



LI NING COMPANY LIMITED

李寧有限公司

*(Incorporated in the Cayman Islands with limited liability)*

(Stock Code: 2331)



ANNUAL REPORT 2019

# ABOUT LI NING GROUP

Li Ning Company Limited is one of the leading sports brand companies in China, mainly operating professional and leisure footwear, apparel, equipment and accessories 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 retail distribution network and supply chain management system in China. We are committed to becoming a world-class international professional sports brand enterprise with fashion attributes that can represent China and be recognized worldwide.

In addition to its core LI-NING brand, the Group also manufactures, develops, markets, distributes, 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.







## Mission

Let Sports Light Your Passion

## Vision

Leading Sports Brand

## Values

“Living for Dream”  
“Consumer Oriented”  
“WE Culture”  
“Breakthrough”



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. LI Ning (*Executive Chairman and Joint Chief Executive Officer*)  
Mr. KOSAKA Takeshi (*Joint 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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 3301, 33/F., BEA Tower  
Millennium City 5, 418 Kwun Tong Road  
Kowloon, Hong Kong  
Telephone: +852 3541 6000  
Fax: +852 3102 0927



## **OPERATIONAL HEADQUARTER**

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Opto-Mechatronics Industrial Park  
Zhongguancun Science & Technology Area  
Tongzhou District  
Beijing, PRC  
Postal Code: 101111  
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 and Registered PIE Auditor

## **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  
Ping An Bank Co., Ltd.





# FIVE-YEAR FINANCIAL HIGHLIGHTS

Unit: RMB'000

	2019	2018	2017	2016	2015
<b>Operating results:</b>					
Turnover	13,869,630	10,510,898	8,873,912	8,015,293	7,089,495
Operating profit	1,543,209	777,177	445,678	385,805	157,069
Profit before taxation	1,856,546	850,321	537,524	287,946	30,814
Profit attributable to equity holders	1,499,139	715,263	515,155	643,254	14,309
Earnings before interest, tax, depreciation and amortisation (EBITDA)	2,707,649	1,252,222	889,271	713,147	393,953
<b>Assets and liabilities:</b>					
Total non-current assets	4,008,158	2,341,051	2,210,967	2,130,054	1,413,942
Total current assets	8,539,316	6,386,254	5,110,382	4,650,440	5,483,516
Total current liabilities	4,716,620	2,777,471	2,127,810	2,673,915	2,471,786
Net current assets	3,822,696	3,608,783	2,982,572	1,976,525	3,011,730
Total assets	12,547,474	8,727,305	7,321,349	6,780,494	6,897,458
Total assets less current liabilities	7,830,854	5,949,834	5,193,539	4,106,579	4,425,672
Capital and reserves attributable to equity holders	7,121,639	5,817,040	5,071,047	3,994,599	3,179,903
<b>Key financial indicators:</b>					
Gross profit margin	49.1%	48.1%	47.1%	46.2%	45.0%
Margin of profit attributable to equity holders	10.8%	6.8%	5.8%	8.0%	0.2%
EBITDA ratio	19.5%	11.9%	10.0%	8.9%	5.6%
Earnings per share					
– basic (RMB cents)	61.94	29.63	21.47	29.03	0.66
– diluted (RMB cents)	60.13	29.19	20.87	28.95	0.66
Dividend per share (RMB cents)	15.47	8.78	–	–	–
Return on equity attributable to equity holders	23.2%	13.1%	11.4%	17.9%	0.6%
Net tangible assets per share (RMB cents)	299.55	254.87	219.21	182.47	162.59
Debt-to-Equity ratio	76.2%	50.0%	44.3%	69.7%	109.7%









**START  
STANDING**



# CHAIRMAN'S STATEMENT



**Mr. Li Ning**

*Executive Chairman and  
Joint Chief Executive Officer*



## Dear Shareholders,

In 2019, the national economy of the PRC remained stable with steadily improving quality of development despite the uncertainties in the external environment. With the increasingly promising domestic consumption outlook, national consumption is undergoing quality upgrade and consumption has become the key driver for economic growth. To keep pace with the increase in macro demand and the progressive implementation of national policies, the sports market in the PRC is constantly in the process of evolution and innovation, steering development and leading continuous industrial upgrade based on sports consumption. During the year, the Group continued to focus on the strategy of "Single Brand, Multi-categories, Diversified Channels" to strengthen and optimize LI-NING's experience value, which has further enhanced its product and brand competitiveness.

According to the statistics of the National Bureau of Statistics of the PRC, China's Gross National Product (GNP) registered a year-on-year increase of 6.1% in 2019, the national disposable income per capita recorded a real increase of 7.8%, while Engel coefficient decreased by 0.2 percentage point, reflecting continuous improvement of the consumption structure. In respect of sports, given the increasing public awareness of healthy lifestyle, sports consumption is now a major and emerging consumption pattern, promoting the rapid development of the sports industry towards a more professional, standardized and industrialized direction. According to the plan of the General Administration of Sport of China, it is expected that the number of people regularly participating in physical exercises in the country will exceed 630 million by 2035, boosting the value of the sports industry to RMB11.3 trillion. The sports industry will grow in terms of strengths, vitality and quality, thereby becoming a pillar of the national economy.



During the year under review, revenue of the Group continued to grow with our profitability improving steadily. The profit attributable to equity holders increased from RMB715 million in 2018 to RMB1,266 million (excluding one-off profit and loss not related to operation of RMB234 million). During the year, the Group devoted great efforts in enhancing LI-NING's experience value with the implementation of the development strategy of "Single Brand, Multi-categories, Diversified Channels". Our innate sports DNA has impelled us to make continuous investment in research and development of sports science, with a view to optimizing and enhancing the professional and functional features of our products. We offered professional products with vitality and creativity by analyzing the cultural and popular trend, which help attracted more young consumer groups and consolidated our brand influence. During the year, the Group continued to demonstrate its creative brand image during the international fashion weeks, thus building sound reputation while enhancing product competitiveness.





## CHAIRMAN'S STATEMENT

### CONTINUE TO ENHANCE PROFITABILITY AND FACILITATE STEADY IMPROVEMENT OF OPERATIONAL INDICATORS

In 2019, the Group's various key operational indicators further improved. Revenue of the Group grew by 32%, after excluding the one-off profit and loss not related to operation, the net profit margin rose from 6.8% last year to 9.1%. Cash flow from operating activities increased by 110% to RMB3,503 million. Meanwhile, working capital optimized more steadily, with the Cash Conversion Cycle (CCC) shortened from 40 days in 2018 to 26 days in 2019. In terms of tag price, trade fair orders for LI-NING brand products (excluding China LI-NING and LI-NING YOUNG) from franchised distributors, which from the latest trade fair held in December 2019 for the third quarter of 2020 registered a mid-teens growth on a year-on-year basis (this number is being adjusted downward depending on the financial impact on these distributors due to the coronavirus).

As the consumer market becomes increasingly mature, consumers have growing demand for quality products. During the year, we continued to focus on the optimization of products, channels and retail capability as well as supply chain management, at the same time establishing and strengthening the retail-oriented business model with vitality and efficiency, thereby optimizing LI-NING's experience value in full swing. We have scaled up the efforts in product research and development to enhance the professional and functional features of products, and actively explored new channel types and continued to refine the structure of channels with an aim to unleash channel efficiency. To align with the trend of digitalization, we leveraged the synergy from our resources strength both online and offline to improve the overall operational efficiency. Furthermore, we enhanced our retail operation capability to drive robust growth of our results, at the same time consolidating and enhancing the "Demand-driven" (因需而動) supply chain management system to boost business efficiency. During the year, the retail sell-through for the overall platform (including online and offline) increased by high-twenties, while the same-store-sales registered a high-tens growth on a year-on-year basis.

### ADHERE TO THE STRATEGY OF "SINGLE BRAND, MULTI-CATEGORIES, DIVERSIFIED CHANNELS" AND FOCUS ON PROFESSIONAL RESEARCH AND DEVELOPMENT TO EXPLORE CORE COMPETITIVENESS OF PRODUCTS

During the year, we mainly focused on the strategy of "Single brand, Multi-categories, Diversified channels" and further developed both our product and brand competitiveness with products as the core aspect. Given the sports DNA of our brand, we consistently highlighted the professional sports attributes of our products and optimized the product experience and enhanced the core competitiveness of products through intensified efforts in the research and development of sports science. Meanwhile, we kept abreast of time and gained insight of the fashion trend to increase the trendy and cultural elements of our products, with a view to expanding our presence among different consumer groups and enhancing our brand influence.

Empowering professional sports with technology, we worked aggressively on research and development and accumulated experience, and launched the racing shoes specially made for marathon, namely, "LI-NING 䨻" (李寧䨻). The running shoes adopted "LI-NING 䨻" (李寧䨻) technology with lightweight and high resilience features. Combined with an embedded full palm heterogeneous carbon plate, the shoes serve as an excellent booster for athletes with the linked power feedback mechanism. Using 1.5mm ultra-thin sole technology, the resistance of the running shoes is 5 times higher than that of the traditional rubber, and the skid resistance on wet surface is approximately 50% higher than that of the traditional rubber, while also enjoying excellent durability and crack resistance. After two years of research, development and adjustment, practical tests in 14 marathon events by 62 top athletes, as well as the upgrade and adjustment through 13 versions, "LI-NING 䨻" (李寧䨻) only made its debut until each and every function was polished to perfection, which further optimized our product portfolio of professional running shoes.

