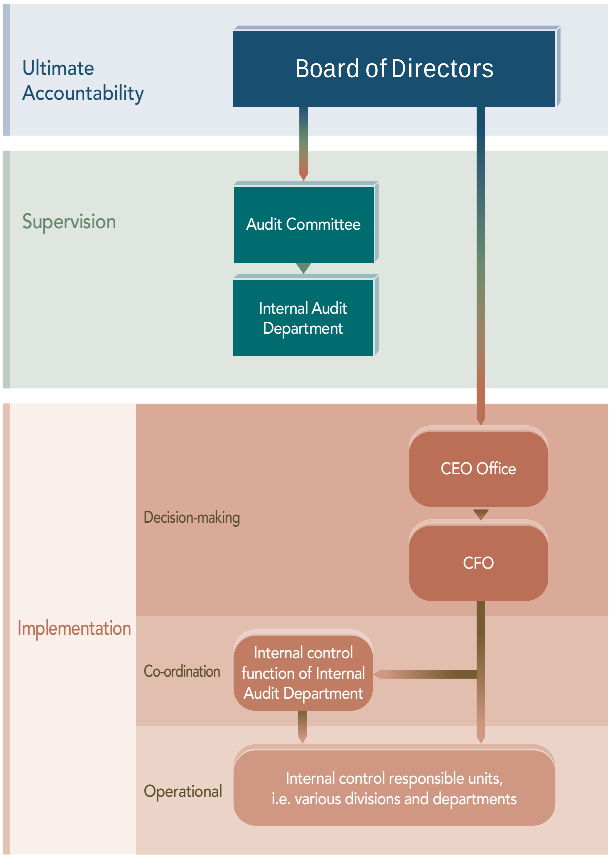
Risk Management and Internal Control

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 2018, 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

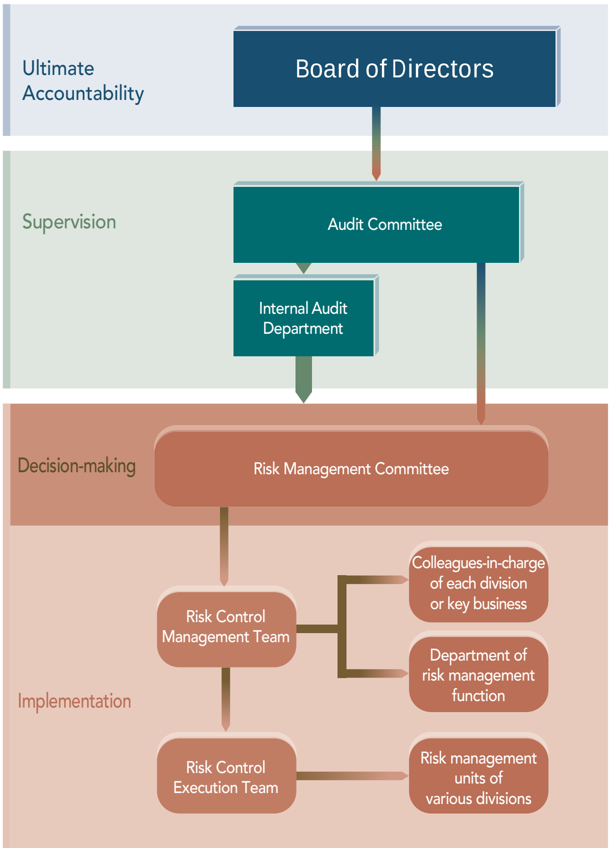
Based on the experience in operation control over the years, the Company has put in place an integrated system of risk management and internal control. The system adopts the globally recognised framework outlined by the Committee of Sponsoring Organisations of the Treadway Commission ("COSO"), taking 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; and (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; and (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 ("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 2018. 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 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 2018, 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 2018 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 2018.

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 2018. 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 2018, the Internal Audit Department conducted audits on the sales system, product 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 2018, 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 2018, 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 2018.

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 2018.

COMPANY SECRETARY

During the year, Ms. Tai Kar Lei is the company secretary of the Company ("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 2018, 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 Chairman of the Board, the chairmen of each of the Nomination Committee and the Remuneration Committee, and the appointed delegates of the chairman of the Audit Committee) and the Company's external auditor were present at the annual general meeting of Company held on 15 June 2018. 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 14 June 2019. Details of the 2019 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 2018 are set out below:

Name of Director	Number of meetings attended/number of meetings held
Executive Directors	
Mr. Li Ning *(Executive Chairman and Interim CEO)*	1/1
Mr. Li Qilin *(re-designated as an executive Director on 19 June 2018)*	1/1
Non-executive Directors	
Mr. Chen Yue, Scott *(resigned on 22 March 2018)*	N/A
Mr. Wu, Jesse Jen-Wei *(resigned on 22 March 2018)*	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 2019

Environmental, Social and Governance Report

I. POLICY MANAGEMENT AND KEY ISSUES IDENTIFICATION

The Group always "regards social responsibilities as its own duties" by closely integrating social responsibility with its corporate culture, while adhering to the principle of "sports activities are not merely for the purpose of competition or fitness, but also have the functions of public service and social education", striving to encourage compassion, spread love and care and promote positive energy in the society with concrete actions.

The Group focuses on sports research as well as development and design of relevant products to advocate the concept of changing lifestyle with sports. Under the guidance of its core values, namely "fulfilling dreams", "consumer orientation", "our culture" and "breakthrough", the Group closely cooperates with all stakeholders with a view to fulfilling its social responsibilities to the environment, its employees, products and the community.

Environmental, Social and Governance (ESG) Philosophy

The Group incorporates "Environmental, Social and Governance (ESG)" philosophy into its daily operation and put the concept of "green operation" into practice, so as to build a harmonious working environment. In order to contribute to sustainable development and social progress of the local communities, our practices mainly include:

- **In terms of environmental protection**: We strive to enhance the utilisation rate of energy, reduce energy consumption and emissions of pollutants in a bid to achieving the goal of sustainable development.

- **In terms of supply chain management**: In conjunction with advocating the concept of environmental and social responsibility to companies along the value chain, we include the environmental and social responsibilities of suppliers in our scope of evaluation and assessment, with an aim to develop a responsible business and social environment and better provide consumers with green, safe and high-quality products.

- **In respect of care for employee**: Upholding the "people-oriented" philosophy, we attach great importance to the mental and physical health of employees and provide professional skill training and career development opportunities to them, thereby creating a sound working environment and promoting the mutual growth of employees and the Group.

- **In respect of community investment**: While magnifying our brand influence, we also actively participate in public charity. We contribute to the development of the community by participating in and organizing charity events, maintaining close liaison with nearby communities and promoting sports culture.

Key Issues Identification

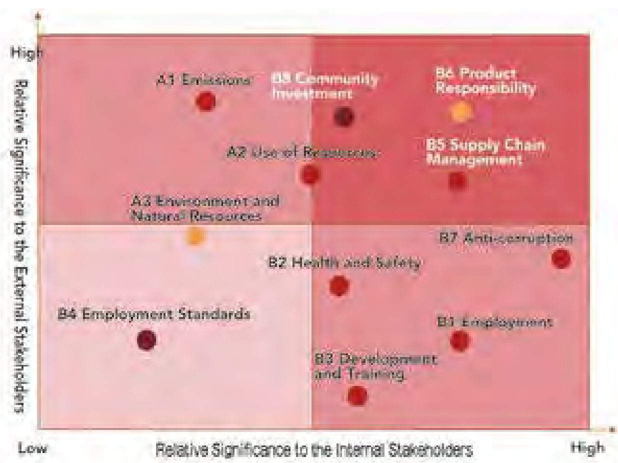
Communication with stakeholders is crucial for corporates in performing social responsibility and attaining sustainable development. Based on the features of the industry and the Group's operations, we identified seven major stakeholders groups, including government and regulatory authorities, shareholders and investors, employees, distributors and suppliers, media, consumers, communities and general public. In the meantime, we have maintained close communication with stakeholders through various channels and proactively responded to their needs and expectations.

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 union 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; Promote professional sports knowledge

The Group has also invited internal and external stakeholders to conduct evaluations on the significance of various key issues with regard to the 11 aspects identified in the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange, which identified the main concerns of stakeholders, including community investment, product responsibility and supply chain management.

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



II. ENVIRONMENTAL MANAGEMENT

Environmental Management Policy

The Group always adheres to the environmental philosophy of green development, and firmly complies with laws and regulations such as the Environmental Protection Law of the People's Republic of China, Renewable Energy Law of the People's Republic of China, Laws of the People's Republic of China on Conserving Energy and Laws of the People's Republic of China on Prevention and Control of Water Pollution. In order to reduce energy consumption and emissions of wastes, we have prioritized the use of renewable energy and clean energy. Meanwhile, the Group consistently adhered to the concept of harmonious coexistence with the natural environment and optimized its production operation, striving to building itself into an "environmentally-friendly" enterprise. In 2018, no significant pollution and impact on the environment was found in the course of the Group's operation.

Environmental Management Measures

Relying on its own environmental management and control system, the Group has monitored and controlled the key procedures that may generate exhaust air, sewage and pollutant in the course of operation, thereby minimizing the waste of natural resources and the impact on the ecological environment. Meanwhile, we required manufacturers along the supply chain to upgrade their technology, and urged them to enhance their production efficiency and reduce emissions of pollutants. Pursuant to the relevant laws and regulations, the Group has enacted various internal management systems and measures, including the "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)", "Li Ning Company Energy Saving Measures (李寧公司節能措施)" and "Li Ning Company Dangerous Goods Management System (李寧公司危險品管理制度)". The Group has also strengthened the management and control over the use of energy, increased the employees' awareness of energy conservation, introduced energy-saving technology and equipment, sparing no efforts to minimize damage to the natural environment.

Reducing Emission of Wastes

The emission from the operation of the Group mainly involves the emission of wastes from office operation. We collaborated with qualified professional companies to properly recycle the wastes generated in our operation. We continued to promote the concept of paperless office. By setting duplex printing as default for our printing equipment and conducting regular examination of printing procedures of the employees, we have reduced unnecessary paper consumption and controlled the total paper consumption in office. We have implemented centralized management over packaging materials, such as paper boxes and paper bags. Each department is required to submit application for packaging materials based on actual needs, which has reduced wastage. In order to increase the employees' awareness of low-carbon travel and cultivate the green and low-carbon concept, the office park of the Group's headquarters have collaborated with shuttle rental companies to provide its employee with convenient shuttle services for commuting to work, this, together with the public transportation subsidies distributed, have encouraged our employees to reduce the frequency of using private cars, advocated them to travel green and hence reduced the impact on the environment.

Reducing Energy Consumption

The Group has been constantly improving its energy-saving system through formulation of energy saving plans for different stages and implementation of specific energy saving measures, endeavoring to achieve its energy saving goals and hence ensuring efficient use of energy.

- **Promote Smart Office**: The office park of the Group's headquarters has implemented an efficient building automation system. During non-office hours, the lighting system of the park will be automatically switched to the energy-saving mode, thereby saving electricity used by the lighting system. Furthermore, temperature sensors at the park can provide real-time room temperature data to help the cooling/heating system to adjust operating conditions in time, and hence improving the efficiency of energy use.

- **Centralized Office Area**: The Group promotes efficient office and requires employees to complete their works within the specified office hours. For employees who need to extend their working hours due to special circumstances, they are required to work together in a designated area to reduce energy consumption for electricity, lighting and heat supply.

- **Increase Energy Efficiency**: In 2018, the Group completed the upgrade of fresh air ventilation system in the IT server room at headquarters. On the premise of ensuring cleanliness of the server room, the newly installed fresh air ventilation system of air-conditioners in the server rooms would be able to fully utilize the cold weather in winter and bring in filtered cold air outdoor for cooling the server room. By doing so, we have lowered the electricity consumption of air-conditioners from the original 1,700 kWh/day to 500 kWh/day, saving approximately 90,000 kWh of electricity consumption every year.

- **Strengthen Water Management**: The Group regularly carries out inspection and maintenance of water equipment to prevent an increase in water consumption due to leakage from these equipment. In addition, the administration department records the water and energy usage on a daily basis and compiles statistics thereof. It will report the situation and find out the causes once abnormal usage is identified. We have also posted water conservation slogans in public areas such as washrooms and pantries to increase employees' awareness of water conservation.

2018 Environmental Performance

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

1. Emission

Indicator	Performance
Total emission of greenhouse gases (Scope 1 and Scope 2) (tons)[2]	7,287.59
Emission of greenhouse gases per square meter of floor area (Scope 1 and Scope 2) (tons/square meter)	0.05
Direct emission (Scope 1) (tons)	1,042.46
Company car oil consumption	4.32
Natural gas	1,038.14
Indirect emission (Scope 2) (tons)	6,245.13
Externally-purchased electricity	6,245.13
Total amount of hazardous waste (tons)[3]	5.70
Weight of hazardous waste per square meter of floor area (tons/square meter)	0.000040
Total amount of non-hazardous waste (tons)[4]	567.53
Weight of non-hazardous waste per square meter of floor area (tons/square meter)	0.0040

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.
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數》) 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. Types of hazardous waste generated from the Group's operation mainly included waste lead-acid batteries and waste ink cartridges, waste toner cartridges and waste toner incurred by the printing equipment in offices, etc.. The waste lead-acid batteries were disposed of by qualified professional companies, while the waste toner cartridges, waste ink cartridges and waste toner incurred by the printing equipment in offices were replaced and recycled by the respective print service providers.
4. Non-hazardous wastes generated from the Group's operation, the types of which mainly included office waste, kitchen waste and office waste paper, were handled by recyclers. Office waste and kitchen waste were centrally processed at the premises where they are located, while office waste papers were recycled by recyclers. In particular, the office wastes of the Group's retail subsidiaries in Lanzhou, Beijing, Harbin, Daqing, Ningbo, Xinjiang, Wuhan, Shenyang, Shenzhen and Wenzhou were 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]	13,938.18
Energy consumption per square meter of floor area (MWh/square meter)	0.10
Direct energy consumption (MWh)	5,326.85
Gasoline	17.63
Natural gas	5,309.22
Indirect energy consumption (MWh)	8,611.33
Externally-purchased electricity	8,611.33
Daily water consumption (tons)[2]	75,109.56
Daily water consumption per square meter of floor area (tons/square meter)	0.53
Total amount of packaging material used for finished products (tons)[3]	12,415.73
Amount of packaging material for finished products consumed per million revenue (tons/million yuan)[4]	1.18

Notes:

1. Energy consumption data, including electricity, natural gas and company car oil consumption, 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)》), the national standard of the People's Republic of China.
2. Daily water consumption includes tap water and reclaimed water. In particular, daily water consumption of Shanghai office area, and the Group's retail subsidiaries in Lanzhou, Nanning, Xiamen, Hefei, Tianjin, Ningbo, Guangzhou, Chengdu, Hangzhou, Wuhan, Shenyang, Shenzhen, Xi'an, Chongqing and Changsha were controlled by the premises where they are located and the water charges are included in property management fees. 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 adheres to the people-oriented approach and strives to provide its employee with a comfortable, healthy and safe working environment. It strictly complies with the laws and regulations such as the "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 "Prevention and Control of Occupational Diseases Law of the People's Republic of China". Moreover, it has formulated and optimized the employment management system and supervision system, established sound supervision and security mechanism for the rights and interests of employees, thereby effectively protecting the legitimate rights and interests of employees, showing its care for the health and safety of employees as well as their ongoing development.