We have been devoting consistent efforts in sports casual. In the second half of the year, under the theme of "Shows in Paris" (行至巴黎), we blended eye-catching colors with bold designs to create new products with our unique brand personality, which was not only a confident demonstration of Chinese culture to the world, but also a tribute to the upcoming 32nd Summer Olympic Games. In addition, we successively participated in the world-class "Atmos Con" sportswear show and "Complex Con" fashion gala, during which we displayed our featured items such as "ACE LUX" (烈駿ACE LUX), "Titan" (盤古) and "Journey" (遠行), attracting more young consumers with our unique design and precise interpretation of the fashion culture.

In the meantime, echoing with various hot topics, including 70th National Day, the Military World Games and Hangzhou Marathon (杭州馬拉松), we launched a series of diverse marketing campaigns, thereby ensuring quality exposure in the market. Simultaneously, we have organized exclusive sales events and professional promotions, which has helped establish a sound reputation and boost sales volume, hence further increase our brand influence. Furthermore, facilitated by cross-over marketing campaigns, the reputation of our product soared to a new height. We collaborated with the first international panda character "A Pu" (阿璞) in China to express the attitude of "we can be fashionable while saving the environment" (耍潮也要環保). The cross-over product launched with People's Daily also demonstrated the spirit of "Made in China, Right on Trend" (中國造·正當潮). These innovative cross-over products not only catered to the characters and mindsets of youngsters, but also conveyed the value and promoted the influence of LI-NING brand.

### ENHANCE RETAIL OPERATION CAPABILITY AND STRENGTHEN SUPPLY CHAIN MANAGEMENT TO FURTHER UNLEASH CHANNEL EFFICIENCY

We continue to optimize our retail operation supporting platform and enhance the interactive experience with consumers to strengthen our brand recognition and loyalty. We persisted on utilizing big data to gain insights into consumers' diversified consumption habits so as to set precise positioning for consumers.

Meanwhile, we actively planned different marketing campaigns to create hot topics and established smooth communication channels with consumers to draw different consumer groups closer to our brand by consolidating the synergy of our online and offline channels. In respect of store experience, we focused on enhancing the shopping experience of consumers and improving the product coverage to cater to the differentiated demand of products. We also unified the store management standards to upgrade our store image, at the same time strengthening our team building and talent training, thereby comprehensively enhancing our retail operation capability.

In terms of supply chain, we reinforced cost management and quality supervision centering on business needs, while rationalizing and optimizing the supply chain resources with an aim to establish a flexible, swift and dynamic supply chain platform. Targeting the differentiated demand for products and channels, we optimized the allocation of supplier resources in the industry and continuously improved the layout of supplier resources, which has enhanced the responsiveness and efficiency. Besides, we focused on the development of a free supply chain system and comprehensive integration of upstream resources. The footwear production plant that we leased in Nanning, Guangxi Province has been put into operation successfully during the year, striving to incorporate the core capabilities of the industry into our own supply chain system.

In terms of sales channels, we optimized the strategies for channel development with an emphasis on channel efficiency. We also adjusted the channel structure on a dynamic basis by closing down or reforming inefficient and loss-making stores, thereby further unleashing channel efficiency. Moreover, we continued to actively explore opportunities for channel diversification and established more China LI-NING stores in order to accelerate the development of stores with high efficiency and model stores. During the year, we set up 97 new China LI-NING stores and opened the first batch of flagship casual stores in Guangzhou, Chongqing and Macau.

## OUTLOOK

With the rising level of national consumption and continuous upgrade of national consumption structure, the development of the sports industry has embarked on a fast track. The increasing popularity of national fitness has unleashed vast potentials of sports consumption, and technological advancement will promote continuous reform and upgrade of the industry, which will also bring about more opportunities and challenges for the Company. Looking forward, the Group will continue to improve the following core business focuses, further enhance LI-NING's experience value and increase the efficiency of retail operation with a view to achieving healthy and sustainable profit growth for the Company in the future, at the same time achieving real sports value:

- Continue to enhance product and brand competitiveness to maintain sustainable profit growth. Focusing on continuous efficiency improvement, we will steadily improve our profitability and further expand our business scale;

- Continue to adhere to the strategy of "Single brand, Multi-categories, Diversified channels" and further enhancing LI-NING's experience value. We will focus on the scientific research and development of sports to enhance the professional features of our products. We will also consolidate the influence of LI-NING brand among consumers by staying abreast of the latest fashion and cultural trends and pushing forward the development of digitalization strategy and comprehensive marketing layout on a continuous basis;
- Continue to enhance our channel and retail operation capability and implement precise product plans with a view to unleashing channel efficiency consistently. We will push ahead with the development of stores with high efficiency and model stores and increase the use of digitalization for store layout, at the same time capturing diversified consumer demand and improving online and offline sales efficiency through new retail initiatives and big data analysis. We will also step up our efforts in the establishment of supply chain system in a bid to continuously enhance the capability of our own supply chain system;
- 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 sustainable profit growth of the Company.

In the future, 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, consolidate our brand influence 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. Lastly, I would like to officially welcome Mr. Kosaka Takeshi to join the big family of Li Ning. Benefitting from his rich experience in terms of channel and retail operation as well as supply chain, we believe that he will be a great complementary to the existing management team, which will further increase the operation efficiency of the Company and help us to deliver another strong performance. In 2020, which marks the 30th anniversary of establishment of LI-NING brand, we will continue to convey our sports DNA heritage and make true more ground-breaking sports dreams through cutting-edge combination of innovative technology and professional functions. "Anything is Possible" in the future!

**Li Ning**  
Executive Chairman and Joint Chief Executive Officer

Hong Kong, 26 March 2020

SPORTSMAN-

SHIP



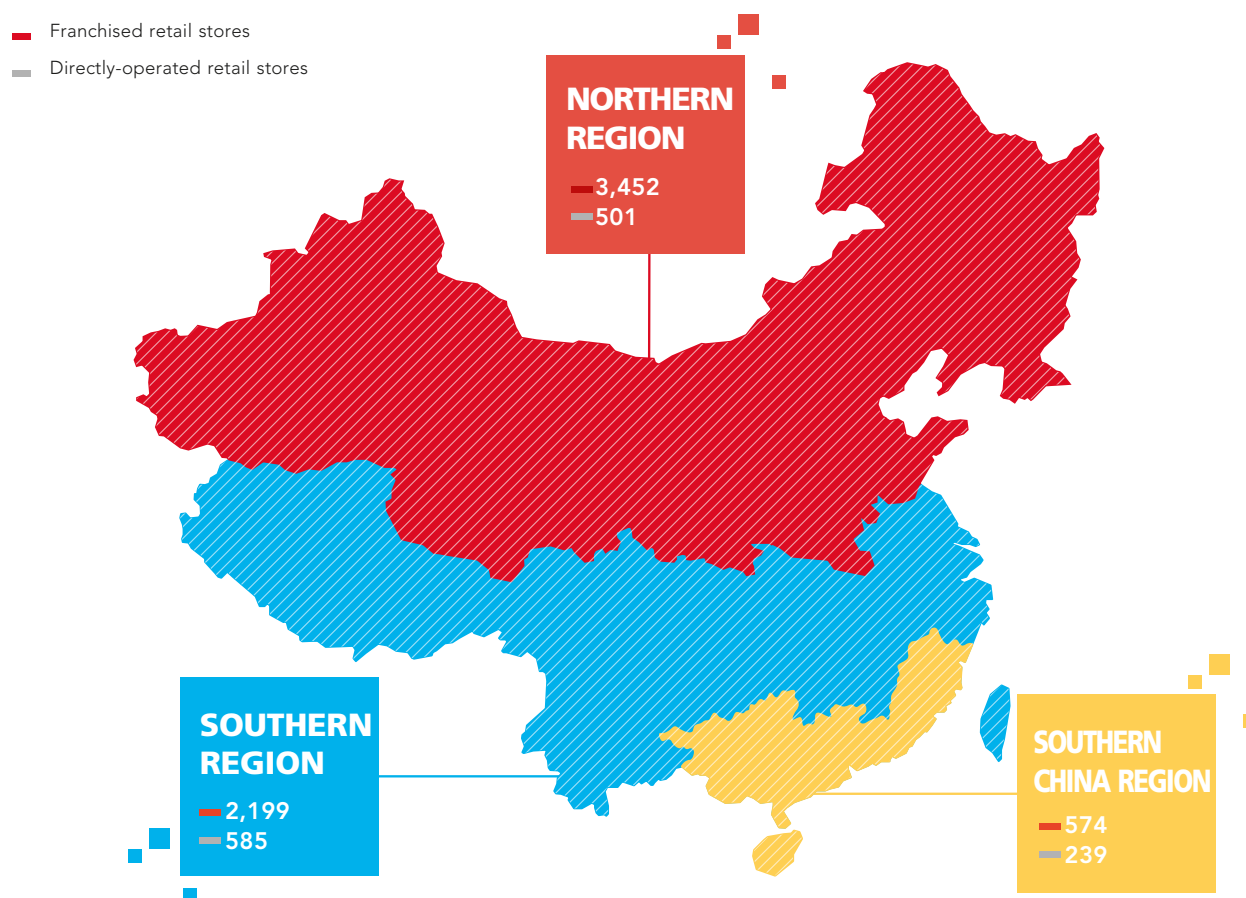




# MANAGEMENT DISCUSSION AND ANALYSIS

## NATIONWIDE DISTRIBUTION OF FRANCHISED AND RETAIL POS

(As at 31 December 2019)



	Franchised	Directly-operated retail	Total
Northern region (Note 1)	3,452	501	3,953
Southern region (Note 2)	2,199	585	2,784
Southern China region (Note 3)	574	239	813
<b>Total</b>	<b>6,225</b>	<b>1,325</b>	<b>7,550</b>

Notes:

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

## FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the year ended 31 December 2019 are set out below:

	Year ended 31 December		Change (%)
	2019	2018	
<b>Income statement items</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue (Note 1)	13,869,630	10,510,898	32.0
Gross profit	6,805,462	5,052,774	34.7
Operating profit	1,543,209	777,177	98.6
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 2)	2,707,649	1,252,222	116.2
Profit attributable to equity holders (Note 3)	1,499,139	715,263	109.6
Basic earnings per share (RMB cents) (Note 4)	61.94	29.63	109.0
<b>Key financial ratios</b>			
<b>Profitability ratios</b>			
Gross profit margin (%)	49.1	48.1	
Operating profit margin (%)	11.1	7.4	
Effective tax rate (%)	19.3	15.9	
Margin of profit attributable to equity holders (%)	10.8	6.8	
Return on equity attributable to equity holders (%)	23.2	13.1	
<b>Expenses to revenue ratios</b>			
Staff costs (%)	10.9	10.8	
Advertising and marketing expenses (%)	9.6	10.4	
Research and product development expenses (%)	2.6	2.2	



# MANAGEMENT DISCUSSION AND ANALYSIS

	31 December 2019	31 December 2018
<b>Balance sheet items</b>		
<i>(All amounts in RMB thousands unless otherwise stated)</i>		
Total assets (Note 5)	<b>12,547,474</b>	8,727,305
Capital and reserves attributable to equity holders (Note 6)	<b>7,121,639</b>	5,817,040
<b>Key financial ratios</b>		
<b>Asset efficiency</b>		
Average inventory turnover (days) (Note 7)	<b>68</b>	78
Average trade receivables turnover (days) (Note 8)	<b>21</b>	36
Average trade payables turnover (days) (Note 9)	<b>63</b>	74
<b>Asset ratios</b>		
Debt-to-equity ratio (%) (Note 10)	<b>76.2</b>	50.0
Net asset value per share (RMB cents)	<b>311.15</b>	269.79

## Notes:

- Including revenue for the period from 1 January to 30 September 2019: RMB9,722,804,000.
  - The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of profit for the year, income tax expense, finance (expenses)/income – net, depreciation on property, plant and equipment, amortisation of land use rights and intangible assets and depreciation on right-of-use assets.
  - Including profit attributable to equity holders for the period from 1 January to 30 September 2019: RMB1,117,856,000.
  - 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.
  - Total assets at 30 September 2019: RMB12,179,683,000.
  - Capital and reserves attributable to equity holders at 30 September 2019: RMB6,835,448,000.
  - 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.
  - 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.
  - 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.
  - The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the year.
- \* The aforesaid indicators provided by the Group may not necessarily be the same in terms of calculation methods as those provided by other issuers.

## Revenue

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

### Revenue breakdown by product category

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

### Revenue breakdown (in %) by sales channel

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Revenue breakdown by geographical location

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

### Notes:

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

## Cost of Sales and Gross Profit

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

## Distribution Expenses

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

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



## Administrative Expenses

For the year ended 31 December 2019, the Group's overall administrative expenses amounted to RMB968,264,000 (2018: RMB679,873,000), accounting for 7.0% (2018: 6.5%) of the Group's total revenue with a year-on-year increase of 0.5 percentage point. Administrative expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, technological development fees, taxes and other miscellaneous daily expenses.

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

## Share of Profit of Investments Accounted for Using the Equity Method

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

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

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

## Finance (Expenses)/Income

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

## Income Tax Expense

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Overall Profitability Indicators

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

## Provision for Inventories

The Group's policy in respect of provision for inventories for 2019 was the same as that in 2018. Inventories of the Group are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers that this policy can ensure appropriate provision for inventories made by the Group.

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

## Provision for Doubtful Debts

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

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

## Liquidity and Financial Resource

The Group's net cash from operating activities for the year ended 31 December 2019 amounted to RMB3,503,469,000 (2018: RMB1,671,869,000). As at 31 December 2019, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB5,961,445,000, representing a net increase of RMB2,289,903,000 as compared with the position as at 31 December 2018. The increase was due to the following items:

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

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

As at 31 December 2019, the Group's banking facilities amounted to RMB1,069,700,000, without outstanding borrowings.

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

### Foreign Exchange Risk

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

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

### Pledge of Assets

As at 31 December 2019 and 31 December 2018, the Group had no pledged assets.

### Contingent Liabilities

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

## BUSINESS REVIEW

Looking back into 2019, the national economy operated steadily and achieved progress while maintaining stability. In particular, the sports consumption market in the PRC remained active and the sports-related industries witnessed robust growth. By leveraging the national policies and with support and promotion from governments in the PRC at all levels, the potentials of the sports and fitness industry were unleashed at a faster pace and the scale of the industry was brought to a new level. With the continuous improvement of the national economic structure and the quality of people's livelihood, the consumption concepts became more mature,

which urged the sports consumption market to put greater efforts in the development towards a more diversified, professionalized and refined direction so as to create more rooms for the development of the sports industry. In view of the increasingly segmented sports consumption demand, we remain devoted to create and enhance LI-NING's experience value. We have adopted diversified strategies and approaches to consolidate the advantages of our online and offline platforms and strengthen differentiated consumption interactions and services, which has enabled further enhancement of consumption experience. We also made use of digital marketing to capture ever-changing consumption related hot topics, thereby further promoting our engagement with different consumer groups and hence enhancing the image and value of LI-NING brand. During the year, key operational indicators of the Group have been further optimized, the Group's revenue has maintained steady growth and the profitability has improved continuously.

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### Latest trade fair orders and operational update

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

For the fourth quarter ended 31 December 2019, in respect of LI-NING point of sale ("POS") (excluding LI-NING YOUNG) which have been in operation since the beginning of the same quarter of last year, the same-store-sales for the overall platform registered a low-twenties growth on a year-on-year basis. In terms of channels, retail channel (direct operation) registered a high-teens growth and wholesale (franchised distributors) channel registered a mid-teens growth, while the e-commerce virtual stores business registered a low-forties growth on a year-on-year basis.

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

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

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

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

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

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

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

- To enhance the professional attributes with technology, LI-NING running launched its self-developed “LI-NING 䨎” (李寧䨎) technology with lightweight and high resilience features, aiming to establish the matrix for world-class professional running shoes. Derived from Chinese character with a connotative meaning of “roaring thunder”, “䨎” has a character structure and connotation that imply knowledge of science in traditional Chinese culture and drives the promotion of the products’ technology story. In the second half of the year 2019, we launched “Boom” (飛電) and “Pegasus” (天馬), which are premium race running shoes under “LI-NING 䨎” series that are tailor-made for elite athletes. The product series, which has a strong rebounding force as well as more outstanding wear resistance and slip resistance features, has been officially launched after continuous trials, tests and evolutions. The revolutionary product experience can more effectively help athletes to achieve continuous breakthroughs and better results.
- During the year, the professional category of LI-NING basketball consistently underpinned its leading position in the industry along with rapid growth and development and earned high recognition from the consumers. Incorporating the “LI-NING 䨎” (李寧䨎) technology with lightweight and high resilience features, we launched “Yushuai XIII-䨎” (馭帥 XIII—䨎) basketball shoes under the core professional series. This new product designed based on the characteristics of basketball games not only retained the outstanding performance of the “Yushuai” series, but also adopted E-PEBAX material of “䨎” technology for the sole in full length, which is lighter in weight with higher resilience than traditional EVA materials, at the same time offering high endurance and stability, hence enabling better bouncing force on basketball courts. Moreover, we launched story packs for professional basketball apparel which offers professional solutions for different seasons and scenarios based on the actual functional needs of basketball games. We also provided premium sport equipment for players of CBA League to meet the needs of athletes for professional competitions and such equipment has received positive feedbacks from professional players and the mass market.
- In terms of products of training category, we continued to focus on functional sports products and refine sports segments. We offered distinctive categories of professional products according to sport consumers from different segments to enhance product experience. Based on the characteristics of outdoor sport, we have developed waterproof and windproof protective gears and created a more vivid and professional product image with the use of high-tech props in stores. Icy printing and ice yarn materials are used based on the fabric characteristics and covered more functional products, thereby developing an all-rounded icy product series. We continued to develop our “Dynamic Technology” (隨動科技) product series to offer safe and protective outdoor sports equipment. In respect of the women’s training market with huge potential, we focused on female sports enthusiasts at gyms and launched product story packs such as “Pink Ribbon” (粉紅絲帶) and “Fitness Mickey” (健身米奇) featuring feminine elements and crossover collaboration, thereby increasing the influence of our brand among female consumers.
- Adhering to the product strategy of “professional quality, fashionable design”, the badminton category put great emphasis on the evolution of the star series. Leveraging our sporting resources and the exposure in competitions, the new high-end products have delivered excellent performance. During the year, we released “Tectonic” (蓄力突襲), a brand-new technological platform for badminton racket, and successfully created two popular products. Through integration of online and offline marketing and exposure in international events, the popularity and reputation of LI-NING badminton rackets have enhanced continuously. In terms of footwear and apparel, we paid close attention to the design and performance of sponsored products for the national teams as well as the evolution of the star series. “Monkey King” (大聖), a newly launched star series of badminton shoes, adopted new dual bouncing technology to effectively enhance athletes’ kick-off ability. This is our first attempt to use entirely flat outsole design together with multi-direction diamond sole texture design, which effectively strengthened the traction of the product. In addition, “Monkey King” (大聖) is the team shoes for the Men’s National Badminton Team of China.