Lawful Employment with Protection of Employees' Rights and Interests

As of the end of 2018, the Group had 2,412 full-time employees in total, including 2,233 employees in the Group's headquarters and retail subsidiaries, and 179 employees in the Group's other subsidiaries.

The Group has entered into labour contracts with employees according to the laws and clearly stipulated the rights and obligations of both parties in the contract in a view to establishing a harmonious and stable employment relationship. We offer equal employment opportunity. In the recruitment and promotion process, we always adhere to the principle of openness and fairness that all candidates are equally treated regardless of gender, ethnicity, religion, nationality, skin color, age and other factors, and strictly prohibits discrimination in any form. Our "Staff Handbook (員工手冊)" expressly emphasizes that all candidates must meet the legitimate age. Before signing the labor contract, candidates must provide valid identification document to ensure lawful employment. No employment of minors or forced labour has been found by the Group so far.

Adhering to the philosophy of co-development with employees, the Group has developed a remuneration strategy matching the Company's strategies with reference to the Group's strategic development goals, industry characteristics and other factors, and adjusted the Group's remuneration package and structure from time to time in a bid to effectively attract, motivate and retain excellent talents. Through the talent development and assessment mechanism, we will carry out comprehensive performance appraisal for our staff and more closely align the employees' performance results with remuneration package so as to motivate employees to work efficiently on a continuous basis. All these measures have embodied the Group's compensation concept of sharing risks and interests with its employees.

Pursuant to the requirements of the national and local governments, the Group provides employees with comprehensive social security benefits, including basic salary, incentive bonus, medical insurance, pension, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund. It also maintains supplementary commercial insurance covering accident insurance and critical illness insurance for its employees. Moreover, we have formulated the "Employee Attendance and Leave Management System (員工考勤及休假管理制度)" to promote work-life balance and encourage employees to schedule a vacation in due course by providing them with additional benefits such as transportation subsidy, festival allowance, marriage and birth gifts and birthday presents. In order to enrich the leisure life of employees, the Group has established diversified sports clubs and offered various fitness premises, equipment and sportswear to the employees so as to encourage them to actively participate in physical exercise. We organize anniversary celebration for the Company every year, at which our employees and their family members will be invited to the office park for celebration and feel the warmth and care within the Company, thereby increasing their sense of belonging to the Company and strengthen the team's cohesiveness.

Focusing on Health and Safety Protection

To ensure the personal safety of its staff, the Group has formulated "Li Ning Group Emergency Plan for Fire Protection (李寧集團消防應急預案)", "Li Ning Group Emergency Evacuation Plan (李寧集團疏散應急預案)" and other systems in light of the overall planning of the office park. The Group conducts regular inspection on and maintenance of security protection facilities to ensure that they are under normal operation at all times, and organizes safety training, fire drills, flood drills and other campaigns for our staff to equip them with basic knowledge for emergency circumstances and disaster and improve their capabilities to response against emergency as preventive measures. In 2018, the Group carried out more than 10 "5S Day" activities, including inspections under various series such as SEIRI, SEITON, SEISO, SEIKEISU and SHITSUKE, where it conducted targeted thorough inspections on aspects such as fire protection facilities, emergency power supply and natural gas, and rectified hidden safety risks in the office area in a timely manner.

The Group organizes annual body check for our staff on a regular basis, and assists our staff in understanding their physical conditions, improving their self-healthcare capabilities, and adopting targeted healthcare practices by means of promoting health knowledge through seminars on body check report explanation, health knowledge lectures, investigation and research on sub-health conditions, etc. The Group set up a medical room in the park area at the headquarters to provide essential medicines for common diseases to our staff. Furthermore, we installed intelligent indoor fresh air ventilation system in the office park so that we can, through our back office, real-time monitor and adjust air quality, control the flows of indoor air and improve the indoor air quality, thereby providing a fresh and healthy working environment for our staff.

Talent Training and Promotion of Mutual Development

The Group regards talent development as the core of its talent management strategy, and organizes various targeted training on knowledge and skills to improving the skills and comprehensive individual quality of our staff at different positions so as to meet the needs of business and future development of the Company. By closely integrating training objectives with the development strategies of the Company, we have established a mechanism that links the training results with rewards, which has improved the learning ability and knowledge level of our staff, and enhanced their career development ability. We have adopted diversified ways of learning such as internal training courses, overseas study and job rotation to carry out on-the-job training and special training in an orderly and efficient manner, helping our staff to acquire sufficient professional knowledge, enhance diversified awareness, and rapidly strengthen their own capabilities. The basic principles of our training are as follows:

- 100% participation: All members, from the management to general staff, are required to proactively participate in training, fully understand the importance of the training and keep advancing by learning.

- Target-oriented: Training is provided based on actual needs.

- Well-planned: Training plans are formulated based on the need for training, and implemented in strict accordance to the plan.

- Career-long: Training is available for all stages of career from pre-job training, on-job training, re-designation to promotion.

- Comprehensive: Our training is a combination of basic training, quality training and skill training, and is carried out through various ways including lectures, discussion, site-visits, observation and training offered by external contractors.

- Tracking: Upon completion of training, examination will be carried out on the training contents to examine and evaluate the effectiveness of training on a regular basis.

Diagram on the Group's talent training

In 2018, a total of more than 130,000 of the Group's staff in service participated in various training organized by the Group, with over 20,000 training hours in aggregate.

IV. SUPPLY CHAIN MANAGEMENT

The Group always attaches great importance to supply chain management. It strictly implements the qualification and assessment system for suppliers and incorporates criteria such as harmonious labor relationship, health and safety of staff, and environmental protection into the management and evaluation system for suppliers. It also takes proactively measures to encourage the suppliers to perform their social responsibilities and environmental responsibilities with a view to achieving our goal of sustainable development, which facilitates mutual benefits and "win-win" results with our supply chain partners.

Qualification and Assessment of Suppliers

The Group has formulated stringent systems and standards regarding the introduction, assessment and termination of suppliers. Regular assessments are carried out to ensure compliance of suppliers.

- For new suppliers, the Group has laid down three modes of introduction, namely one-off collaboration, collaboration on a pilot basis and regular introduction. Potential suppliers are subject to assessment and examinations conducted by various departments in aspects such as basic qualifications, scale requirement, quality system, production technologies/techniques/engineering capability, bargaining power over cost, environmental protection and social responsibilities, etc. We will collaborate with those who pass the examinations. In 2018, the passing rate of supplier assessment of the Group was approximately 75%.

- For existing suppliers, the Group conducts quarterly assessment against the internationally-accepted Supply Chain Operations Reference Model (SCOR System). The Group sets up corresponding measure index for different types of suppliers at various levels to consistently apply the differentiation strategy. The Group conducts hierarchical assessment and compares the evaluation results of quarterly performance with prior periods for review. In case problems are identified, we will communicate with the suppliers separately and require them to rectify the problems within the specified period, making sure that they can fulfill the requirements of the Group. For suppliers who ceased to meet the business needs and standards of the Group, we will commence the termination process and duly consider the risks of the vacancy arising from the termination of suppliers and determine an appropriate solution.

Social Responsibility of Supply Chain

In 2018, the Group further clarified 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)" and updated and optimized 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)", pursuant to which it has consolidated and strengthened the management over and guidance for suppliers by combining the quarterly management over social responsibility management performance of all finished product suppliers with third-party audits and assessment. It has also incorporated the scores of social responsibility for each quarter into the comprehensive quarterly assessment index system for suppliers. Moreover, the Group insists on the integration of daily management and pre-alert systems and conducts regular screening and inspection of the operation risks of suppliers. We require our suppliers to conduct self-assessment and self-inspection of their social responsibility on a regular basis. We also seek to improve the social performance of suppliers by urging them to enhance their self-management through measures such as training, rectification and follow ups. In 2018, the core suppliers of the Group passed the on-site audit conducted by a third-party consulting organization based on 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 the factories of our collaborative brands have obtained the certification of Sedex (Supplier Ethical Data Exchange).

Environmental Responsibility of Supply Chain

The Group always places great emphasis on the environmental management of supply chain. Through policies, training, audits, sample testing and other methods, the Group has promoted its environmental protection philosophy along the supply chain, increased suppliers' green awareness and enhanced their environmental performance.

- We signed the "Li Ning Company Manufacturing Restricted Substances List (MRSL) Compliance Statement (李寧公司生產工藝中限用物質(MRSL)遵從聲明書)" with our suppliers, requiring them to undertake not to deliberately use toxic and hazardous substances, prevent the toxic and harmful chemicals from affecting the environment and the physical health of employees at source and reduce chemical pollution during the manufacturing process.

- We required all suppliers to carry out self-inspection/self-reporting of their environmental performance on a quarterly basis. Assessment and examinations will be conducted against them based on the "Quarterly Assessment Tool on the Environmental Audit for Li Ning's Suppliers (李寧供應商環境審核季度評估工具)". The scores will be incorporated into the comprehensive quarterly assessment index system for suppliers to encourage suppliers to increase their awareness of environmental protection and enhance the management of their environmental performance.

- We commissioned a third-party auditor to conduct an audit on core suppliers and evaluate their environmental management from various perspectives, including the management of emission and the use of resources.

- The Group conducted chemical management audit on key material suppliers using the third-party chemical management performance audit tool for assessing their risks in relation to chemical management. Meanwhile, we inspected the wastewater data of our suppliers to facilitate proper record and disclosure of their IPE[1] information. In 2018, we aided the rectification for compliance by 8 suppliers with poor IPE record and achieved positive results.

- We collected the energy consumption data along the supply chain and the related climate change data on a quarterly basis, which serves as the collection of baseline data for the strategic plan of the Group's sustainable development. The Group also completed the internal statistics and analysis report on greenhouse gases data of suppliers for 2018.

Note:

1. IPE: Institute of Public and Environmental Affairs.

Participating in ZDHC Program

As one of the six founding brands of the Zero Discharge of Hazardous Chemicals Program of Member Brands (ZDHC Program or ZDHC), the Group is committed to the sustainable development of the textile sector. The Group proactively participated in regular meetings organized by ZDHC, and took part in the resolutions and voting of major issues concerning the ZDHC, hence contributing to the reduction of discharge of hazardous substances on a continuous basis with other brands. In 2018, the major tasks that the Group took part in are as follows:

- The Group participated in the discussion and formulation of procedures of gradual elimination of chemicals and substitutes for hazardous chemical substances, issued the new Manufacturing Restricted Substances List (MRSL1.1) and collaborated with four major commercial laboratories to develop unified testing method for 11 types of common hazardous substance and set up unified detection limit thereof.

- The Group proactively promoted the application of ZDHC gateway for chemicals along the textile supply chain, facilitated training for chemical management in the industry, raised the management level of chemicals among collaborative factories of purchasers of our brands, while simultaneously activated the pilot schemes of InCheck gateway for chemicals.

- The Group allied with major brands in the ZDHC program to facilitate the pilot schemes regarding the use of substitutes for DMF in the synthetic leather industry in China with a view to promoting zero discharge of hazardous chemicals in the leather industry.

- The Group proactively participated in the sludge project group of ZDHC, providing compiled information for the task group in relation to the sludge treatment and qualitative method in China. The Group also took part in the formulation of the first draft of sludge testing standards.

V. PRODUCT LIABILITY MANAGEMENT

Product Quality Control

The Group established the production and quality management system in line with its philosophy and standards in accordance with ISO 9001 Quality Management System, taking reference to the relevant standards of the industry.

In order to standardize the production process of products to ensure their quality, we constantly update and improve the product quality management system, which covers various aspects of products, including physical and chemical properties, quality of functional features, quality of appearance, quality of hot-stamped pattern and quality of auxiliary materials and accessories. In respect of products under development, we have established a risk assessment team comprised of the product development project team, quality control department (QC) and quality assurance department (QA) to conduct quarterly quality risk assessment on each product developed. In respect of finished products, we have established a joint audit review team comprised of members of QC and QA to perform joint quality audit review on products on a quarterly basis. Substandard products will be returned to ensure stable product quality.

Customer Complaints and Protection

The Group adheres to the service principle of "customer-first and professional services". In order to further improve its customer experience assurance system, the Group has successively established the "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 regulations, and strengthened the quick response time for handling various customer feedbacks so as to safeguard the rights and interests of the customers and enhance customer experience. Moreover, we have established a multi-channel feedback system for customers to give feedback via smooth channels including our stores, 400 customer care hotlines, emails, official Wechat and Weibo accounts, so that we can timely follow up, handle and respond to customer queries. On the other hand, we also arranged return visits and adopted other methods to ensure that customers' queries and suggestions will be properly addressed. Customers can evaluate our services through the satisfaction assessment function. In 2018, the customers' overall satisfaction on the Group was 98.64%. We will further improve our service quality and enhance the integration between customer experience of offline and online shopping with a view to providing delicate services to customers and creating a reassuring consumption environment for them.

Customer Data Protection

In accordance with the requirements of the Cyber Security Law of the People's Republic of China and other laws and regulations, the Group has established a comprehensive information security management mechanism where all customer information are strictly protected with technological means such as advanced firewall and only authorized personnel can access and use such information within their authority. Provision of any information to any third party without the authorization of customers is strictly prohibited. In addition, the Group has signed non-disclosure agreements with all third parties and outsourcing companies and supervised them to implement the same set of management standard to prevent information leakage.