## MANAGEMENT DISCUSSION AND ANALYSIS

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

- As the high-end product series of LI-NING basketball, the WADE series has sought for gradual transformation riding on the special occasion of Wade's retirement year. Apart from focusing on high quality, simple design and fans culture, we strived to boost the sales performance of the whole series by adding more fashionable and high-end elements into our product design. Leveraging the enriching product styles, we have launched diversified story-packs of integrated footwear and apparel during the year to attract consumers, among which the products of "White Hot" (白熱) and "All City 7" (全城-VII) have received positive feedbacks from the market. We also launched various crossover products with distinctive design under the collaboration with a graffiti artist OG SLICK and American rapper Rick Ross, aiming to develop high-end basketball series with international vision and sustainable growth.
- Regarding basketball culture, we continued to carry out segmentation of our product layout in order to enrich the diversified product style of the "Essence" (悟道) series and enhance product innovation. The product series of "BADFIVE" continued to focus on the style of street basketball in China and created various urban-themed series, namely "Too Young To Stay" (少不入川), "Chang An Young n Rich" (長安少年) and "BADFIVE Shanghai" (足不出滬), by integrating elements of China's urban culture. We joined hands with "XLARGE" and launched "BADFIVE 1" (反伍一代) professional basketball outfield shoes incorporating the most advanced technology, which gained overwhelming attention once launched and became a hot footwear item of street fashion among key opinion leaders (KOLs).
- For running culture, we focused on the diversified sports lifestyle and strengthened the development of fashionable jogging product lines targeting the mass market. We paid close attention to the needs for jogging and fashion style, striving to cater to various daily life occasions of different consumers, at the same time creating differentiated and customized products to satisfy the needs of different consumers. Based on the derivative design of professional running shoes, we offered products with aesthetic designs that are more suitable for young consumers, including "Furious Rider ACE" (烈駿ACE), "Arc ACE" (弧ACE) and "V8", which adopted a more fashionable appearance design to present Chinese culture in a modernized way. These products have received positive feedbacks by gaining exposure at various platforms, such as the Fashion Weeks.
- For sports fashion footwear, adapting to rapid changes in the market and new requirements on sports fashion, we constantly launched hot products in line with the fashion trend and promoted such products to the culture circle of sneakers. In response to the Paris Fashion Week, the "Wave Vintage" (惟吾VNTG) series, a 1990s retro series adopting a simple classic style, have been launched, which attracted positive response in the domestic market through the show-and-sell approach. "Titan" (盤古), a limited crossover product, has been launched in collaboration with "Atmos", a renowned Japanese fashion brand, and displayed at "Atmos" shops in Japan, which further enhanced the influence of domestic fashion products on the international fashion stage.
- With reference to "A Pu" (阿璞), the first national official panda character, our sports fashion apparel joined hands with "UPanda" (有熊貓) to launch product packages under the theme of environmental protection, which focused on widely discussed social issues such as "waste sorting", thereby delivering sense of social responsibility and environmental proposition of LI-NING brand in a way that appeals to the young generation. We also launched a crossover series with reference to "Baoyun Building" (寶雲樓), the youngest and only western building in the Forbidden City. The design of the series incorporated elements of the Forbidden City, striving to promote the charm of Chinese culture to more youngsters. We continued to launch crossover products under the "X-girl" series targeting the female consumption market. Such products promoted women-only product packages under the theme of "Girls Can Do Everything They Want" (少女幫派) and incorporated design elements such as "Fire Cherry" (燃燒的櫻桃) as a tribute to the independence of women.



## Exploring category personality and continuing to deploy diversified marketing resources

In order to further consolidate our diversified layout of marketing resources, we devoted ourselves to explore the characteristics of each category and comprehensively allocated our marketing resources in five major categories, including basketball, running, training, badminton and sports casual. Continuous exposure of our professional products leveraging sports stars and professional events as well as promotional efforts in tandem with hot topics have further scaled up our consumer groups. We drew attention of young consumer groups by continuously enriching our marketing resources with entertainment elements allocated to the sports casual category and precisely analyzing the fashion trend with our flexible and diversified crossover and digital marketing resources. Under the guidance of fashion opinion leaders, we have gained more recognition from mainstream consumers and enhanced our brand image and value.

- In terms of professional basketball, we have launched a series of successful marketing campaigns such as CJ's China tour by utilizing the outstanding on-court performance of C.J. McCollum, our signed NBA star, and the professional basketball product series endorsed by him, which have increased the synergy effect between fans and consumers. Capitalizing on the continuous exposure in the CBA League, we have fully integrated our CBA League resources and gained public recognition for the professional image of our products and brand. We also promoted the attitude of "Expressing yourselves by playing basketball" (拿球說話), which resonated with young consumers and resulted in the high popularity of related competition gears, including the competition uniforms (CBA player version) and products under the "All-Star" series. Leveraging the "LI-NING Basketball College" as platform, we have initiated the "3+1" teenager event for young basketball players in the PRC, thereby offering young basketball enthusiasts and their family members with professional experience of the brand and products.
- In terms of the WADE series for high-end basketball products, we continued to build the influence of Way of Wade series with a focus on Wade 7 basketball footwear. In the second half of the year, the brand representatives and Wade attended the "Complex Con", an international top-notch fashion exhibition, and launched the new

footwear products, namely "Way of Wade 8" (韋德之道8) and "Way of Wade Infinity" (韋德之道無限), at the exhibition. The new products implied that the end of the career path is the starting point of a new life and signified our due respect for Wade who has retired as a basketball player and is now ready for unlimited possibilities, which also laid a solid foundation for another great success of the Way of Wade series.

- In order to build a professional image of LI-NING running, we sponsored a marathon event in Hangzhou and introduced "Women's Force Field" (我們的力場), a brand new women-themed campaign targeting the female market. Through the integration of this campaign and the Women's Marathon in Hangzhou, we provided more female runners with an in-depth experience surrounding our products and event, thereby expanding the influence of LI-NING brand in the female market. The products of the "Super Light" (超輕) series were redefined by featuring the concept of "Lighten up the World" (世界為你輕倒). We cooperated with the "Joyrun" (悅跑圈) app and kicked off the virtual running event under the theme of "Light Your City", which has attracted nearly 200,000 runners. The event successfully transformed online traffic into offline customers, which has increased the number of member registration and boosted the sales performance of our products, and hence reinforced and rejuvenated the fan base of the "Super Light" (超輕) series, marking yet another iconic and popular series.
- LI-NING training provided sports equipment for the civilians processions during the military parade on the 70th National Day of the PRC, ensuring that the preliminary training and the on-site inspection could be completed successfully. Meanwhile, we initiated the "Go with China" (與國同慶•與國同行) charity event. Through promotional campaigns in collaboration with athletes, celebrities, KOLs and third-party media, as well as events in offline stores, the charity event was propagated to over ten million people, thereby significantly improving the image and public's perception of our brand. Delivering the spirit of "Arousing unstoppable military spirits with LI-NING" (寧聚軍魂·勢不可擋), we became the exclusive sports equipment partner of the Chinese delegation of the 7th CISM Military World Games, providing outfits for medalists of all sports disciplines in an effort to facilitate the establishment of a national peace ceremony towards the vision of "Building Friendship through Sports" (體育傳遞友誼).

## MANAGEMENT DISCUSSION AND ANALYSIS

- In terms of badminton, to celebrate the tenth anniversary of cooperation with the national team, we continued to convey our product philosophy of “Professional, Fashionable and International” to the public. In 2019, LI-NING badminton consecutively signed up with a number of international top-notch players, such as P.V. Sindhu and Srikanth Kidambi, a female singles player and a male singles player from India, Chan Peng Soon (陳炳順) and Goh Liu Ying (吳柳螢), mixed doubles players from Malaysia and Watanabe Yuta (渡邊勇大), a male doubles player from Japan, with a view to enriching LI-NING badminton’s layout of internationalization on an ongoing basis. Following P.V. Sindhu’s unprecedented gold medal win for India in the badminton world championship, LI-NING brand emerged as a hot topic in not only the badminton sector, but also the entire sports industry. By launching the “Champion’s Factory” (冠軍工廠) IP and its peripheral products, and kicking off plentiful engagement activities centering on key competitions, we broke the limits under traditional sales models and imparted a brand new shopping experience for consumers in stores.
- In terms of cross-over collaboration, we continued our collaboration with “X-girl” in the area of sports fashion and launched PROJECT “LX 0991”, a cross-over project inspired by SNS (Social networking services) and designed to create the loudest noise in tandem with the current market trends, which also serves as a tribute to the fond memories of the early internet era. The “Gymnastics with Mickey” (體操米奇) story-pack introduced under the Disney cross-over series has sparked online discussions. Coupling with the offline “321 Old-fashioned Sports Meeting” (321復古運動會) activities, this project has fostered great interactions with consumers. Riding on the release of the “Toy Story” movie, we designed unique footwear with inspirations drawn from the iconic characters “Woody” and “Buzz”, which garnered tremendous popularity among fans and young consumers.
- We gradually deepened marketing campaigns with entertainment and digitalization elements. With great devotion in further developing the fans economy, we cooperated with popular artists and shows in various aspects to tap into various fan bases by leveraging the influence of the artists and transform fans of these artists into fans of our brand. Owing to the thriving reputation of our brand, there are increasing number of collaborating celebrities, including new celebrities with huge number of followers and those arousing heated public discussions. We have also strengthened the cooperation with diverse variety shows and capitalized on the influence of top-tier television channels and online platforms to increase the exposure of our products, with an aim to developing a more diversified entertainment marketing model. Moreover, in order to achieve circle marketing effects, we selected KOL resources which align with our product tonality on top-tier platforms such as Weibo, WeChat and TikTok (抖音) and vertical communities such as Xiaohongshu (小紅書) to release customized brand-related contents and form KOL matrix, thereby creating hot topics and draw attention from consumers to our brand and products. By selecting top-edged, reputable and influential fashion media in the industry to work with based on product positioning, we also came up with in-depth authentic output to build brand-related product tonality so as to reach and expand consumer groups in the target level.