Product Examination and Recall

In strict compliance with the Product Quality Law of the People's Republic of China and Law of the People's Republic of China on Protection of Consumer Rights and Interests, the Group has formulated standards on recall and management of defective goods to timely handle product quality issues so as to better serve customers and improve consumers' shopping experience. We attach great importance to product quality and our products must pass the inspection carried out by state-accredited testing authorities and meet the corresponding national standards before launching for sale in the market.

The Group has 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)" and "Procedures and Standards on Recall of Li Ning's Defective Goods (李寧殘品收殘程序及標準)", which clarified the standards and procedures for recycling and handling of defective products and stipulated that during the process of production and sales, in the event that a defective product is identified and requires a recall, the production and sales of such product should cease immediately and the defective product should be examined by specialized product examination team. Meanwhile, the quality management center of the Group should promptly report product quality issues to every business stage from research, development and production as well as suppliers so as to continuously improve and enhance product quality and mitigate the risks of endangering consumers' health and safety due to the defective products.

Intellectual Property and Brand Protection

In accordance with the requirements of the national intellectual property strategy and based on relevant laws and regulations such as the Patent Law of the People's Republic of China, Trademark Law of the People's Republic of China, Advertising Law of the People's Republic of China and Provisions on Indicating Product Identification, the Group formulated the administrative measures on indication of product identification and established a complete trademark record to strictly manage and control the use of trademark, printing of identification and the manufacturing of security code. In addition, we have specially formulated the review system and procedures regarding the promotional and marketing contents of our products and strongly prohibited the use of any false statement or exaggerated advertising promotions. In the event of any violation, we will promptly take remedial actions. For individuals or enterprises that publish advertisements and other promotional materials in the name of the Group without our consent or authorization, we will immediately pursue legal actions.

The Group has further improved the intellectual property protection mechanism and established the mechanism and procedures for intellectual property review. The Group will strictly review the patents, domain name rights and copyrights which are exposed to infringement risks, encourage employees to raise the awareness of infringement risks and cooperate with renowned intellectual property law firms or agencies to conduct professional process analysis on important research and development results including pre-assessment and patent infringement retrieval so as to ensure that the patents are legally used and eliminate the possibility of infringement of intellectual property held by others. Meanwhile, we have built an intellectual property information database and formulated relevant management measures on intellectual property to take practical actions to protect intellectual property and our own intellectual property rights and interests. Recently, no material dispute or litigation of intellectual property against the Group has been identified.

VI. ANTI-CORRUPTION MANAGEMENT

The Group strictly complies with the relevant laws and regulations of anti-corruption, anti-bribery and anti-unfair competition. It has formulated internal regulations and systems such as the "Anti-Corruption and Anti-Bribery System of Li Ning Group (李寧集團反腐敗和反賄賂制度)" and "Gift Management System of Li Ning Group (李寧集團禮品管理制度)", specifying the Group's code of business conduct and implementation rules and standardizing the conduct of its employees and partners so as to procure all staff to always maintain the professional ethics such as dedication, justice and integrity. The Group has also strengthened its internal management and control and required its business departments to enter into "Letter of Undertaking on Anti-Corruption and Anti-Bribery (反腐敗和反賄賂承諾書)" with their long-time partners so as to achieve the goal of combating commercial corruption and bribery with joint efforts.

The Group encourages its employees to report any misconduct and suspected cases and reporting channels are in place to ensure that employees can report misconduct such as corruption, bribery and fraud by their colleagues or suppliers of the Group via telephone, email and other channels. We will impose severe penalties against employees who have violated the laws and regulations to firmly eradicate corruption.

VII. COMMUNITY INVESTMENT MANAGEMENT

As a leading sports brand in China, while expanding its own business, the Group has constantly been serving and giving back to the society and actively assumed the social responsibilities as a corporate citizen. We have vigorously promoted national fitness and proactively been engaged in community charity to combine love, sports and charity and convey warmth to the society with concrete actions to promote social public welfare, and make contributions to the construction of a harmonious society.

Building a love-filled society with charity

With the charity philosophy of "Practicing Love with Sports", the Group, by integrating its own advantages in sports resources into charity events, supports youth sports charity projects, cares for people in need in the society, proactively participates in female charity events and drives the development of the impoverished regions. By spreading love and charity concept more people can enjoy beautiful life and the joy of sports.

Sports charity sale

In May 2018, the Chinese Athletes Educational Foundation, which is jointly initiated, sponsored and established by Mr. Li Ning, one of the initiators of Chinese Athletes Educational Foundation and our executive chairman, and world champions, joined hands with the Group to gather love and power for charity sale. All of the proceeds were used for sports charity events organized by the Chinese Athletes Educational Foundation including "All-weather Playground (風雨操場)" and "Unique sports exploration (不一樣的體育拓展)". Both the Group and the Chinese Athletes Educational Foundation have been committed to education development and construction of sports facilities in impoverished and remote regions in China. So far, we have established 44 "Chinese Athletes Hope Primary Schools" and 37 "All-weather Playgrounds" as well as supporting projects such as Project Hope Mini-Library and training for physical education teachers, allowing children in remote regions to feel the charisma of sports and develop strong body and sound personality.

Design of charity sale products

"Postal Parcels for Mothers" Project

In July 2018, the donation launching ceremony of "2018 Li Ning Company's Charity Donation for Caring the Impoverished Women and Children — Postal Parcels for Mothers, a Visit to Inner Mongolia" was held in the new district of Hulunbuir. The Group donated supplies to the Women's Federation in Inner Mongolia Autonomous Region via China Women's Development Foundation. 60 mothers and 30 teenagers and children from Hailar District, Ewenki Autonomous Banner and Old Barag Banner accepted our donation at the ceremony. After the conclusion of the donation ceremony, China Women's Development Foundation and the Group's visiting team paid an in-depth home visit to 4 impoverished mothers in Bayantala, Ewenki Autonomous Banner. For the past six years since the launch of "Postal Parcels for Mothers" project, the Group has donated a total of RMB56.50 million (in cash or in kind) to the project.

Home visit to impoverished mothers

"Charity" + "Industry" Poverty Alleviation Project

In October 2018, the Group entered into the "Eastern Airline Cooperation Agreement Regarding Assistance for the Disabled (東航殘疾人幫扶合作協議)" with, among others, CEA Holding, Donghua University, China Foundation for Poverty Alleviation and Beijing Hongzhi Secondary School, pursuant to which, we closely integrated poverty alleviation, charity and welfare and focused on various areas such as assistance for industry, employment, education and the disabled. In this project, the Group endeavored to provide assistance in, among others, sports and leisure apparel (ranging from design, training, marketing, channel and management) and donated the first batch of 14 units of factory garment manufacturing equipment to a handicraft company for Baraoke folk costumes in Cangyuan. We hope that through the innovative model of "Charity + Industry", we can open up brand-new rooms for development of special industry and inheritance of ethical culture of the regions receiving our assistance, thereby promoting sustainable economic development of the local economy.

Mr. Li Ning with the disabled recipient of our assistance

Charity Golf Tournament

In November 2018, the "2018 World Champions Charity Golf Tournament of Chinese Athletes Educational Foundation" kicked off in Shenzhen Genzon Golf Club. Mr. Li Ning, one of the initiators of the Foundation and our executive chairman, attended and contributed to this charitable event. At the event, numerous compassionate individuals generously made their contribution for public wellbeing. Under the vigorous support of Mr. Li Ning and kind-hearted individuals from all sectors, an auction was held at the dinner banquet that night to support charity and all of the proceeds will be used for pushing forward the educational development in impoverished and remote regions in China.

Caring people from all sectors

Supporting community development with sports

The Group has always maintained friendly relationship with its surrounding communities, enterprises and public institutions. Through various types of communications, we encourage residents in surrounding communities to engage in sports so that more people will understand, learn and enjoy the fun of sporting activities.

Li Ning Park Open Day

Every Tuesday and Friday is set by the Group as Open Day of our headquarters park in Beijing, during which residents of the nearby community, family members of the employees and sport enthusiasts can visit the Park. The Group also arranges volunteers to provide guided tour services for group visitors. The Park Open Day is an effective carrier to promote the Group's corporate culture and is gradually becoming an important channel for the Group to achieve community integration. In 2018, the Group received a total of over 100,000 visitors/time on the Park Open Day of our Beijing headquarters.

Football coaches training organized by Beijing Municipal Education Commission

The Group consistently pays close attention to the development of physical education. We proactive cooperate with relevant sports and education authorities to support the nurture of various sports and education talents by providing resources such as venues and sport equipment. From 3 to 10 December 2018, football coaches training organized by Beijing Municipal Education Commission was held at the indoor football field and conference room in the Group's Li-Ning Centre. Over 100 coaches from a total of more than ten schools attended the training. The Group provided a complete set of sports equipment, venues and ancillary services and facilities for the attending coaches, which ensured a successful conclusion of the training event and garnered high recognition from participating coaches and relevant departments.

Li Ning Winter/Summer Camp

In January and from July to August 2018, the Group organized 2018 Li Ning Winter Camp and Summer Camp, respectively, at Li-Ning Centre in Beijing. The participants include a total of 484 children and teenagers from various age groups, such as U12, U13, U15 and U17, who attended sports courses for basketball, football, table tennis and badminton offered by professional sports coaches. As Li Ning Winter/Summer Camp progresses over the years, more and more children and teenagers become inspired with sportsmanship and increasingly enthusiastic for sports through these events.

Li Ning Basketball Training Camp

Park Visit from Primary and Secondary Students

The Group always values the communications with various primary and secondary schools as well as colleges. We welcome students who are interested in LI-NING brand and Li Ning Park to visit the Group's office park in groups. In 2018, the Group's headquarters park in Beijing received a total of 4,431 students from 11 schools, including Beijing Primary School, primary school affiliated to Peking University, Jiangtai Road Primary School of Chaoyang District, Baijiazhuang Primary School and Shibalidian Secondary School. The Group arranged volunteers to guide student visitors to look around the major venues of the Park. The students, under the guidance of the park coaches, had their on-site experience of various sports facilities at Li-Ning Centre. We expect that through continuous visits for primary and secondary school students, more teenagers can gain better understand of the Group as well as the sports industry and build up a passion for sports.

Sports experience of student visitors

VIII. PARTICULARS OF THE REPORT

Report Summary

This report describes the basic policies of environmental, social and governance of Li Ning Company Limited in 2018, 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. Please refer to Corporate Governance Report for the corporate governance section.

Reporting period

From 1 January to 31 December 2018, with some contents of the report dating back to previous years as appropriate.

Scope of ESG Report

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

Basis of Preparation

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

Investor Relations Report

During the year, the Company's key operational indicators continued to improve. Revenue recorded steady growth and profitability continued to increase with continuous improvement in terms of sales channel and retail efficiency. Strengthening and enhancing LI-NING's experience value have always been a focus of our work. In order to accommodate the rapid changes in the market, the Company continued to optimize its product structure by breaking traditional concepts and launching new products constantly. Meanwhile, we further developed the LI-NING's business model by continuously improving the establishment of a highly efficient retail operation platform with a view to enhancing our efficiency. During the year, in order to consistently in line with the Company's pace of business development and intensive 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 business development to the investment community.

In 2018, the Investor Relations Department of the Company continued to adhere to and actively advocate the principle of being accessible, credible and timely (the "ACT" principle) to constantly maintain effective communications with investors showing interests in the business development of the Company. 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 maintaining timely communication with the investment community on the Company's operating performance. A smooth and effective two-way communication model was maintained through the active daily meeting and conference call mechanism. The Department deepened and broadened the conveying of information by further enhancing the participation in investors' forums and conducting more focused interactive communication. To actively respond to the demand of the investment community for the knowledge on the retail business of the Company, the Department organized various store visit activities in various regions to help the investment community to experience LI-NING brand value in a more detailed, practical and comprehensive way. Except the black-out period prior to the results announcement, the investor relations team responded to the questions in a timely and effective manner. At the same time, it served as a two-way link to summarize and collect the feedbacks from the investment community, which will serve as significant references for the Company's management in considering future development.

Type of activities	2018	2017
Roadshows (including reverse roadshows)	2 times (67 meetings in total)	2 times (49 meetings in total)
Forum	8 times (79 meetings in total)	4 times (55 meetings in total)
Meeting	115 times	130 times
Conference call	241 times	206 times
Store visit	19 times	25 times

In 2019, 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 comprehensive and timely manner 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 2018: 2,191,401,622
Market capitalisation as at 31 December 2018: approximately HK$18,407,773,625

Dividend for 2018

Interim dividend: Nil
Final dividend: RMB8.78 cents per Share

Financial Calendar

Announcement of annual results: 21 March 2019
Annual General Meeting: 14 June 2019

Corporate Websites

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

Contact for Investor Relations

Suites 1, 7-15, Level 45, Office Tower
Langham Place, 8 Argyle Street, Mongkok
Kowloon, Hong Kong
Investor Relations Department, Li Ning Company Limited

Telephone: +852 3541 6000
Fax: +852 3102 0927
Email: investor@li-ning.com.cn

Directors and Senior Management

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

EXECUTIVE DIRECTORS

Mr. Li Ning, aged 56, 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, a company which is listed on the GEM of Hong Kong Stock Exchange. 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, an 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.

Mr. Li Qilin, aged 32, is an executive Director and a member of remuneration committee of the Company. Mr. Li joined the Group in December 2017 as a non-executive Director and re-designated as an executive Director with effect from 19 June 2018. 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 GEM 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 62, 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 served as an independent non-executive director of Midland Holdings Limited, a company listed on the Main Board of Hong Kong Stock Exchange, from 2004 to 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 63, 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 25 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, a company 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 61, 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 32 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 and was appointed as member of the Council for Sustainable Development from 1 March 2015. He served as a vice-chairperson of the Community Care Fund Task Force of the Commission on Poverty from December 2012 to June 2018. 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 66, 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, in 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 57, 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 27 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 46, 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 24 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 53, 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 44, 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 16 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 63, 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 37 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 39, 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. Feng has over 15 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 49, 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 25 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 50, 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 26 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 53, 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 26 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.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Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018.

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) and Kason (badminton) 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 joint ventures as at 31 December 2018 are set out in notes 9 and 10 respectively, to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement on page 101 of this annual report.

DIVIDENDS AND DIVIDEND POLICY

During the year, the Company did not declare interim dividend for the six months ended 30 June 2018 (2017: nil).

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

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

(ii) on 2 July 2019 to CS Holders issued under the 2015 Open Offer and remain outstanding on 21 June 2019;

(iii) on 5 July 2019 (i.e. the third business day after 2 July 2019) to CS Holders issued under the 2013 Open Offer and remain outstanding on 21 June 2019.