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

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

As at 31 December 2019, the number of conventional stores, flagship stores, China LI-NING stores, factory outlets and multi-brand stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 7,550, representing a net increase of 413 POS as compared to 31 December 2018. The number of distributors was 63 (including sales channels of China LI-NING stores), representing a net increase of 17 as compared to 31 December 2018. The number of POS breakdown as at 31 December 2019 is as follows:

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

### Number of LI-NING Brand POS by geographical location

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

#### Notes:

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

- Focusing on the enhancement of product operation management efficiency of single store. The Company further refined the classification of single store based on the brand development direction of promoting both professional sports attributes and fashionable elements, and established a standardized single store product management model as guidance for execution at different sales channels. We have also improved the functions of the single store order management tools so as to realize a single store order model that is consumer-oriented. We pushed ahead with the direct distribution of products to stores, and developed a store replenishment and allocation system based on demand forecast, thereby enhancing the operation efficiency of stores and accelerating the turnover of goods through the automatic management of our systems.

### Enhancing product and retail capability and improving operation efficiency

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



## MANAGEMENT DISCUSSION AND ANALYSIS

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

### Strengthening interaction to improve consumers' experience

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

- Continuously enhancing interactions with consumers at stores. Leveraging on events such as "Way of Wade Tour China" (韋德中國行), "3+1" Basketball League (「3+1」籃球聯賽), store activities for CBA fans, pop-up stores and sales of limited edition products, the Company interacted with consumers at store level, which has increased the number of new members and the traffic at stores. Meanwhile, we have increased consumers' exposure to our products by letting them to experience the props and setting up new promotion and display zone for individual product in stores. We also launched the promotion and sales of products at stores through enhanced interactions on online platforms such as WeChat, Weibo and TikTok (抖音), introduction of interactive games, cross-over cooperation and attractive gifts.

- Pushing ahead with the establishment of digital stores and new retail attempts continuously. We set up independent visitors, heat map of customer flow, commodity touching assessment and other digital devices as well as back-end computing system at stores, giving us insights on consumers' portraits at stores, based on which we analyzed the behavior and demand of consumers as well as closely followed the performance on the individual product. We also commenced the establishment of a middle-end data platform for integrating information such as data in respect of retail, members and product operation. With the support of the big data, we managed to improve our efficiency and performance by enhancing the decision-makings in relation to optimization of product assortment, retail circulation layout, retail display method and sales services in stores.
- Promoting the development of omni-channel business consistently. In 2019, we completed the upgrade and transformation of the omni-channel system, through which we have successfully consolidated the POS from distributors into our omni-channel business structure. The Company unceasingly tapped into new retail aspects and achieved borderless provision of services and sales in all scenarios by leveraging platforms and tools such as LBS (Location Based Service), WeChat Store (微店) and TikTok (抖音).
- Facilitating membership's expansion and marketing. Adhering to the operational value chain with "members" as the core, the Company recorded significant increase in both number of members and their sales contribution in 2019. We strived to accelerate the integration of distribution membership system by integrating the online and offline systems into the omni-channel membership system. Moreover, we have expanded the sources of data collection on consumers to enrich member profiles, thereby managed to establish our preliminary data operation platform, laying a solid foundation for precise marketing across all business segments of the Group. The seamless connection of online and offline systems will complement each other with a view to providing a smooth experience for the members when completing the related services via the intelligent system in collaboration with the physical stores.

## Strengthening construction of logistics supporting capacity

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS

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

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

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

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

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

### Optimization of the precise, flexible and efficient supply chain system

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

- During the year, based on the business development strategy, the Company consolidated and evaluated its supply chain resources with an emphasis on customized and differentiated product demands. It also strengthened the synergistic cooperation with its suppliers in a bid to enhance its competitive advantages. The Company aligned its strategic needs and the characteristics of the suppliers with its synergistic resources plan, which has ensured efficient and precise allocation of its supply chain resources.
- The Company has established a quality management community with suppliers to control quality and risks at an earlier stage and maintain control throughout the production process, aiming to complete all production tasks with high quality and efficiency. Meanwhile, it continued to intensify its efforts in product innovation and research and development, at the same time established cooperation with quality suppliers with greater emphasis on the results of innovation and research and development, hence enhancing the productivity of the supply chain through innovative technology.
- In respect of cost management, the Company continued to implement stringent cost planning and practiced the concept of cost control and management on all areas ranging from design, development to various production stages with a view to driving optimization and upgrade of cost structure with concerted efforts. Meanwhile, the Company continued to tighten the requirements on labour, occupational health and environmental protection to ensure sustainable development.



- To ensure rapid growth of new businesses, based on diversified business development needs and with an aim to enhance efficiency and improve product competitiveness, the Company made optimized allocation of supplier resources in the industry to improve layout of supply chain resources and network. Meanwhile, the Company continued to work diligently on the establishment of its own supply chain system. The footwear production plant that we leased in Nanning, Guangxi Province of the PRC has commenced production during the year, which is committed to gradually instilling the core industrial capabilities into LI-NING's system over time, which has hence strengthened its own supply chain management and application of technological research and development knowledge, and further promoted the establishment of a precise and swift supply chain system.
- We laid out quality supply chain resources and continued to improve the supply chain system exclusively for kidswear business. By managing and controlling the development cost and enhancing product efficiency, we consolidated our production processes and resources advantages to ensure product quality, optimize production procedures and facilitate efficiency enhancement.
- For channel development, we utilized the shopping mall and clearance channels to promote diversified channel establishment, and adjusted the strategy for channel development based on the market demand at different levels. We placed emphasis on the expansion and planning of core channels to ensure adequate space for and maximize the effectiveness of product display. We have also stepped up our efforts in store upgrade to improve the images of the stores and the brand, so as to enhance efficiency of the stores.

## NEW BUSINESS

### LI-NING YOUNG

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

- In respect of products, with a focus on the consumers' mainstream demands, the Company progressively optimizes the storylines of its products by launching core story-packs in order to promote the sales contribution of products as a whole from both marketing and retail levels. A more accurate product hierarchy and product structure have been implemented with refined management of product assortment based on the climatic characteristics and consumption habits of different regions, through which the Company would be able to meet diversified consumers' demands, promote precise investment of product, improve the performance of store level and enhance product efficiency. In light of the distinctive features of different regions, the Company has stepped up its efforts in the planning and development of accessories with a view to exploring new business opportunities and promoting continuous business growth.
- For brand marketing, we continued to optimize the digital marketing matrix including Weibo, WeChat and TikTok (抖音) official accounts. Meanwhile, by leveraging various promotional channels such as KOL in maternity and childcare field, sportsman, celebrities and partners, we have delivered real-time information on brand news and new product launch and interacted with our consumers with a view to enhancing customer loyalty. By the "3+1" youth basketball league organized by the Group, LI-NING YOUNG has built a professional image of sport equipment supplier and advocated the charisma and spirit of sports by conveying the philosophy of braving challenges and growing healthily through professional competition platforms, aiming to build up the brand image and enhance brand recognition by giving full play of our brand values.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## HUMAN RESOURCES

In 2019, based on its strategic focus, the Company formulated targeted human resources strategy and continued to optimize the organisation, incentive, talent management and corporate cultural system to cater to business needs.

- Regarding organisational development, the Company improved product team building, optimized the organisation of product categories, strengthened our research and development and organizational capacity, as well as continued to optimize the organisation of LI-NING YOUNG and e-commerce business.
- In terms of talent management, the Company actively explored and recruited talents to drive business transformation and focused on the improvement and development of the overall capability of staff so as to nurture teams of talent within the Company.
- In terms of remuneration and benefits, in line with the changes of business model, the Company optimized the incentive sharing system by focusing its resources on staff incentives. As such, incentive resources have been redirected towards staff in core positions that is able to drive performance growth and enhance organizational capabilities, thereby encouraging staff to create value with their job positions.
- Regarding culture and staff relationship, the Company improved its business and culture management system and continued to optimize its welfare schemes and career development system, aiming to further develop the core values of the Company, improve staff satisfaction and engagement and increase its staff's sense of honor and mission.

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

As at 31 December 2019, the Group had 3,783 employees (31 December 2018: 2,412 employees), among which 3,610 employees were at the Group's headquarter and retail subsidiaries (31 December 2018: 2,233 employees), and 173 employees were at other subsidiaries (31 December 2018: 179 employees).

## OUTLOOK

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

- In respect of products, we will keep track of hot topics to provide more inspiration for the integration of cultural element and creativity with professional sports attributes. We will also keep abreast of the fashion trend to increase the fashionable elements in our professional sports products so as to attract more consumer groups and expand our brand influence. Moreover, we will increase our investment in research and development in relation to sports science to enhance the technological features of our professional sports products, which will in turn improve the wearing and usage experience of consumers and constantly enhance our product competitiveness;

- In respect of channel development, we will continue to focus on enhancing the efficiency of our sales channels, further promoting the diversified development of our sales channels and progressively implementing the strategy of stores with high efficiency and model stores. Meanwhile, with a view to refining the structure of sales channels, we will continue to reform or close down inefficient and loss-making stores;
- Optimization of retail operation platform and supply chain management system remain as one of our major tasks. We will optimize the retail experience in stores, improve the standards of store operation and improve store management ability. We will also continue to explore new retail businesses, as well as strengthen and improve the online and offline integrated operation mode. Meanwhile, we will step up our efforts in establishing the supply chain management system to continue enhancing the capability in terms of our own supply chain management and research and development regarding application of technology and knowledge;
- In respect of marketing, we will make full use of digitalization to further strengthen our comprehensive marketing layout both online and offline. Based on actual consumption demand, we will strive to precisely capitalize on current hot topics to create and lead the market trend, at the same time strengthening the interaction with consumers to enhance their recognition and loyalty to our brand and increase our brand value; and
- In respect of new business, enhancing single store profitability will remain as our major development goal. We will make reasonable and prudent use of resources to explore business opportunities and potential markets, in order to foster new opportunities for the Company's profit growth in the long run.