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

The Company has adopted a dividend policy, which aims to set out the approach with the objective of achieving right balance of the amount of dividend and the amount of profits retained in the business for various purposes. The dividend policy is to provide relatively steady dividend payout ratio, linked to the Group's earnings performance and cash flow position as well as the business environment. However, the prospective dividend growth remains dependent upon the financial performance and future funding needs of the Group.

CLOSURE OF REGISTER OF MEMBERS AND CS HOLDERS

For the purpose of determining Shareholders who are entitled to attend and vote at the 2019 AGM and Shareholders and CS Holders qualifying for the proposed final dividend to be approved at the 2019 AGM, the register of members of the Company and register of CS Holders will be closed as set out below:

(i) For ascertaining eligibility to attend and vote at the 2019 AGM:

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

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

(ii) For ascertaining entitlement to the proposed Final Dividend to be approved at the 2019 AGM:

Latest time to lodge transfers	4:30 p.m. on 19 June 2019 (Wednesday)
Period of closure of register of members and register of CS Holders	20 June 2019 (Thursday) to 21 June 2019 (Friday) (both days inclusive)
Final Dividend Record Date	21 June 2019 (Friday)

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

During the above closure period, no transfer of Shares or CS will be registered.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 16 to the consolidated financial statements.

RESERVES

As at 31 December 2018, reserves of the Company amounted to RMB4,460,184,000 (2017: RMB4,136,055,000). Details of movements in reserves of the Company during the year are set out in note 34 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 2018 were as follows:

	Year ended 31 December	
	2018 % of total revenue	2017 % of total revenue
The largest customer	**3.7**	3.9
Five largest customers	**14.4**	15.8

	% of total purchases	% of total purchases
The largest supplier	**8.7**	9.4
Five largest suppliers	**33.6**	34.2

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 2018 is nil (2017: nil).

DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB15,143,961 (2017: RMB3,129,634).

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 SECURITIES

On 25 January 2013, the Company announced the open offer of convertible securities ("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.

On 9 January 2018, the Company cancelled the 2013 Convertible Securities in the principal amount of HK$2.823. During the year ended 31 December 2018, the 2013 Convertible Securities in an aggregate principal amount of approximately HK$25,174.35 had been converted into 7,909 Shares. As at 31 December 2018, the outstanding 2013 Convertible Securities amounted to approximately HK$402,747,337.51 and the outstanding 2015 Convertible Securities amounted to HK$324,322,031.80 which are convertible into a total of 126,530,737 Shares and 124,739,243 Shares respectively.

Assuming all outstanding CS were converted into shares as at 31 December 2018, 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	309,924,862 *(Note 2)*	14.14%	249,827,543	559,752,405	22.92%
Public	1,881,476,760	85.86%	1,442,437	1,882,919,197	77.08%
Total	2,191,401,622	100.00%	251,269,980	2,442,671,602	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 309,924,862 Shares, among which:–

   – 7,989,742 Shares are held as personal interest;

   – 2,561,120 Shares are held by Alpha Talent, 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 2 in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" of this Report of the Directors 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 3 in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" of this Report of the Directors for details of his deemed interest.

As the Company has no contractual obligation to settle 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 28 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 annual report are as follows:

Executive Directors

Mr. Li Ning	*(Executive Chairman and Interim CEO)* *(re-elected as an executive Director on 15 June 2018)*
Mr. Li Qilin	*(re-elected as a non-executive Director on 15 June 2018; re-designated as an executive Director on 19 June 2018)*

Non-executive Directors

Mr. Chen Yue, Scott	*(resigned on 22 March 2018)*
Mr. Wu, Jesse Jen-Wei	*(resigned on 22 March 2018)*

Independent non-executive Directors

Mr. Koo Fook Sun, Louis	
Ms. Wang Ya Fei	
Dr. Chan Chung Bun, Bunny, *GBS, JP*	*(re-elected as an independent non-executive Director on 15 June 2018)*
Mr. Su Jing Shyh, Samuel	

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. Koo Fook Sun, Louis and Mr. Su Jing Shyh, Samuel shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the 2019 AGM.

Mr. Koo Fook Sun, Louis has served on the Board for more than nine years. The Board considers Mr. Koo 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 Mr. Koo 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 Mr. Koo would not affect his exercise of independent judgement when serving the Company, and recommends Mr. Koo to be re-elected as an independent non-executive Director at the 2019 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 2019 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 annual 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 ("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 2018 were RMB73,530,000 (2017: RMB60,379,000).

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2018, save for the CS, the 2014 Share Option Scheme and the 2016 Restricted Share Award Scheme of the Company (as set out in the sections of "Convertible Securities", "Share Option Schemes" and "Restricted Share Award Scheme" in this annual 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.

As at the date of this report, the options available for grant by the Company is 56,295,159 Shares, representing approximately 2.57% of the Shares in issue.

An option shall be regarded as having been accepted when the duplicate of the grant letter, comprising acceptance of the option, is duly signed by the grantee with the number of Shares in respect of which the grant of the option is accepted clearly stated therein, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof is received by the Company within a period of 28 days from the date of grant of the option, provided that no such offer shall be open for acceptance after the expiry of the scheme period or after the 2014 Share Option Scheme has been terminated.

The exercise prices will be determined with reference to the higher of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant.

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 2018 entitled the holders to subscribe for 3,752,783 Shares. Details of movements of the options granted under the 2004 Share Option Scheme for the year ended 31 December 2018 are set out below and in note 31 to the consolidated financial statements.

				Number of Shares							
Grantees	Date of grant	Exercise price per Share *HK$*	Adjusted exercise price per Share upon the 2015 Open Offer *HK$* *(Note 2)*	As at 01/01/2018	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31/12/2018	Vesting Period	Exercise Period
Executive Director											
Li Ning	17/01/2014	7.00	6.35	1,509,470	–	1,509,470 *(Note 3(a))*	–	–	–	17/01/2014 – 31/12/2014	17/01/2014 – 31/12/2018
Non-executive Director											
Chen Yue, Scott *(Note 4)*	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	344,743 *(Note 3(b))*	–	–	–	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Independent non-executive Directors											
Koo Fook Sun, Louis	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	344,743 *(Note 3(c))*	–	–	–	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Wang Ya Fei	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	344,743 *(Note 3(d))*	–	–	–	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chan Chung Bun, Bunny	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	344,743 *(Note 3(e))*	–	–	–	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 *(Note 3(f))*	–	–	–	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Employees of the Group											
In aggregate	20/12/2012	4.92 *(Note 1)*	4.47	2,954,942	–	2,953,716 *(Note 3(g))*	1,226	–	–	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
In aggregate	13/08/2013	5.07	4.60	1,061,333	–	603,756 *(Note 3(h))*	–	–	457,577	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	6.35	1,019,422	–	121,973 *(Note 3(i))*	15,000	–	882,449	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
In aggregate	04/04/2014	5.10	4.63	104,566	–	–	–	–	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
				10,681,639	–	6,912,630	16,226	–	3,752,783		

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$8.27.

   (b) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$9.08.

   (c) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.37.

   (d) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$9.58.

   (e) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.80.

   (f) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.20.

   (g) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.35.

   (h) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.96.

   (i) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.87.

4. Mr. Chen Yue, Scott resigned as Director with effect from 22 March 2018.

Details of movements of the options granted under the 2014 Share Option Scheme for the year ended 31 December 2018 are set out below and in note 31 to the consolidated financial statements.

Grantees	Date of grant	Exercise price per Share HK$	As at 01/01/2018	Number of Shares Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31/12/2018	Vesting Period	Exercise Period
Employees of the Group										
In aggregate	01/04/2015	4.44	20,256,000	–	6,039,667 *(Note 2)*	–	–	14,216,333	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	–	–	883,900	–	52,541,900	01/09/2019 – 01/09/2021	01/09/2019 – 31/12/2022
In aggregate	30/05/2018	9.09	–	390,400 *(Note 1)*	–	–	–	390,400	01/09/2019 – 01/09/2021	01/09/2019 – 31/12/2023
In aggregate	13/09/2018	7.07	–	1,030,000 *(Note 2)*	–	–	–	1,030,000	01/09/2019 – 01/09/2021	01/09/2019 – 31/12/2023
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
			77,481,800	1,420,000	6,039,667	883,900	–	71,978,633		

Notes:

1. The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 30 May 2018 is HK$8.80 per Share.

2. The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 13 September 2018 is HK$6.69 per Share.

3. The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.30

Details of valuation of the share options granted during the year ended 31 December 2018 under the 2004 Share Option Scheme and 2014 Share Option Scheme are set out in note 31 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. The 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 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 31 December 2018, the number of issued Shares of the Company is 2,191,401,622 Shares and the maximum number of Shares which may be administered under the 2016 Restricted Share Award Scheme is 109,570,081 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 2018, the number of unvested Restricted Shares granted under the 2006 Restricted Share Award Scheme is 4,643,660 Shares. Details of movements of the Restricted Shares granted under the 2006 Restricted Share Award Scheme for the year ended 31 December 2018 are set out below and in note 31 to the consolidated financial statements.

Date of grant	Fair value per Restricted Share HK$ *(Note)*	Number of Restricted Shares					Vesting period
		As at 01/01/2018	Granted during the year	Vested during the year	Lapsed during the year	As at 31/12/2018	
17/06/2016	3.20	9,471,565	–	4,717,302	110,603	4,643,660	01/04/2017 – 01/04/2019
		9,471,565	–	4,717,302	110,603	4,643,660	

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 2018 are as follows:

Date of grant	Fair value per Restricted Share HK$ *(Note)*	Number of Restricted Shares					Vesting period
		As at 01/01/2018	Granted during the year	Vested during the year	Lapsed during the year	As at 31/12/2018	
15/08/2016	4.66	150,334	–	75,166	–	75,168	01/04/2017 – 01/04/2019
06/09/2017	5.74	6,407,400	–	–	375,800	6,031,600	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	–	–	232,000	19,085,500	01/09/2019 – 01/09/2021
29/05/2018	8.80	–	204,800	–	–	204,800	01/09/2019 – 01/09/2021
04/07/2018	8.21	–	1,076,000	–	–	1,076,000	01/09/2019 – 01/09/2021
12/09/2018	6.69	–	265,300	–	25,700	239,600	01/09/2019 – 01/09/2021
		25,990,034	1,546,100	75,166	633,500	26,827,468	

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 2018, 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	309,924,862	259,282,277	569,207,139 *(Note 1)*	25.97%
Li Qilin	Personal interest & Beneficiary of two discretionary trusts	299,374,000	250,903,543	550,277,543 *(Note 2)*	25.11%
Wang Ya Fei	Personal interest	491,888	–	491,888	0.02%
Chan Chung Bun, Bunny	Personal interest	613,130	–	613,130	0.03%

* The percentage has been calculated based on 2,191,401,622 Shares in issue as at 31 December 2018.

Notes:

1. Mr. Li Ning ("Mr. Li") is interested in 309,924,862 Shares, among which 7,989,742 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 259,282,277 underlying Shares, among which (i) 9,454,734 Shares are unvested Restricted Shares granted by the Company, and (ii) 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 18.99% by Victory Mind Assets Limited ("Victory Mind"), approximately 24.10% by Lead Ahead Limited ("Lead Ahead") and approximately 22.60% 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 a total of 9,454,734 unvested Restricted Shares under the Restricted Share Award Schemes.

2. Mr. Li Qilin is interested in 1,076,000 unvested Restricted Shares under the 2016 Restricted Share Award Scheme. Moreover, 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 2018, 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 2018, 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	309,924,862	259,282,277	569,207,139 (L) *(Note 1)*	25.97%
Li Qilin	Personal interest & Beneficiary of two discretionary trusts	299,374,000	250,903,543	550,277,543 (L) *(Note 2)*	25.11%
Li Chun	Interest of controlled corporations	299,374,000	249,827,543	549,201,543 (L) *(Note 3)*	25.06%
Viva China Holdings Limited	Interest of controlled corporation	299,374,000	249,827,543	549,201,543 (L) *(Note 1(a))*	25.06%
Ministry of Finance of the People's Republic of China	Interest of controlled corporations	–	137,796,671	137,796,671 (L) *(Note 4)*	6.29%
BlackRock, Inc.	Investment manager Investment manager	132,662,032 1,312,500	– –	132,662,032 (L) 1,312,500 (S)	6.05% 0.06%
Schroders Plc	Investment manager	110,984,000	–	110,984,000 (L)	5.06%
Marathon Asset Management LLP	Investment manager	110,005,716	–	110,005,716 (L)	5.02%

(L) – Long position, (S) – Short position

* The percentage has been calculated based on 2,191,401,622 Shares in issue as at 31 December 2018.

Notes:

1. Mr. Li Ning is interested in 309,924,862 Shares, among which 7,989,742 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 259,282,277 underlying Shares, among which (i) 9,454,734 Shares are unvested Restricted Shares granted by the Company, and (ii) 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 18.99% by Victory Mind, approximately 24.10% by Lead Ahead and approximately 22.60% 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 a total of 9,454,734 unvested Restricted Shares under the Restricted Share Award Schemes.

2. Mr. Li Qilin is interested in 1,076,000 unvested Restricted Shares under the 2016 Restricted Share Award Scheme. Moreover, 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.

Save as disclosed above, as at 31 December 2018, 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 marketing; and (iii) event production and management ("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 ("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 ("2016 Renewed Master Agreement") to renew the 2013 Renewed 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 ended 31 December 2016, 2017 and 2018 were 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 ended 31 December 2016, 2017 and 2018 were less than 5%, the Viva China Transactions were exempt from independent shareholders' approval but were 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 ended 31 December 2018 from RMB170,000,000 to RMB340,000,000 ("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 were more than 1% but less than 5%, the transactions were 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.

As at 31 December 2018, Viva China, who indirectly holds approximately 13.66% shares in the Company, is a substantial Shareholder and thus a connected person of the Company.

For the year ended 31 December 2018, there was an aggregate contracted amount of approximately RMB278,193,000 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 revised annual cap disclosed in the announcement of the Company dated 10 January 2018.

On 28 December 2018, the Company and Viva China entered into an agreement ("2019 Renewed Master Agreement") to renew the 2016 Renewed Master Agreement with effect from 1 January 2019 to 31 December 2021 or the day on which Viva China ceases to be a connected person of the Company (whichever is earlier). Pursuant to the 2019 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 2019, 2020 and 2021 are RMB320,500,000, RMB326,500,000 and RMB333,000,000 respectively.

Moreover, the Company and Viva China entered into an agreement on 28 December 2018 ("Master Sales Agreement") for the following continuing connected transactions ("Sales Transactions") to be entered into between member(s) of the Group and member(s) of Viva China Group for the period from 1 January 2019 to 31 December 2021 or the day on which Viva China ceases to be a connected person of the Company (whichever is earlier):

(1) sales of branded products (including but not limited to sportswear and sports-related products) ("Branded Products") by any member of the Group to Viva China Group; and

(2) provision of consignment-sales services by any member of Viva China Group to the Group in respect of the Branded Products.

Pursuant to the Master Sales Agreement, the annual caps for the Sales Transactions payable by Viva China Group to the Group for the three financial years ending 31 December 2019, 2020 and 2021 are RMB10,000,000, RMB22,000,000 and RMB40,000,000 respectively.

As the applicable percentage ratios for the annual caps under the 2019 Renewed Master Agreement and Master Sales Agreement (on a stand-alone basis and after aggregation) for the three financial periods ending 31 December 2019, 2020 and 2021 are all less than 5%, the Viva China Transactions and Sales 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 28 December 2018 in regard to the 2019 Renewed Master Agreement and Master Sales Agreement for details.

RELATED-PARTY TRANSACTIONS

The Viva China Transactions and the Sales Transactions also constituted related-party transactions which, among others, are set out in note 33 to the consolidated financial statements.

Apart from the Viva China Transactions and the Sales Transactions, other related-party transactions set out in note 33 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 2018. 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 Schemes, 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 2018 and up to the date of this annual 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 2018, 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 of this annual 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 2018, 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 13, pages 16 to 35 and pages 36 to 51 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 36 to 51 and pages 52 to 66 of this annual report, respectively.

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

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 2019 AGM.

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

Hong Kong, 21 March 2019

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 99 to 183, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- 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 2018, 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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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 3.1 and Note 13 to the consolidated financial statements As at December 31, 2018, the balance of trade receivables was RMB1,213 million (net of allowance for impairment of trade receivables of RMB284 million). Allowance for impairment of trade receivables reflects management's best estimate to determine the expected credit losses. The estimate requires significant management judgement in making assumptions about the risk of default and expected credit loss rates and selecting the inputs to the impairment calculation.	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 determination in estimating expected credit losses by performing procedures such as (1) inquiring management regarding the credit worthiness of individual customers, (2) analysing historical payment pattern of customers, (3) analysing historical trade receivable turnover days and benchmarking against industry average, (4) assessing the appropriateness of the expected credit loss provisioning methodology, (5) checking, on a sample basis, the key data inputs such as the ageing schedule of trade receivables, and (6) challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit losses. • 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 2019 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 2018 to be supportable by available evidence.

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Key Audit Matter	How our audit addressed the Key Audit Matter
Inventory provision Refer to note 4 and note 11 to the consolidated financial statements The Group's balance of gross inventories as at 31 December 2018 was RMB1,364 million, against which a provision of RMB125 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 2018 to be supportable by available evidence.

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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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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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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 2019

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		As at 31 December	
	Note	2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	830,085	838,185
Land use rights	7	74,092	75,986
Intangible assets	8	233,921	257,947
Deferred income tax assets	21	239,047	234,327
Other assets	12	132,491	–
Available-for-sale financial assets		–	14,000
Investments accounted for using the equity method	10	728,499	689,071
Other receivables	14	102,916	–
Other receivables and prepayments		–	101,451
Total non-current assets		2,341,051	2,210,967
Current assets			
Inventories	11	1,239,741	1,102,538
Other assets – current portion	12	508,536	–
Trade receivables	13	928,895	1,138,034
Other receivables – current portion	14	37,340	–
Other receivables and prepayments – current portion		–	339,867
Restricted bank deposits	15	200	721
Cash and cash equivalents	15	3,671,542	2,529,222
Total current assets		6,386,254	5,110,382
Total assets		8,727,305	7,321,349

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	16	204,435	203,347
Share premium	16	3,249,389	3,189,792
Shares held for Restricted Share Award Scheme	16	(168,809)	(69,600)
Other reserves	17	1,314,569	1,086,613
Retained earnings	17	1,217,456	660,895
		5,817,040	5,071,047
Non-controlling interests in equity		2,550	2,550
Total equity		5,819,590	5,073,597
LIABILITIES			
Non-current liabilities			
License fees payable	20	27,565	39,203
Derivative financial instruments		14,274	5,584
Deferred income tax liabilities	21	34,730	18,323
Deferred income	22	53,675	56,832
Total non-current liabilities		130,244	119,942
Current liabilities			
Trade payables	18	1,133,314	1,145,113
Contract liabilities	5	97,979	–
Other payables and accruals	19	1,383,118	929,263
License fees payable – current portion	20	28,719	33,392
Current income tax liabilities		134,341	20,042
Total current liabilities		2,777,471	2,127,810
Total liabilities		2,907,715	2,247,752
Total equity and liabilities		8,727,305	7,321,349

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

The financial statements on pages 99 to 183 were approved by the Board of Directors on 21 March 2019 and were signed on its behalf.

Li Ning	**Li Qilin**
Executive Director & Chairman	*Executive Director*

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
	Note	2018 RMB'000	2017 RMB'000
Revenue	5	10,510,898	8,873,912
Cost of sales	23	(5,458,124)	(4,697,429)
Gross profit		5,052,774	4,176,483
Distribution expenses	23	(3,708,446)	(3,273,375)
Administrative expenses	23	(679,873)	(512,051)
Reversal of impairment losses on financial assets – net		18,176	10,985
Other income and other gains – net	24	94,546	43,636
Operating profit		777,177	445,678
Finance income	26	23,376	43,577
Finance expenses	26	(13,865)	(25,537)
Finance income – net	26	9,511	18,040
Share of profit of investments accounted for using the equity method	10	63,633	73,806
Profit before income tax		850,321	537,524
Income tax expense	27	(135,058)	(22,369)
Profit for the year		715,263	515,155
Attributable to:			
Equity holders of the Company		715,263	515,155
Non-controlling interests		–	–
		715,263	515,155
Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB cents per share)			
Basic earnings per share	28	29.63	21.47
Diluted earnings per share	28	29.19	20.87

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2018** **RMB'000**	2017 RMB'000
Profit for the year		**715,263**	515,155
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Currency translation differences	*17*	**1,320**	(3,850)
Items that may not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income	*17*	**(2,888)**	–
Total comprehensive income for the year		**713,695**	511,305
Attributable to:			
Equity holders of the Company		**713,695**	511,305
Non-controlling interests		**–**	–
Total comprehensive income for the year		**713,695**	511,305

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

	Attributable to equity holders of the company							
	Ordinary shares RMB'000 *(Note 16)*	Share premium RMB'000 *(Note 16)*	Shares held for Restricted Share Award Scheme RMB'000 *(Note 16)*	Other reserves RMB'000 *(Note 17)*	Retained earnings RMB'000 *(Note 17)*	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

	Attributable to equity holders of the company							
	Ordinary shares RMB'000 *(Note 16)*	Share premium RMB'000 *(Note 16)*	Shares held for Restricted Share Award Scheme RMB'000 *(Note 16)*	Other reserves RMB'000 *(Note 17)*	Retained earnings RMB'000 *(Note 17)*	Subtotal RMB'000	Non-controlling interests in equity RMB'000	Total equity RMB'000
As at 1 January 2018	203,347	3,189,792	(69,600)	1,086,613	660,895	5,071,047	2,550	5,073,597
Total comprehensive income for the year	–	–	–	(1,568)	715,263	713,695	–	713,695
Transfer of loss on deemed disposal of equity investments at fair value through other comprehensive income to retained earnings	–	–	–	2,888	(2,888)	–	–	–
Transactions with owners:								
Net proceeds from share issuance pursuant to share option schemes	1,087	50,135	–	–	–	51,222	–	51,222
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	–	97,941	–	97,941	–	97,941
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	9,444	–	(9,444)	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	17,656	(17,656)	–	–	–	
Shares purchased for Restricted Share Award Scheme	–	–	(116,865)	–	–	(116,865)	–	(116,865)
Appropriations to statutory reserves				155,814	(155,814)	–	–	–
Shares converted from convertible securities	1	18	–	(19)	–	–	–	–
As at 31 December 2018	204,435	3,249,389	(168,809)	1,314,569	1,217,456	5,817,040	2,550	5,819,590

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

		Year ended 31 December	
	Note	2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	*30*	**1,680,942**	1,185,933
Income tax paid		**(9,073)**	(26,790)
Net cash generated from operating activities		**1,671,869**	1,159,143
Cash flows from investing activities			
– purchases of property, plant and equipment		**(430,795)**	(389,370)
– prepayment for property purchases		**(125,833)**	–
– purchases of intangible assets		**(44,321)**	(38,243)
– proceeds on disposal of property, plant and equipment		**4,037**	3,616
– interest received		**61,588**	29,141
– dividends from associates		**51,452**	52,784
– payment for investment in associates		**(9,650)**	–
– payment for investment in joint ventures		**(500)**	–
– loan repayments from a joint venture		**11,085**	–
– payment for the disposal of available-for-sale financial assets and partial disposal of a subsidiary		**–**	(444)
Net cash used in investing activities		**(482,937)**	(342,516)
Cash flows from financing activities			
– proceeds from issuance of ordinary shares		**51,222**	17,371
– shares purchased for Restricted Share Award Scheme		**(116,865)**	(42,104)
– proceeds from borrowings and loans		**–**	2,000
– repayments of borrowings and loans		**–**	(202,000)
– interest paid		**–**	(7,760)
Net cash used in financing activities		**(65,643)**	(232,493)
Net increase in cash and cash equivalents		**1,123,289**	584,134
Cash and cash equivalents at beginning of year		**2,529,222**	1,953,588
Exchange gains/(losses) on cash and cash equivalents		**19,031**	(8,500)
Cash and cash equivalents at end of year		**3,671,542**	2,529,222

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

1. General information

Li Ning Company Limited (the "Company") and its subsidiaries (together, the "Group") are principally engaged in brand development, design, manufacture, sale and distribution of sport-related footwear, apparel, equipment and accessories in the People's Republic of China (the "PRC").

The Company was incorporated on 26 February 2004 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial 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 2019.

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

(a) 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.

(b) Historical cost convention

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

(c) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

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

The Group had to change its accounting policies and to make certain adjustments following the adoption of IFRS 9 and IFRS 15. These are disclosed in Note 2.2. Most of the other amendments listed above did not have any impact on the amounts recognised in the prior periods and are not expected to significantly affect the current or future periods.

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

2.1 Basis of preparation *(Continued)*

(d) New standards and interpretations not yet adopted

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

IFRS 16 Leases

Nature of change

IFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules IFRS 16. The standard will affect primarily the accounting for the Group's operating leases.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB959,500,000, see Note 32. Of these commitments, approximately RMB121,077,000 relate to short-term leases which will be recognised on a straight-line basis as expense in consolidated income statement. For the remaining lease commitments the Group expects to recognise right-of-use assets of approximately RMB765,826,000 and lease liabilities of RMB765,826,000 on 1 January 2019.

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

Date of adoption by Group

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

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

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

2.2 Changes in accounting policies

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

(a) Impact on the financial statements

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

The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

Balance sheet (extract)	31 December 2017 RMB'000	IFRS 9 RMB'000	IFRS 15 RMB'000	1 January 2018 RMB'000
Non-current assets				
Other assets	–	13,159	–	13,159
Available-for-sale financial assets	14,000	(14,000)	–	–
Financial assets at fair value through other comprehensive income	–	14,000	–	14,000
Other receivables	–	88,292	–	88,292
Other receivables and prepayments	101,451	(101,451)	–	–
Current assets				
Other assets – current portion	–	277,618	189,143	466,761
Other receivables – current portion	–	62,249	–	62,249
Other receivables and prepayments – current portion	339,867	(339,867)	–	–
Total assets	455,318	–	189,143	644,461
Non-current liabilities				
Deferred income	56,832	–	(3,566)	53,266
Current liabilities				
Contract liabilities	–	–	59,213	59,213
Other payable and accruals	929,263	–	133,496	1,062,759
Total liabilities	986,095	–	189,143	1,175,238
Net assets	(530,777)	–	–	(530,777)

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

2.2 Changes in accounting policies *(Continued)*

(b) IFRS 9 Financial Instruments

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

The Group has adopted IFRS 9 from 1 January 2018. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated. The new accounting policies are set out in Note 2.12 below.

(i) Classification and measurement

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

- investments in unlisted companies previously classified as available-for-sale financial assets was reclassified to financial assets at fair value through other comprehensive income ("FVOCI") under IFRS 9;

- loans and receivables previously measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9; and

- wealth management products was currently classified as at fair value through profit or loss ("FVPL") as a whole under IFRS 9.

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

2.2 Changes in accounting policies *(Continued)*

(b) IFRS 9 Financial Instruments *(Continued)*

(i) Classification and measurement (Continued)

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows:

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original RMB'000	New RMB'000	Difference RMB'000
Non-current financial assets					
Unlisted equity investment Note (a)	Available-for-sale	FVOCI	14,000	14,000	–
Other receivables*	Amortised cost	Amortised cost	88.292	88.292	–
Current financial assets					–
Trade receivables	Amortised cost	Amortised cost	1,138,034	1,138,034	–
Other receivables*	Amortised cost	Amortised cost	62.249	62.249	–
Cash and cash equivalents	Amortised cost	Amortised cost	2,529,222	2,529,222	–
Restricted bank deposits	Amortised cost	Amortised cost	721	721	–
Wealth management products	FVPL	FVPL	–	–	–
Current financial liabilities					
Derivatives	FVPL	FVPL	5,584	5,584	–

* Other receivables were previously presented together with prepayments as other receivables and prepayments are now presented seperately as other receivables (receivables) and other assets (prepayments) in the balance sheet.

Note (a) Reclassification from available-for-sale to FVOCI

The Group elected to present in OCI changes in the fair value of its equity investments previously classified as available-for-sale because these investments were held as long-term strategic investments that were not expected to be sold in a short to medium term. As a result, assets with a fair value of RMB14,000,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI.