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

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

# CORPORATE GOVERNANCE REPORT

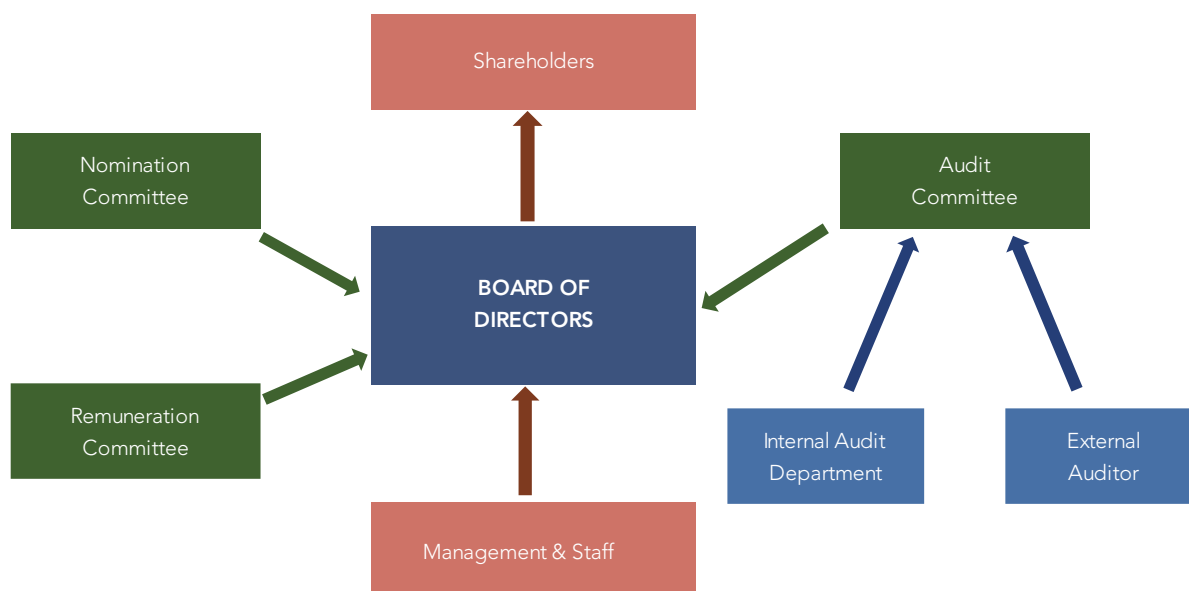
Adapting and adhering to recognized standards of corporate governance principles and practices has always been one of the top priorities of the Company, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in an effective and efficient manner. The 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 2019, 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 2019, 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 and 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 seven Directors, with a majority of whom being independent non-executive Directors, of which three are executive Directors and four are independent non-executive Directors. During the year of 2019 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	<i>Executive Chairman and Joint Chief Executive Officer (re-designated as Joint Chief Executive Officer on 2 September 2019)</i>
Mr. Kosaka Takeshi	<i>(appointed as an executive Director and Joint Chief Executive Officer on 2 September 2019)</i>
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

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 Joint 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 to 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:

Designation	Executive Directors (3)		Independent Non-executive Directors (4)	
Gender	Male (6)			Female (1)
Age group	30-50 (2)	51-60 (1)	61 or above (4)	
Length of services	1-5 years (2)	6-10 years (1)	over 10 years (4)	

# CORPORATE GOVERNANCE REPORT

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 in accordance with 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 Rule 13.92 of the Listing Rules, 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 authorise 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 a 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. Mr. Li Ning, the Executive Chairman of the Company, assumed the role of interim chief executive officer (“CEO”) of the Company during the period from 1 January 2019 to 1 September 2019 as the Company has not yet identified a suitable candidate to be the CEO. Upon the appointment of Mr. Kosaka Takeshi as an executive Director and the Joint CEO of the Company (“Joint CEO”) with effect from 2 September 2019, Mr. Li Ning has been re-designated as the Joint CEO on the same date. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles are undertaken by Mr. Li Ning during the year. Notwithstanding the above, the Board is of the view that given that Mr. Li Ning has been interim CEO of the Company for more than seven years prior to the appointment of the joint CEO and is familiar with the business operations and management of the Group, the assumption of the roles of Executive Chairman and Joint CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group’s business strategies. The Board also believes that Mr. Li Ning and Mr. Kosaka Takeshi will complement with each other in performing the roles of the Joint CEOs, and the current arrangement will create synergy effect which is in the interest of the Company and its Shareholders as a whole.

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 trainings 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. During the year, the Directors participated in an online training session on “ESG Governance and Reporting”.

According to the records maintained by the Company, the Directors received the following trainings and updates in 2019:

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
<b>Executive Directors</b>		
Mr. Li Ning ( <i>Executive Chairman and Joint CEO</i> ) ( <i>re-designated as Joint CEO on 2 September 2019</i> )	✓	✓
Mr. Kosaka Takeshi ( <i>appointed as an executive Director and Joint CEO on 2 September 2019</i> )	✓	✓
Mr. Li Qilin	✓	✓
<b>Independent non-executive Directors</b>		
Mr. Koo Fook Sun, Louis	✓	✓
Ms. Wang Ya Fei	✓	✓
Dr. Chan Chung Bun, Bunny, <i>GBS, JP</i>	✓	✓
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

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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 duties of the Nomination Committee are 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 <i>(Chairman of the Nomination Committee)</i>	Independent non-executive Director
Mr. Li Ning	Executive Chairman, Joint CEO & Executive Director
Dr. Chan Chung Bun, Bunny, <i>GBS, JP</i>	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 interviewed 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 2019:

- nomination of Mr. Kosaka Takeshi to act as an executive Director and Joint CEO;
- 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 ( <i>Chairperson of the Remuneration Committee</i> )	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 2019 are set out in note 36 to the consolidated financial statements. The remuneration of Senior Management for the year ended 31 December 2019 are set out in note 26 to the consolidated financial statements.

The following is a summary of the major tasks carried out by the Remuneration Committee in 2019:

- making recommendations to the Board on the remuneration packages of all the Directors and Senior Management for the year 2019;
- reviewing and approving the bonus plan for the year 2019;
- reviewing and approving the salary adjustment plan for the year 2019;
- reviewing, monitoring and approving the implementation of ESOP (employee share option program) and Restricted Share Award Scheme for the year 2019;

# CORPORATE GOVERNANCE REPORT

- reviewing and approving the recommendation of short-term and long-term incentives for the year 2019;
- reviewing, monitoring and approving the human resources work plans for the year 2019; and
- approving the budget of human resources expenses for the year 2020.

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 responsibilities of the Audit Committee are assisting 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 2019, 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 2019:

- 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 for the annual results announcement and annual financial statements for the year ended 31 December 2018 and the interim results announcement and interim financial statements for the six months ended 30 June 2019 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 2019 internal audit findings and recommendations, and approving 2020 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 fourteen (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 and 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:

Name of Director	Number of meetings attended/ number of meetings held during the respective tenure in the financial year ended 31 December 2019			
	Board	Nomination Committee	Remuneration Committee	Audit Committee
<b>Executive Directors</b>				
Mr. Li Ning ( <i>Executive Chairman and Joint CEO</i> ) ( <i>re-designated as Joint CEO on 2 September 2019</i> )	4/4	1/1	N/A	N/A
Mr. Kosaka Takeshi ( <i>appointed as an executive Director</i> <i>and Joint CEO on 2 September 2019</i> )	1/1	N/A	N/A	N/A
Mr. Li Qilin	4/4	N/A	2/2	N/A
<b>Independent non-executive Directors</b>				
Mr. Koo Fook Sun, Louis	4/4	N/A	N/A	3/3
Ms. Wang Ya Fei	4/4	N/A	2/2	3/3
Dr. Chan Chung Bun, Bunny, GBS, JP	4/4	1/1	2/2	3/3
Mr. Su Jing Shyh, Samuel	4/4	1/1	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.