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

2.2 Changes in accounting policies *(Continued)*

(b) IFRS 9 Financial Instruments *(Continued)*

(ii) Impairment of financial assets

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

- trade receivables, and
- other receivables.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The impact of the change in impairment methodology on the Group's retained earnings as at 1 January 2018 was immaterial and there was no adjustment in retained earnings as at 1 January 2018. Note 3.1 provides for details about the calculation of the allowance.

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

(c) IFRS 15 Revenue from Contracts with Customers

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

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

2.2 Changes in accounting policies *(Continued)*

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

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

(i) Accounting for refunds

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

(ii) Accounting for the customer loyalty programme

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

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

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

- Contract liabilities in relation to advances from customers were previously included in other payables and accruals.
- Contract liabilities in relation to the customer loyalty programme were previously presented as deferred income.
- Prepayments were previously presented together with other receivables as other receivables and prepayments are now presented as other receivables (receivables) and other assets (prepayments) in the balance sheet, to reflect their different nature.

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

2.3 Principles of consolidation and equity accounting

(a) 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 2.4).

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.

(b) 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 (d) below), after initially being recognised at cost.

(c) 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.

Joint ventures

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

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

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

(d) 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.

(e) 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)*

2.4 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)*

2.5 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.

2.6 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 of the Company ("Management") that makes strategic decisions.

2.7 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 consolidated 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:

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

- 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

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

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

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

2.9 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.

2.10 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.

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

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

(a) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and

- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the 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.

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

2.12 Financial assets *(Continued)*

(c) Measurement

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in the consolidated income statement and presented in other income and other gains, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in the consolidated income statement. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income and other gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income and other gains and impairment expenses are presented as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in the consolidated income statement and presented net within other income and other gains in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in the consolidated income statement as other income and other gains when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income and other gains in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

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

2.12 Financial assets *(Continued)*

(d) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

(e) Accounting policies applied until 31 December 2017

The Group has applied IFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

(i) *Classification*

Until 31 December 2017, the Group classified 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 depended on the purposes for which the financial assets were acquired. Management determined the classification of its financial assets at initial recognition.

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

(ii) *Reclassification*

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

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

(iii) *Recognition and derecognition*

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

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

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

2.12 Financial assets *(Continued)*

(e) Accounting policies applied until 31 December 2017 *(Continued)*

(iv) Measurement

The measurement at initial recognition did not change on adoption of IFRS 9, see description above.

Subsequent to the initial recognition, loans and receivables and held-to-maturity investments were carried at amortised cost using the effective interest method.

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

- for financial assets at FVPL – in consolidated income statement within other income and other gains
- 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 were recognised in the consolidated income statement and other changes in the carrying amount were 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 were recognised in the consolidated income statement as part of revenue when the Group's right to receive payments was established.

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

(v) Impairment

The Group assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was 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) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could 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 was considered an indicator that the assets are impaired.

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

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

2.12 Financial assets *(Continued)*

(e) Accounting policies applied until 31 December 2017 *(Continued)*

(v) Impairment (Continued)

a) Assets carried at amortised cost

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

If, in a subsequent period, the amount of the impairment loss decreased and the decrease could 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 was recognised in the consolidated income statement.

b) Assets classified as available for sale

If there was 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 – was removed from equity and recognised in the consolidated income statement.

Impairment losses on equity instruments that were recognised in the consolidated income statement were 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 increased and the increase could be objectively related to an event occurring after the impairment loss was recognised in the consolidated income statement, the impairment loss was reversed through profit or loss.

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.

2.14 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.

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

2.15 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 are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

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

Details about the Group's impairment policies and the calculation of the loss allowance are provided in Note 3.1.

2.16 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.

2.17 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.

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

2.19 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.

2.20 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.

2.21 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.

2.22 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.

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

2.22 Compound financial instruments *(Continued)*

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.

2.23 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.

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. Summary of significant accounting policies *(Continued)*

2.24 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.

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. Summary of significant accounting policies *(Continued)*

2.25 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.

2.26 Revenue recognition

(a) Sale of goods – wholesale

For wholesale business, sales of goods are recognised when control of the products has transferred, being when the products are delivered 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. 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 sales discounts. Revenue from these sales are recognised based on the price specified in the sales contracts, net of the estimated sales discounts at the time of sale. The sales discounts are estimated based on the terms of agreements. 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.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(b) Sale 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, by credit or payment cards or through on-line payment platforms.

(c) Sale of goods – internet

Revenue from the sale of goods on the internet is recognised when the control of the products has transferred to the customer, which is the point of dispatch. Transactions are settled by credit or payment card or through on-line payment platforms.

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

2.26 Revenue recognition *(Continued)*

(d) Sale of goods – refunds

Customers have a right to return products within certain days, the Group is obliged to refund the purchases price. Therefore, a refund liability (included in other payables and accruals) and a right to the returned goods (included in other assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

(e) Sale of goods – customer loyalty programme

The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire at the end of the next year after the initial sale.

A contract liability is recognised until the points are redeemed or expire.

2.27 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.

2.28 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.

2.29 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.

2.30 Interest income

Interest income from financial assets at FVPL is included in other income and other gains, see Note 24 below.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 26 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets, the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

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 2018.

As at 31 December 2018 and 2017, 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.

		2018 **RMB'000**	2017 RMB'000
Post-tax profit (decrease)/increase			
– Strengthened	5%	**(3,547)**	(2,411)
– Weakened	5%	**3,547**	2,411

(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. 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 nil (2017: 4.93%) for bank borrowings denominated in RMB and nil (2017: nil) for bank borrowings denominated in HK$.

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, other receivables, as well as credit exposures to wholesale and retail customers, including outstanding receivables and committed transactions.

(i) *Risk management*

For banks and financial institutions, only parties with good credit ratings are accepted. For other receivables, the Group makes periodic collective assessment and individual assessment on the recoverability of other receivables based on historical settlement records and past experiences. In view of good cooperation in history with debtors and sound collection history of receivables, the credit risk of other receivables is considered to be low. 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. Sales to retail customers are settled in cash, using major credit or payment cards or through on-line payment platforms operated by major companies. 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.

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

	2018 **RMB'000**	2017 RMB'000
Banks*		
Bank A	**1,327,503**	1,381,690
Bank B	**637,314**	215,119
Bank C	**584,237**	407,559
	2,549,054	2,004,368

* 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.

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets

The Group has two types of financial assets that are subject to the expected credit loss model:

- trade receivables, and
- other receivables.

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

Trade receivables

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

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

On that basis, the loss allowance as at 31 December 2018 was determined as follows for trade receivables:

31 December 2018	0-90 days	91-365 days	Over 365 days	Total
Provision on individual basis				
Lifetime expected credit loss rate	0%	0%	100%	
Gross carrying amount of certain debtor(s)	–	–	148,118	148,118
Loss allowance of certain debtor(s)	–	–	(148,118)	(148,118)
Provision on collective basis				
Lifetime expected credit loss rate	5%	29%	100%	
Gross carrying amount excluding certain debtor(s)	897,312	111,471	56,387	1,065,170
Loss allowance excluding certain debtor(s)	(47,898)	(31,990)	(56,387)	(136,275)
Total loss allowance	(47,898)	(31,990)	(204,505)	(284,393)

3. Financial risk management *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) *Impairment of financial assets (Continued)*

Previous accounting policy for impairment of trade receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. An allowance for impairment of trade receivables was established when there was objective evidence that the Group would 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 would enter bankruptcy or financial reorganisation, and default or delinquency in payments were considered indicators that the receivable was impaired. The amount of the allowance was 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 was reduced through the use of an allowance account, and the amount of the loss was recognised in the consolidated income statement within administrative expenses. When a receivable is uncollectible, it was written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off were credited against administrative expenses in the consolidated income statement.

Other receivables

Other receivables at amortised cost mainly include deposits, staff advances and other payments for employees, loans to a joint venture. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition. To assess whether there is a significant increase in credit risk, the Group compares the risk of default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition by considering available, reasonable and supportive forwarding-looking information.

(iii) *Net impairment losses on financial assets*

	2018 RMB'000	2017 RMB'000
Reversal of impairment losses on trade receivables	**(22,227)**	(10,985)
Impairment losses on other receivables	**4,051**	–
Reversal of impairment losses on financial assets	**(18,176)**	(10,985)

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 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 2018				
License fees payable	**29,187**	**5,000**	**18,000**	**19,000**
Trade payables	**1,133,314**	**–**	**–**	**–**
Other payables	**632,494**	**–**	**–**	**–**
	1,794,995	**5,000**	**18,000**	**19,000**
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

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

(a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards. An explanation of each level follows underneath the table.

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value for the year ended 31 December 2018 and 2017 on a recurring basis:

At 31 December 2018	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Derivative financial instruments	–	–	14,274	14,274
Total financial liabilities	–	–	14,274	14,274

At 31 December 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through other comprehensive income*				
Unlisted equity investments	–	–	14,000	14,000
Total financial assets	–	–	14,000	14,000
Financial liabilities				
Derivative financial instruments	–	–	5,584	5,584
Total financial liabilities	–	–	5,584	5,584

* See Note 2.2 for reclassification following the adoption of IFRS 9 Financial Instruments.

3. Financial risk management *(Continued)*

3.3 Fair value estimation *(Continued)*

(a) Fair value hierarchy *(Continued)*

There were no transfers between each levels for recurring fair value measurements during the year.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

Level 1: The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted marked price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Level 2: The fair value of financial instruments that are not traded in an active market (for example, over–the–counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on Group specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

(b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

- quoted market prices or dealer quotes for similar instruments;
- the fair value is determined using the binomial model;
- the fair value of the remaining financial instruments is determined using discounted cash flow analysis and price of recent investment method.

3. Financial risk management *(Continued)*

3.3 Fair value estimation *(Continued)*

(c) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 instruments for the year ended 31 December 2018:

	Wealth management products RMB'000	Unlisted equity investments RMB'000	Derivative financial instruments RMB'000	Total RMB'000
As at 1 January 2017	–	14,000	(1,024)	12,976
Changes in fair value	–	–	(4,560)	(4,560)
As at 31 December 2017	–	14,000	(5,584)	8,416
Additions	4,662,500	9,650	–	4,672,150
Settlements/transfer	(4,709,141)	(20,762)	–	(4,729,903)
Changes in fair value	46,641	(2,888)	(8,690)	35,063
As at 31 December 2018	–	–	(14,274)	(14,274)
Changes in unrealised gains or losses for the period included in the consolidated income statement for assets held at the end of the reporting period	–	–	(8,690)	(8,690)
2018	–	–	(8,690)	(8,690)
2017	–	–	(4,560)	(4,560)

The fair value assessment methods and related key assumptions and judgements adopted by the Group's management is as follow:

- binomial model: volatility rate, risk-free rate and dividend yield;
- price of recent investment method: the price of the recent investment and changes subsequent to the relevant transaction date;
- discounted cash flow method: expected rate of return, discount rates and expected future cash flows.

The Group has a team that manages the valuation of level 3 instruments for financial reporting purposes. The team manages the valuation exercise of the investments on a case by case basis. At least once every year, the team would use valuation techniques to determine the fair value of the Group's level 3 instruments. External valuation experts will be involved when necessary.

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.

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

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past historical data, existing market conditions as well as forward-looking information at the end of each reporting period. Further details are included in Note 3.1.

(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 2.10 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.

5. Segment information and revenue

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

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

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

(a) Disaggregation of revenue from contracts with customers

The Group derives revenue in the following major product lines and geographical regions:

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

Geographical information of revenue

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

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

The Group has a large number of customers. For the year ended 31 December 2018 and 2017, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

(b) Liabilities related to contracts with customers

	2018 RMB'000	2017 RMB'000
Contract liabilities – advances from customers	84,143	–
Contract liabilities – customer loyalty programme	13,836	–
Total	97,979	–

See Note 2.2 for reclassification following the adoption of IFRS 9 Financial Instruments.

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	Construction-in-progress RMB'000	Total RMB'000
As at 1 January 2017							
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
Year ended 31 December 2018							
Opening net book amount	**363,899**	**333,078**	**49,171**	**46,245**	**45,792**	**–**	**838,185**
Additions	**–**	**323,699**	**39,859**	**4,014**	**16,304**	**128**	**384,004**
Disposals	**(406)**	**(21,644)**	**(4,637)**	**(143)**	**(2,237)**	**–**	**(29,067)**
Depreciation charge	**(17,760)**	**(285,800)**	**(35,058)**	**(10,615)**	**(13,804)**	**–**	**(363,037)**
Closing net book amount	**345,733**	**349,333**	**49,335**	**39,501**	**46,055**	**128**	**830,085**
As at 31 December 2018							
Cost	**527,176**	**944,102**	**256,388**	**110,440**	**192,295**	**128**	**2,030,529**
Accumulated depreciation	**(181,443)**	**(594,769)**	**(207,053)**	**(70,939)**	**(146,240)**	**–**	**(1,200,444)**
Net book amount	**345,733**	**349,333**	**49,335**	**39,501**	**46,055**	**128**	**830,085**

Depreciation expenses of RMB37,387,000 (2017: RMB29,404,000) has been charged to cost of sales, RMB305,936,000 (2017: RMB274,924,000) to distribution expenses and RMB19,714,000 (2017: RMB17,702,000) to administrative expenses.

7. Land use rights

	RMB'000
As at 1 January 2017	
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
Year ended 31 December 2018	
Opening net book amount	**75,986**
Amortisation charge	**(1,894)**
Closing net book amount	**74,092**
As at 31 December 2018	
Cost	**95,558**
Accumulated amortisation	**(21,466)**
Net book amount	**74,092**

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.

Amortisation of RMB1,894,000 (2017: RMB1,901,000) has been charged to administrative expenses.

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 2017						
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
Year ended 31 December 2018						
Opening net book amount	139,474	12,351	47,823	50,094	8,205	257,947
Additions	–	–	22,737	–	–	22,737
Amortisation charge	–	(1,279)	(20,777)	(17,576)	(6,849)	(46,481)
Disposal	–	–	(282)	–	–	(282)
Closing net book amount	139,474	11,072	49,501	32,518	1,356	233,921
As at 31 December 2018						
Cost	139,474	25,682	244,456	339,657	61,279	810,548
Accumulated amortisation and impairment	–	(14,610)	(194,955)	(307,139)	(59,923)	(576,627)
Net book amount	139,474	11,072	49,501	32,518	1,356	233,921

Amortisation of RMB17,576,000 (2017: RMB17,654,000) to distribution expenses and RMB28,905,000 (2017: RMB28,202,000) to administrative expenses.

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 2017	67,087	72,387
As at 1 January and 31 December 2018	**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 10.7% and 15.2% 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. Subsidiaries

The following is a list of the Group's subsidiaries as at 31 December 2018:

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
上海悅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
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

9. 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
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
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

9. 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
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
廣西李寧體育用品有限公司 (Guangxi Li Ning Sports Goods Co., Ltd)	The PRC, 23 November 2018 Limited liability company	RMB50,000,000	100%	Manufacture and 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
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

9. 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
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
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%	Manufacture and 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

9. 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
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
大慶悦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
重慶悦奥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
貴陽悦奥體育用品有限公司 (Guiyang Yue Ao Sports Goods Co., Ltd.)	The PRC, 23 May 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
深圳悦奥商貿有限公司 (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

10. Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

	2018 RMB'000	2017 RMB'000
Associates	660,156	637,304
Joint ventures	68,343	51,767
As at 31 December	728,499	689,071

The profit recognised in the consolidated income statement are as follows:

	2018 RMB'000	2017 RMB'000
Associates	47,557	59,712
Joint ventures	16,076	14,094
For the year ended 31 December	63,633	73,806

Investment in associates

The following is a list of the associates as at 31 December 2018:

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	47.50%	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
湖北動能體育用品有限公司 Hubei Dongneng Sports Goods Co., Ltd.) ("Hubei Dong Neng")*	The PRC, 29 October 2008 Limited liability company	RMB100,000,000	20%	Manufacture and sale of sports goods	Equity

10. Investments accounted for using the equity method *(Continued)*

* In September 2018, the Group signed an agreement and acquired an additional 10% of equity interest in Hubei Dong Neng with a total cash consideration of RMB9.65 million. Prior to this transaction, the Group owned 10% of equity interest which was designated an available-for-sale financial asset where the Management intended to hold them for a medium to long-term in the prior financial years and then reclassified as financial asset at FVOCI from 1 January 2018 under IFRS 9. Following the completion of this transaction on 5 November 2018, the Group held 20% of equity interest in Hubei Dong Neng, on which the Group had one of five board seats. This investment was transferred from financial asset at FVOCI to investments in associates which were accounted for using the equity method.

In July 2018, Hubei Dong Neng announced to distribute the dividends to shareholders. In September 2018, the Group received the dividends of RMB5,985,000.

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 and total comprehensive income of Yue Wang Jin Fu,Tianjin Kuan Mao Mi and Tianjin Yue Hao Tuo for the year ended 31 December 2018 and 2017.

The Group received RMB45,467,000 dividend from Double Happiness for the year ended 31 December 2018 (2017: RMB52,784,000).

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

	2018 RMB'000	2017 RMB'000
Current		
Assets	**810,618**	656,609
Liabilities	**800,334**	627,858
Non-current		
Assets	**1,010,505**	994,423
Liabilities	**152,170**	158,650

10. Investments accounted for using the equity method *(Continued)*

Summarised statement of comprehensive income

	2018 RMB'000	2017 RMB'000
Revenue	684,511	717,264
Profit before income tax	135,225	137,560
Income tax expense	(33,514)	(30,002)
Profit for the year	101,711	107,558
Other comprehensive income	–	–
Total comprehensive income	101,711	107,558

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associates

Summarised financial information

	2018 RMB'000	2017 RMB'000
Opening net assets as at 1 January	885,100	779,901
Profit for the year	101,711	107,558
Non-controlling interests	(2,571)	(2,359)
Dividends paid	(95,720)	–
Net assets of Double Happiness as at 31 December	888,520	885,100
Interest in an associate (47.5%)	422,046	420,422
Goodwill	216,882	216,882
Carrying value	638,928	637,304

10. Investments accounted for using the equity method *(Continued)*

Investment in joint ventures

	2018 RMB'000	2017 RMB'000
As at 1 January	**51,767**	37,673
Addition	**500**	–
Share of profit	**16,076**	14,094
As at 31 December	**68,343**	51,767

The joint ventures listed below have share capitals consisting solely of ordinary shares, which are 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
Li-Ning (Beijing) Sports Culture Co. Ltd ("Li-Ning Sports Culture")	The PRC, 8 August 2018 Limited liability company	RMB1,000,000	50%	Organize cultural and art exchange event

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.

The Group has a 50% equity interest in Li-Ning Sports Culture which is a company jointly controlled by the Group and Viva Lingyue Sports Development (Beijing) Ltd., a subsidiary of Viva China Holdings Limited ("Viva China"). Li-Ning Sports Culture is principally engaged in organizing cultural and art exchange events in PRC.

11. Inventories

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

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB5,312,201,000 for the year ended 31 December 2018 (2017: RMB4,598,262,000). Inventory provision and the amount of reversal have been included in cost of sales in the consolidated income statement for the years ended 31 December 2018 and 2017.

12. Other assets

	2018 RMB'000	2017 RMB'000
Other assets in relation to refunds	262,644	–
Prepaid rentals and other deposits	180,321	–
Prepayment for property purchases	125,833	–
Advances to suppliers	11,148	–
Prepayment for advertising expenses	4,523	–
Others	56,558	–
	641,027	–
Less: non-current portion	(132,491)	–
Current portion	508,536	–

13. Trade receivables

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

13. Trade receivables *(Continued)*

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

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

The movement in the loss allowances for trade receivables during the year is as follows:

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

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

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

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The loss allowance decreased by RMB117,452,000 to RMB284,393,000 for trade receivables during the current reporting period. Note 3.1 provides for details about the reconciliation from the opening loss allowance to the closing loss allowance.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

14. Other receivables

	2018 RMB'000	2017 RMB'000
Deposits	114,387	278,726
Loans to a joint venture *(a)*	6,309	17,322
Staff advances and other payments for employees	1,153	1,333
Licence fees receivable	771	10,563
Others	21,687	120,395
Advances to suppliers	–	9,526
Prepayment for advertising expenses	–	3,453
Less: loss allowance for other receivables	(4,051)	–
	140,256	441,318
Less: non-current portion	(102,916)	(101,451)
Current portion	37,340	339,867

See Note 2.2 for the impact of the change in accounting policy following the adoption of IFRS 9 on the classification of financial assets and Note 2.12(e) for the remaining relevant accounting policies.

Other receivables are measured at amortised cost. Non-current portion mainly comprises rental deposits.

The Group does not hold any collateral as security. Note 3.1 sets out information about the impairment of financial assets and the Group's exposure to credit risk and foreign currency risk.

(a) As at 31 December 2018, loan of HK$7,500,000 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 2018, 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):

	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	3,671,542	2,529,222
Restricted bank deposits	200	721
	3,671,742	2,529,943

An analysis of cash, cash equivalents and restricted bank deposits by denomination currency is as follows:

	2018 RMB'000	2017 RMB'000
Denominated in RMB	3,603,961	2,488,113
Denominated in HK$	53,603	11,306
Denominated in US$	9,513	27,215
Denominated in EUR	2,493	1,765
Denominated in KRW	2,172	1,544
	3,671,742	2,529,943

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. 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 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 17(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	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
As at 1 January 2018	**2,162,159**	**203,347**	**3,189,792**	**3,393,139**	**(69,600)**	**3,323,539**
Net proceeds from share issuance pursuant to share option schemes *(Note (a))*	**12,952**	**1,087**	**50,135**	**51,222**	**–**	**51,222**
Shares converted from convertible securities *(Note 17(d))*	**8**	**1**	**18**	**19**	**–**	**19**
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	**–**	**–**	**9,444**	**9,444**	**–**	**9,444**
Shares vested under Restricted Share Award Scheme	**4,792**	**–**	**–**	**–**	**17,656**	**17,656**
Shares purchased under Restricted Share Award Scheme	**(17,430)**	**–**	**–**	**–**	**(116,865)**	**(116,865)**
As at 31 December 2018	**2,162,481**	**204,435**	**3,249,389**	**3,453,824**	**(168,809)**	**3,285,015**

(a) During the year ended 31 December 2018, the Company issued 12,592,000 shares (2017: 4,489,000 shares) to certain directors and employees of the Group at weighted-average issue price of HK$4.70 (2017: HK$4.48) per share pursuant to the Company's 2004 and 2014 Share Option Scheme (see Note 31).

17. 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	Financial assets at FVOCI RMB'000	Subtotal RMB'000	Retained Earnings RMB'000	Total RMB'000
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	–	–	–	(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
As at 1 January 2018	140,926	310,450	77,006	–	557,445	786	–	1,086,613	660,895	1,747,508
Profit for the year	–	–	–	–	–	–	–	–	715,263	715,263
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	97,941	–	–	–	–	97,941	–	97,941
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(9,444)	–	–	–	–	(9,444)	–	(9,444)
Appropriations to statutory reserves	–	155,814		–	–	–	–	155,814	(155,814)	–
Shares vested under Restricted Share Award Scheme	–	–	(17,656)	–	–	–	–	(17,656)	–	(17,656)
Share options lapsed	544	–	(544)	–	–	–	–	–	–	–
Shares converted from convertible securities *(Note)*	–	–	–	–	(19)	–	–	(19)	–	(19)
Translation difference of foreign currency financial statements	–	–	–	–	–	1,320	–	1,320	–	1,320
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	–	–	–	–	(2,888)	(2,888)	–	(2,888)
Transfer to retained earnings	–	–	–	–	–	–	2,888	2,888	(2,888)	–
As at 31 December 2018	141,470	466,264	147,303	–	557,426	2,106	–	1,314,569	1,217,456	2,532,025

17. 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 2018, CS with carrying value of HK$1,459,037,000 (equivalent to approximately RMB1,177,493,000) had been converted into ordinary shares of the Company, amongst which carrying value of HK$22,000 (equivalent to approximate RMB19,000) were converted into 8,000 ordinary shares of the Company during the year ended 31 December 2018 (Note 16).

18. 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:

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

19. Other payables and accruals

	2018 RMB'000	2017 RMB'000
Accrued sales and marketing expenses	**371,034**	267,930
Wages and welfare payables	**160,480**	128,375
Advances from customers	**–**	55,647
Other tax payables	**89,003**	116,950
Payable for property, plant and equipment	**24,575**	6,726
Refunds liabilities *(a)*	**501,141**	–
Others	**236,885**	353,635
	1,383,118	929,263

(a) When a customer has a right to return product within a given period, the Group recognises a refund liability for the amount of consideration received for which the entity does not expect to be entitled (31 December 2018: RMB501,141,000; 31 December 2017: RMB354,390,000). The Group also recognises a right to the returned goods measured by reference to the former carrying amount of the goods (31 December 2018: RMB262,644,000; 31 December 2017: RMB189,143,000; see Note 12). The costs to recover the products are not material because the customers usually return the product in a saleable condition.

20. 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 2017	86,067
Additions	43,073
Payment of license fees	(60,209)
Amortisation of discount *(Note 26)*	5,792
Adjustment for exchange difference	(2,128)
As at 31 December 2017	72,595
As at 1 January 2018	**72,595**
Additions	**46,522**
Payment of license fees	**(68,187)**
Amortisation of discount *(Note 26)*	**4,320**
Adjustment for exchange difference	**1,034**
As at 31 December 2018	**56,284**

	2018 RMB'000	2017 RMB'000
Analysis of license fees payable:		
Non-current		
– the second to fifth year	**16,919**	25,280
– more than five years	**10,646**	13,923
Current	**28,719**	33,392
	56,284	72,595

The license fees payable are mainly denominated in RMB, US$ and EUR.

The maturity profile of the Group's license fees based on contractual undiscounted cash flows is as follows:

	2018 RMB'000	2017 RMB'000
Less than 1 year	**29,187**	34,217
Between 1 and 5 years	**23,000**	30,601
Over 5 years	**19,000**	27,000
	71,187	91,818

21. 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 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
As at 1 January 2018	**948**	**36,302**	**–**	**65,498**	**81,460**	**50,119**	**234,327**
Credited/(charged) to income statement	**–**	**11,392**	**–**	**(46,193)**	**39,635**	**(114)**	**4,720**
As at 31 December 2018	**948**	**47,694**	**–**	**19,305**	**121,095**	**50,005**	**239,047**
Deferred income tax liabilities							
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)
As at 1 January 2018	**–**	**–**	**(5,062)**	**–**	**–**	**(13,261)**	**(18,323)**
Credited/(charged) to income statement	**–**	**–**	**1,976**	**–**	**–**	**(18,383)**	**(16,407)**
As at 31 December 2018	**–**	**–**	**(3,086)**	**–**	**–**	**(31,644)**	**(34,730)**

21. Deferred income tax *(Continued)*

The amounts expected to be recovered for deferred income tax assets/(liabilities) are as follows:

	2018 RMB'000	2017 RMB'000
Deferred income tax assets		
– to be recovered within 12 months	**179,338**	142,167
– to be recovered after more than 12 months	**59,709**	92,160
	239,047	234,327
Deferred income tax liabilities		
– to be recovered within 12 months	**(2,378)**	(2,362)
– to be recovered after more than 12 months	**(32,352)**	(15,961)
	(34,730)	(18,323)

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 RMB32,625,000 (2017: RMB157,456,000) in respect of tax losses amounting to RMB130,501,000 (2017: RMB629,825,000) that can be carried forward against future taxable income and will expire between 2019 and 2023 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 RMB87,523,000 (2017: RMB87,602,000) 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 RMB1,750,469,000 (2017: RMB1,752,048,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

22. Deferred income

	Government grants RMB'000	Customer loyalty programme RMB'000	Total RMB'000
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
As at 1 January 2018	**53,266**	**3,566**	**56,832**
Reclassified to contract liabilities	**–**	**(3,566)**	**(3,566)**
Addition	**2,050**	**–**	**2,050**
Credited to income statement	**(1,641)**	**–**	**(1,641)**
As at 31 December 2018	**53,675**	**–**	**53,675**

23. Expenses by nature

	2018 RMB'000	2017 RMB'000
Cost of inventories recognised as expenses and included in cost of sales	**5,312,201**	4,598,262
Depreciation on property, plant and equipment *(a)*	**363,037**	322,030
Amortisation of land use rights and intangible assets	**48,375**	47,757
Advertising and marketing expenses	**1,090,608**	980,769
Commission and trade fair related expenses	**180,637**	158,088
Staff costs, including directors' emoluments *(Note 25)*	**1,139,002**	903,509
Operating lease rentals in respect of land and buildings and related expenses	**898,440**	829,600
Research and product development expenses (a)	**228,798**	169,724
Transportation and logistics expenses	**395,775**	317,303
Auditor's remuneration	**6,490**	5,662
– Audit services	**5,200**	4,700
– Non-audit services	**1,290**	962
Management consulting expenses	**78,877**	55,348
Travelling and entertainment expenses	**62,386**	49,053

(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.