# CORPORATE GOVERNANCE REPORT

## 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 2019, 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 2019, 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 2019, the fees for the audit services and non-audit services provided by the external auditor are as follows:

Type of Service	2019 (RMB)	2018 (RMB)
Audit fee for the Group	5,550,000	5,200,000
Tax compliance and other advisory services	1,878,000	1,290,000
Total	7,428,000	6,490,000

### Risk Management and Internal Control

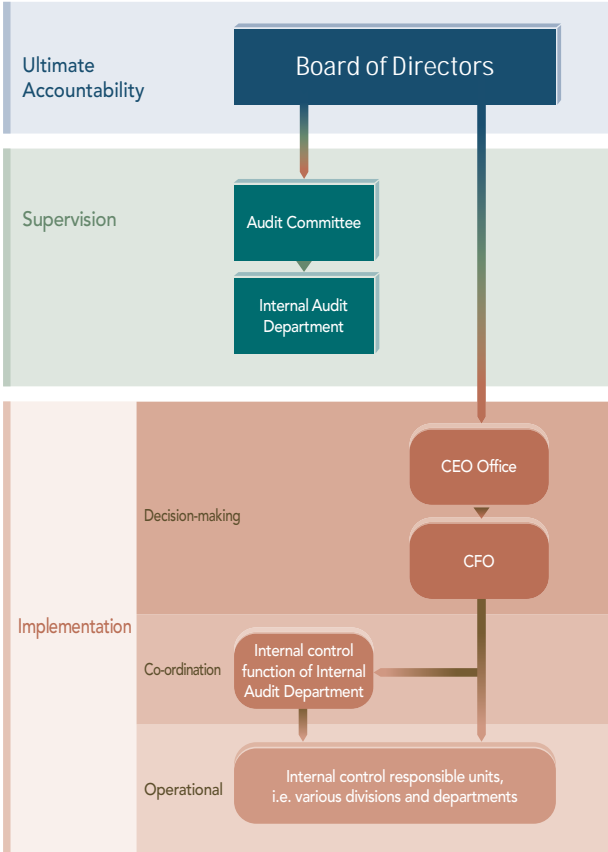
The Board is responsible for evaluating and determining the nature and extent of the risks that the Group is willing to take in achieving its strategic objectives and reviewing the effectiveness of the Group's risk management and internal control systems on an annual basis. In 2019, the Board, with the 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:

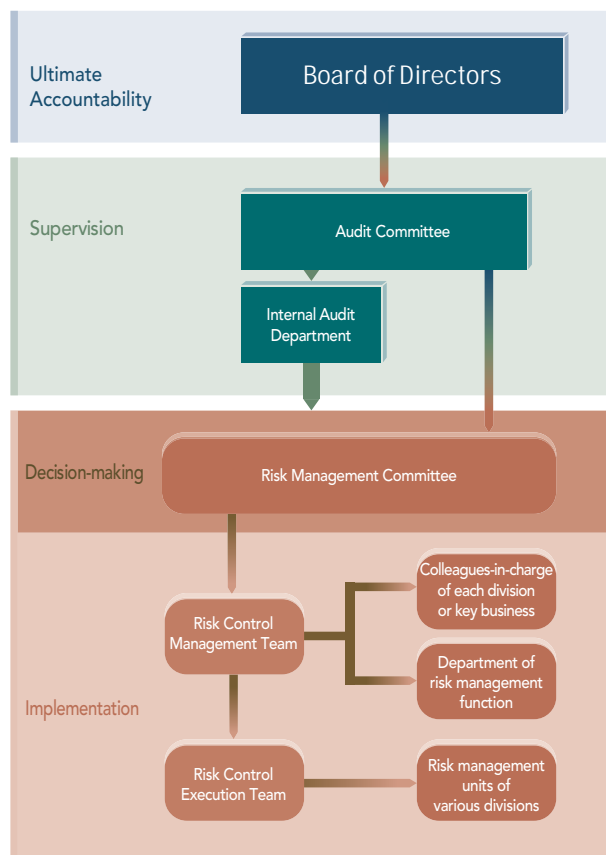


The Company has established a top-down organizational and management structure with clear-cut responsibilities and authorities for internal control purposes, embracing three levels which are responsible for ultimate accountability, supervision and implementation, respectively: (i) the Board bears the 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.

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(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 make 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's 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(s) 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. Operational reports and monthly financial updates are timely and regularly submitted to and reviewed by the Senior Management, the Board or its designated Committees. This allows them to monitor and manage 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 management procedures and fixed assets management system. Internal Control Manual is revised from time to time on the circumstances, 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 2019. 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, assess the design and effectiveness of execution, 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 of 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 and 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 the Group faces with.

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. Persons-in-charge of each division and department are requested to fill in the self-assessment review questionnaire against key items of internal control. In 2019, the Company continued to improve methods for self-assessment. In accordance with the Company’s organizational structure and business expansion, the process of self-assessment covers numerous divisions and

# CORPORATE GOVERNANCE REPORT

departments. 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 persons-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 2019 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 regarding 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. Based on 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 2019.

## 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 year 2019. 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 2019, 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 2019, 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 2019, 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 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 2019.

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 2019.

## **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 is familiar with the daily affairs of the Company. 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.

# CORPORATE GOVERNANCE REPORT

## 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 Unit 3301, 33/F., BEA Tower, Millennium City 5, 418 Kwun Tong Road, 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 Unit 3301, 33/F., BEA Tower, Millennium City 5, 418 Kwun Tong Road, Kowloon, Hong Kong.

For the year of 2019, 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 twenty (20) clear business days' annual general meeting notice and ten (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/chairperson of each of the Audit Committee, the Nomination Committee and the Remuneration Committee) and the Company's external auditor were present at the annual general meeting of Company held on 14 June 2019. 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 12 June 2020. Details of the 2020 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 2019 are set out below:

Name of Director	Number of meetings attended/number of meetings held
<b>Executive Directors</b>	
Mr. Li Ning ( <i>Executive Chairman and Joint CEO</i> ) ( <i>re-designated as Joint CEO on 2 September 2019</i> )	1/1
Mr. Kosaka Takeshi ( <i>appointed as an executive Director and Joint CEO on 2 September 2019</i> )	N/A
Mr. Li Qilin	1/1
<b>Independent non-executive Directors</b>	
Mr. Koo Fook Sun, Louis	1/1
Ms. Wang Ya Fei	1/1
Dr. Chan Chung Bun, Bunny, <i>GBS, JP</i>	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 Joint CEO*

Hong Kong, 26 March 2020

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## I. ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) MANAGEMENT SYSTEM

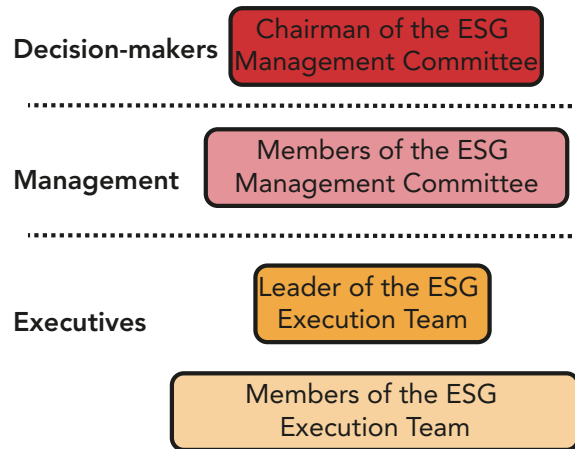
Taking "Ignite Passion with Sports" as its mission and becoming "a leading sports brand company in the world" as its vision, the Group adhered to the principle that "sports activities are not merely for the purpose of competition or fitness, but also have the functions of public service and social education" and focused on the research on sports and related products with a view to providing quality sports products for the consumers. Meanwhile, the Group always regards social responsibilities as its mission and strives to spread love and care with the consumers, its employees and residents in the surrounding communities.

The Group attaches great importance to and do its utmost to shoulder its social responsibilities. It has incorporated social responsibilities into its corporate culture and established the core values of "fulfilling dreams", "consumer orientation", "our culture" and "breakthrough", striving to become an environmental-friendly company that continuously promotes the synergistic development of the communities and the society.

### ESG Management Structure and Philosophy

The Group has established the ESG management committee under the Board, and ESG execution teams for handling specific affairs were formed to carry out ESG-related works efficiently. In particular, the Board is responsible for supervising ESG-related matters and reviewing the content of the ESG report before disclosure; the ESG management committee is responsible for formulating ESG strategies in the mid-to-long term, promoting the implementation of specific works by the ESG execution teams, and reporting to the Board regularly; and the ESG execution teams will be responsible for carrying out specific ESG-related works, including formulating relevant management systems and annual targets of ESG, implementing the relevant ESG measures, and evaluating relevant ESG risks and opportunities, so as to ensure the implementation of ESG-related works in an efficient and orderly manner.

### ESG Management Structure



The Group incorporated the ESG philosophy into its daily operation by actively advocating the concept of green operation and providing guidance to suppliers on giving consideration to their environmental and social responsibilities. It also placed strong emphasis on the well-being and development of its staff, and safeguarded their interests. Meanwhile, the Group actively participated in charitable events to make contributions to promoting the harmonic and sustainable development of the society.

### ESG Strategy

The Group has formulated ESG strategies for aspects such as environmental protection, supply chain management, care for employees and community investment that are in line with the Group's development strategies, and has incorporated measures in response to the sustainable development goals (SDGs) of the United Nations in such strategies.

### In respect of environmental protection:



- Comply with the laws and regulations regarding environmental protection of the places where the Company operates; actively and consistently adhere to the philosophy of "lucid waters and lush mountains to be treated as invaluable assets"; implement measures for energy conservation and emission reduction to reduce carbon emission;

- Enhance the efficiency of energy utilization by actively adopting environmentally-friendly equipment in the office area and utilizing clean energy in a reasonable manner;
- Advocate the concept of green operation and cultivate the employees' awareness of environmental protection to reduce the amount of office wastes;
- Conduct research and development of fabrics that are environmentally-friendly and renewable for launching green products; actively respond to climate change and promote sustainable development.

### In respect of supply chain management:



- Establish comprehensive supplier corporate social responsibility management system that is in line with the benchmark of international standards and best practices of the industry; conduct stringent review on the performance of environmental and social responsibilities by suppliers to facilitate improvement of the sustainable development ability of the supply chain;
- Provide guidance to suppliers to improve their environmental protection awareness and evaluate the environmental performance of suppliers in various aspects; strengthen the management over carbon emission along the supply chain; urge suppliers to adopt measures for energy conservation and emission reduction;
- Enhance the level of supply chain social responsibility management by urging suppliers to safeguard the rights and interests of their employees in aspects such as health and safety, remuneration and benefits, equal opportunities, etc.;
- Exercise all-round supervision over the procurement, use and storage of chemicals by suppliers; evaluate the suppliers' exposure to chemical risks; urge suppliers to enhance the level of chemical management;

- Participate in the formulation of standards for global environmental performance; promote zero-emission of hazardous chemicals during the production process; establish sustainable and ecological value chain system in collaboration with various partners.