24. Other income and other gains – net

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

25. Staff costs

	2018 RMB'000	2017 RMB'000
Wages and salaries	428,030	346,883
Contributions to retirement benefit plan *(b)*	73,530	60,379
Share options and restricted shares granted to directors and employees	97,941	28,876
Housing benefits	29,779	24,557
Other costs and benefits	509,722	442,814
	1,139,002	903,509

25. Staff costs *(Continued)*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one (2017: one) director for the years ended 31 December 2018, and his emoluments are reflected in the analysis shown in Note 35. The aggregate amounts of emoluments paid and payable to the remaining four (2017: four) individuals whose emoluments were the highest in the Group for the years are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and allowances	**11,222**	10,875
Other benefits	**33,581**	5,053
Contributions to retirement benefit scheme	**437**	326
	45,240	16,254

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emoluments bands		
HK$3,000,001 to HK$5,000,000	**–**	3
HK$5,000,001 to HK$10,000,000	**–**	1
HK$10,000,001 to HK$12,000,000	**1**	–
HK$12,000,001 to HK$14,000,000	**1**	–
Over HK$14,000,000	**2**	–
	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.

26. Finance income and expenses

	2018 RMB'000	2017 RMB'000
Interest income on bank balances and deposits	**14,947**	29,141
Net foreign currency exchange gain	**8,429**	3,216
Reversal of accrued interest expenses on convertible bonds	**–**	11,220
Finance income	**23,376**	43,577
Amortisation of discount – license fees payable *(Note 20)*	**(4,320)**	(5,792)
Interest expense on bank and other borrowings	**–**	(6,876)
Interest expense on convertible bonds	**–**	(4,234)
Others	**(9,545)**	(8,635)
Finance expenses	**(13,865)**	(25,537)
Finance income – net	**9,511**	18,040

27. Income tax expense

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

27. Income tax expense *(Continued)*

(a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.

(b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2018 (2017: 16.5%).

(c) Provision for the PRC corporate income tax is calculated based on the statutory tax rate of 25% (2017: 25%) on the assessable income of each of the group companies.

(d) This mainly arose from the interests due by the Company's subsidiaries in the PRC to other group companies in Hong Kong during the years ended 31 December 2018 and 2017, which are subject to withholding tax at the rate of 7%.

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:

	2018 **RMB'000**	2017 RMB'000
Profit before income tax	**850,321**	537,524
Tax calculated at a tax rate of 25% (2017: 25%)	**212,580**	134,381
Effects of different overseas tax rates	**(1,483)**	(4,360)
Temporary differences and tax losses for which no deferred income tax asset is recognised	**30,973**	3,666
Utilisation of previously unrecognised tax losses	**(166,970)**	(174,152)
Expenses not deductible for tax purposes	**42,086**	53,461
Income not subject to tax	**(1,684)**	(166)
Withholding tax on interest income	**19,556**	9,539
Tax charge	**135,058**	22,369

28. 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 57,689,000 ordinary shares (31 December 2017: 57,690,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share. 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 2017.

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

Diluted

Diluted earnings per share 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.

28. Earnings per share *(Continued)*

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

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

29. Dividends

	2018 RMB'000	2017 RMB'000
Proposed final dividend of 8.78 cents (2017: nil) per ordinary share	**214,579**	–

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

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

30. Statement of cash flows

Reconciliation of profit before income tax to cash used in operations are as follows:

	2018 RMB'000	2017 RMB'000
Profit before income tax	850,321	537,524
Adjustments for:		
Depreciation	363,037	322,030
Amortisation	48,375	47,757
Loss on disposal of property, plant and equipment	25,030	24,427
Loss on disposal of intangible assets	282	–
Reversal of provision for impairment of trade receivables and other receivables	(18,176)	(10,985)
Reversal of provision for write-down of inventories to net realisable value	(5,713)	(12,851)
Share options and restricted shares granted to directors and employees	97,941	28,876
Finance income – net	(18,792)	(26,106)
Interest income from financial assets at FVPL	(46,641)	–
Amortisation of deferred income	(1,641)	(6,406)
Share of profit of investments accounted for using the equity method	(63,633)	(73,806)
Dividend income classified as investing cash flows	(5,985)	–
Fair value adjustment to derivatives	8,690	4,560
Operating profit before working capital changes	1,233,095	835,020
Increase in inventories	(131,490)	(124,265)
Decrease in trade receivables	227,315	243,205
Increase in other receivables	(6,847)	(23,378)
Increase in other assets	(35,274)	–
(Decrease)/increase in trade payables	(11,799)	97,790
Increase in other payables and accruals	366,655	157,281
Increase in contract liabilities	38,766	–
Decrease in restrict bank deposits	521	280
Cash generated from operations	1,680,942	1,185,933

30. Statement of cash flows *(Continued)*

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2018 RMB'000	2017 RMB'000
Net book amount	29,067	28,043
Loss on disposal of property, plant and equipment	(25,030)	(24,427)
Proceeds from disposal of property, plant and equipment	**4,037**	3,616

31. 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.

31. Share-based compensation *(Continued)*

(a) 2004 Share Option Scheme *(Continued)*

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.

Movements in the number of share options outstanding during the year under this scheme and their weighted average exercise prices are as follows:

	2018		2017	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	5.316	10,682	5.551	14,306
Exercised	4.925	(6,913)	4.559	(1,612)
Lapsed	6.208	(16)	7.596	(2,012)
As at 31 December	6.031	3,753	5.316	10,682
Exercisable as at 31 December	6.020	3,501	5.313	9,523

Share options outstanding under this scheme as at the end of the years have the following expiry date and exercise price:

	2018		2017	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
31 December 2018	4.470	–	4.470	4,680
31 December 2018	6.350	–	6.350	1,509
30 September 2019	6.350	2,148	6.350	2,148
31 December 2019	4.600	581	4.600	1,184
31 December 2020	6.350	919	6.350	1,056
31 December 2020	4.630	105	4.630	105
		3,753		10,682

The fair value of the 2004 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 2018 was RMB174,000 (2017: RMB547,000).

31. 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:

	2018		2017	
	Weighted average exercise price (per share) HK$	**Outstanding options (Thousands)**	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	**5.554**	**77,482**	4.319	28,300
Granted	**7.625**	**1,420**	6.120	53,426
Exercised	**4.440**	**(6,040)**	4.440	(2,877)
Lapsed	**6.120**	**(884)**	4.440	(1,367)
As at 31 December	**5.682**	**71,978**	5.554	77,482
Exercisable as at 31 December	**4.306**	**17,016**	4.360	14,289

Share options outstanding under this scheme as at 31 December 2018 and 31 December 2017 have the following expiry date and exercise price:

	2018		2017	
Expiry date	**Exercise price (per share) HK$**	**Share options (Thousands)**	Exercise price (per share) HK$	Share options (Thousands)
31 December 2020	**4.440**	**15,016**	4.440	21,056
7 June 2026	**3.300**	**3,000**	3.300	3,000
31 December 2022	**6.120**	**52,542**	6.120	53,426
31 December 2023	**9.090**	**390**	9.090	–
31 December 2023	**7.070**	**1,030**	7.070	–
		71,978		77,482

31. Share-based compensation *(Continued)*

(b) 2014 Share Option Scheme *(Continued)*

The fair value of the options granted under the 2014 Share Option Scheme during the years ended 31 December 2018 and 2017 determined by using Black-Scholes valuation model were as follows:

	2018 RMB'000	2017 RMB'000
The 2014 Share Option Scheme	3,665	108,879

Significant inputs into the model were as follows:

	2018	2017
The 2014 Share Option Scheme		
Weighted average share price (HK$)	7.500	6.120
Weighted average exercise price (HK$)	7.627	6.120
Expected volatility	49.7%	49.9%
Expected option life (years)	3.82	3.97
Weighted average annual risk free interest rate	2.1%	1.4%
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 2018 was RMB42,358,000 (2017: RMB7,301,000).

(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.

31. Share-based compensation *(Continued)*

(c) 2006 Restricted Share Award Scheme *(Continued)*

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.

Movements in the number of 2006 Restricted Share Award Scheme granted and related fair value are as follows:

	2018		2017	
	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**	**9,471**	3.200	14,484
Vested	**3.200**	**(4,717)**	3.200	(4,810)
Lapsed	**3.200**	**(110)**	3.200	(203)
As at 31 December	**3.200**	**4,644**	3.200	9,471

The fair value of Restricted Shares charged to the consolidated income statement was RMB6,021,000 during the year ended 31 December 2018 (2017: RMB16,174,000).

(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.

31. 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:

	2018		2017	
	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	**6.018**	**25,990**	4.660	225
Granted	**8.027**	**1,546**	6.026	25,840
Vested	**4.660**	**(75)**	4.660	(75)
Lapsed	**5.918**	**(634)**	5.918	–
As at 31 December	**6.140**	**26,827**	6.018	25,990

The fair value of 2016 Restricted Share Award Scheme charged to the consolidated income statement was RMB49,388,000 during the year ended 31 December 2018 (2017: RMB4,854,000).

32. 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:

	2018 RMB'000	2017 RMB'000
Not later than 1 year	**415,500**	338,664
Later than 1 year and not later than 5 years	**541,418**	457,126
Later than 5 years	**2,582**	4,782
	959,500	800,572

33. 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:

(a) Sales of goods to:

	2018 RMB'000	2017 RMB'000
Subsidiary of Viva China	**2,747**	346

(b) Purchases of goods from:

	2018 RMB'000	2017 RMB'000
Hubei Dong Neng (an associate of the Group)	**35,290**	–
Subsidiary of Li-Ning Aigle Ventures	**5,805**	11,278
Subsidiary of Viva China	**5**	–
	41,100	11,278

(c) Sales of services to:

	2018 RMB'000	2017 RMB'000
License fee from:		
Tianjin Kuan Mao Mi (an associate of the Group)	**9,906**	11,587
Rental fee from:		
Subsidiary of Viva China	**1,667**	1,301
Subsidiary of Li-Ning Aigle Ventures	**664**	716
	12,237	13,604

33. Related-party transactions *(Continued)*

(d) Purchases of services from:

	2018 RMB'000	2017 RMB'000
Subsidiaries of Viva China*	278,194	124,834
Shanghai Double Happiness Co., Ltd.	6,405	5,924
Elite Holiday (Beijing) Sports Development Co., Ltd., controlled by a substantial shareholder of the Company	2,264	–
	286,863	130,758

* The purchases 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.

(e) Key management compensation

Details of compensation paid or payable to key management of the Group are as follows:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	20,349	17,365
Contribution to retirement benefit scheme	583	454
Employee share schemes for value of services provided	51,838	11,471
	72,770	29,290

(f) Year-end balances

	2018 RMB'000	2017 RMB'000
Receivables from related parties:		
Prepayments to subsidiaries of Viva China	701	37,011
Tianjin Kuan Mao Mi	–	10,500
	701	47,511
Payables to related parties:		
Hubei Dong Neng (an associate of the Group)	30,113	–
Subsidiaries of Viva China	–	11,900
	30,113	11,900

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.

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.

34. Balance sheet and reserve movement of the Company

	Note	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Investment in subsidiaries		**3,725,965**	3,649,352
Total non-current assets		**3,725,965**	3,649,352
Current assets			
Dividends receivable		**724,959**	691,615
Cash and cash equivalents		**217,789**	1,310
Total current assets		**942,748**	692,925
Total assets		**4,668,713**	4,342,277
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**204,435**	203,347
Share premium		**3,249,389**	3,189,792
Other reserves	*(a)*	**785,069**	714,247
Retained earnings	*(a)*	**425,726**	232,016
Total equity		**4,664,619**	4,339,402
LIABILITIES			
Current liabilities			
Other payables and accruals		**4,094**	2,875
Total current liabilities		**4,094**	2,875
Total liabilities		**4,094**	2,875
Total equity and liabilities		**4,668,713**	4,342,277

The balance sheet of the Company was approved by the Board of Directors on 21 March 2019 and was signed on its behalf

Li Ning
Executive Director & Chairman

Li Qilin
Executive Director

34. 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 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
As at 1 January 2018	**232,016**	**79,796**	**77,006**	**–**	**557,445**	**946,263**
Total comprehensive income for the year	**193,710**	**–**	**–**	**–**	**–**	**193,710**
Value of services provided under share option schemes and Restricted Share Award Scheme	**–**	**–**	**97,941**	**–**	**–**	**97,941**
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	**–**	**–**	**(9,444)**	**–**	**–**	**(9,444)**
Shares vested under Restricted Share Award Scheme	**–**	**–**	**(17,656)**	**–**	**–**	**(17,656)**
Share options lapsed	**–**	**544**	**(544)**	**–**	**–**	**–**
Shares converted from convertible securities	**–**	**–**	**–**	**–**	**(19)**	**(19)**
As at 31 December 2018	**425,726**	**80,340**	**147,303**	**–**	**557,426**	**1,210,795**

35. Benefits and interests of directors

The remuneration of each director for the year ended 31 December 2018 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	–	4,328	19,764	146	24,238
Ms. Wang Ya Fei	270	–	–	–	270
Mr. Koo Fook Sun, Louis	270	–	–	–	270
Mr. Chan Chung Bun, Bunny	250	–	–	–	250
Mr. Su Jing Shyh, Samuel	270	–	–	–	270
Mr. Li Qilin *(ii)*	382	–	1,850	–	2,232

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 *(ii)*	–	–	–	–	–

(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 was appointed to be a non-executive director of the Company with effect from 13 December 2017 and was appointed to be an executive director of the Company with effect from 19 June 2018.

35. 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 (2017: nil). No consideration was provided to or receivable by third parties for making available directors' services (2017: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2017: 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 (2017: 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 (2017: none).

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
"2019 AGM"	the annual general meeting of the Company to be held on Friday, 14 June 2019
"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
"CS"	convertible securities issued under 2013 Open Offer or 2015 Open Offer
"CS Holder(s)"	holder(s) of CS
"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 Award Schemes"	2006 Restricted Share Award Scheme and 2016 Restricted Share Award Scheme
"Restricted Shares"	shares granted under the Restricted Share Award Schemes 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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