### In respect of care for employees:



- Comply with the laws and regulations regarding employment of the places where the Company operates and adhere to the people-oriented employment philosophy;
- Safeguard the legitimate rights and interests of the employees, improve the social security, remuneration and benefit system and adopt a "Zero-Tolerance" policy for discrimination;
- Care about the health and safety of the employees and provide a safe, comfortable and harmonious working environment for the employees with an aim to establish a united and friendly workforce;
- Provide high-quality training and offer huge rooms for development and diversified paths for promotion to the employee to help develop their careers, hence fostering mutual growth of both the employees and the Company.

### In respect of community investment:



- Incorporate the sports culture and sportsmanship into charitable events and communication with the community, thereby showing great love through sports activities;
- Pay close attention to the demand of the community and encourage sports-for-all and healthy living style;
- Actively respond to the national policy of poverty alleviation to facilitate the development of poverty-stricken regions; offer help to women and children suffering from hunger and improve their nutrition;
- Attach great importance to national sports education with strengthened efforts in promoting the cooperation with schools and enterprises and providing support for the cultivation of sports talents.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Actions for Sustainable Development

SDGs	China's National Plan Regarding SDGs	Actions for Sustainable Development taken by the Group in 2019
<b>Environmental Protection</b>		
SDG6 Clean water and sanitation	<ul style="list-style-type: none"> <li>Comprehensively promote the development of a water-saving society by strengthening the management over water demand and water utilization process</li> </ul>	<ul style="list-style-type: none"> <li>Utilize the water from the landscape pond for watering of plants.</li> <li>Conduct regular inspection and maintenance of water equipment to prevent the increase of water consumption due to leakage of equipment.</li> <li>Post promotional slogans about water conservation in common areas such as bathrooms and pantries.</li> </ul>
SDG7 Affordable and clean energy	<ul style="list-style-type: none"> <li>Optimize the energy structure by enhancing the utilization rate of fossil fuel energy and increasing the proportion of clean energy consumption</li> <li>Develop modern energy system that is clean, low carbon consumption, safe and efficient</li> </ul>	<ul style="list-style-type: none"> <li>Install solar panels at the top of the buildings within the office park of the headquarter with a total area of approximately 15,000 square meters, thereby providing electricity required for daily operation in the office park through solar energy.</li> <li>Complete the upgrade of new wind power generating units in the IT server room of the headquarter to fully utilize the low temperature environment during winter to reduce electricity consumption.</li> </ul>
SDG11 Sustainable cities and communities	<ul style="list-style-type: none"> <li>Implement development strategy that prioritize public transportation to promote the development of sustainable urban transportation system</li> </ul>	<ul style="list-style-type: none"> <li>Encourage the staff to use public transportation and provide convenient shuttle bus services for staff working in the office park of the Group's headquarter to reduce carbon emission for commuting to work.</li> </ul>
SDG12 Responsible consumption and production	<ul style="list-style-type: none"> <li>Reduce the adverse impact of chemicals on human health and the environment</li> <li>Significantly enhance the level of green chemical engineering technology</li> <li>Strenuously develop circular economy with significant increase in the recycling of major types of wastes</li> </ul>	<ul style="list-style-type: none"> <li>Exercise all-round supervision over every stage of the production processes, especially those involving the use of chemicals, to control the quality of raw materials by ensuring product quality at source.</li> <li>Use of environmentally-friendly and renewable fabrics that are in line with global recycling standards as raw materials for apparels. For instance, the Company has participated in the "24 hours Clean Water Scheme (淨水24小時計劃)" charitable project and launched apparels made of disposed water bottle after treatment.</li> <li>Advocate environmental protection concepts to increase customers' acceptance of products produced under circular economy.</li> <li>Participate in the "Restyling Contest (衣再造競賽)" as a member of the judge/advisory panel to promote sustainable development concepts such as recycling and reuse of clothes and environmental protection.</li> </ul>
SDG13 Climate action	<ul style="list-style-type: none"> <li>Popularize the knowledge about climate change and low-carbon development concepts with guidance to the general public for taking active actions in response to climate change</li> </ul>	<ul style="list-style-type: none"> <li>Provide employees with education on energy conservation and emission reduction to enhance their awareness of energy conservation.</li> <li>Encourage overtime staff to work together in designated office areas to minimize the range of usage of air conditioning and lighting, so as to increase the utilization efficiency of energy and reduce energy consumption.</li> <li>Encourage staff to increase the use of environmentally-friendly electric vehicles and public transportation and introduce professional shuttle bus service companies for the office park of the headquarter in Beijing to reduce the use of private cars.</li> </ul>



SDGs	China's National Plan Regarding SDGs	Actions for Sustainable Development taken by the Group in 2019
<b>Supply Chain Management</b> SDG5 Gender equality	<ul style="list-style-type: none"> <li>Adhere to the basic national policy of gender equality to eliminate all forms of discrimination and bias against women</li> </ul>	<ul style="list-style-type: none"> <li>Strictly prohibit any form of discrimination of the Group's suppliers against female staff in aspects such as recruitment, employment relationship, training or remuneration, benefits, etc..</li> </ul>
SDG6 Clean water and sanitation	<ul style="list-style-type: none"> <li>Significantly increase the proportion of treated compliant wastewater by strengthening the supervision and monitoring over major water functional zones and river outlets</li> <li>Comprehensively promote the development of a water-saving society by strengthening the management over water demand and water utilization process</li> </ul>	<ul style="list-style-type: none"> <li>Conduct stringent review of the wastewater monitoring report and sewage discharge permit of the Group's suppliers and carry out tests on suppliers' wastewater data to enhance the monitoring and control over wastewater along the supply chain.</li> <li>Encourage supplier to disclose data in relation to discharge and treatment of wastewater.</li> </ul>
SDG12 Responsible consumption and production	<ul style="list-style-type: none"> <li>Reduce the adverse impact of chemicals on human health and the environment</li> <li>Significantly enhance the level of green chemical engineering technology</li> <li>Comprehensively promote the extended producer responsibility system to encourage enterprises to fully implement the concept of sustainable development in their production management</li> </ul>	<ul style="list-style-type: none"> <li>Amend the "Manufacturing Restricted Substances List and Policy of Li Ning Company (《李寧公司生產工藝中限用物質清單政策》)" and the "Tools for Quarterly Review of Environmental Evaluation of Suppliers of Li Ning (《李寧供應商環境審核季度評估工具》)" with detailed requirements on management and control of restricted substances in the production process.</li> <li>Suppliers are required to sign the "Declaration of Compliance Regarding the Manufacturing Restricted Substances List (MRSL) of Li Ning Company (《李寧公司生產工藝中限用物質(MRSL)遵從聲明書》)".</li> <li>Formulate and promulgate the "Manual for Social Responsibility Management of Suppliers of Li Ning (《李寧供應商社會責任管理手冊》)" to optimize the social responsibility management system of the supply chain.</li> <li>Formulate the "Code of Conduct Regarding Social Responsibilities of Suppliers of Li Ning (《李寧供應商社會責任行為準則》)" to incorporate the requirements on harmonious employment relationship, health and safety and environmental protection into the strategies and evaluation systems of supplier management.</li> </ul>
SDG13 Climate action	<ul style="list-style-type: none"> <li>Popularize the knowledge about climate change and low-carbon development concepts with guidance to the general public for taking active actions in response to climate change</li> </ul>	<ul style="list-style-type: none"> <li>As the first brand to be committed to the "Climate Stewardship 2030 (氣候創新2030行動)", the Company jointly organized the "Climate Leadership and Low Carbon Training Camp of Li Ning (李寧氣候領導力低碳訓練營)" with the Social Responsibility Office of China National Textile and Apparel Council (中國紡織工業聯合會社會責任辦公室) in Shanghai.</li> <li>Collect data in relation to energy consumption and climate change from the supply chain on a quarterly basis with a view to enhancing the management of carbon emission along the supply chain.</li> </ul>
SDG17 Partnerships for the goals	<ul style="list-style-type: none"> <li>Actively participate in the establishment of global partnerships to promote more balanced global partnerships for development</li> <li>Actively participate in the works in relation to the establishment of mechanisms for global technology advancement</li> </ul>	<ul style="list-style-type: none"> <li>Continue to participate in the decision-making and election for major affairs of the Zero Discharge of Hazardous Chemicals Program (ZDHC).</li> <li>Participate in the formulation of methods for elimination of chemicals and replacement of hazardous chemicals.</li> <li>Participate in the promulgation of Manufacturing Restricted Substances List (MRSL) 2.0.</li> </ul>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## SDGs

## China's National Plan Regarding SDGs

## Actions for Sustainable Development taken by the Group in 2019

### Care for employees

SDG1 No poverty	<ul style="list-style-type: none"> <li>Improve social security system and implement the plan for universal participation in social insurance</li> </ul>	<ul style="list-style-type: none"> <li>Strictly comply with the "Social Insurance Laws of the People's Republic of China" (《中華人民共和國社會保險法》) to establish a comprehensive social security system and provide social security benefits for its employees.</li> <li>Provide "five insurances and housing provident fund" and maintain accidental injury insurance and supplemental medical insurance for its employees.</li> </ul>
SDG3 Good health and well-being for people	<ul style="list-style-type: none"> <li>Promote equality of and accessibility to basic medical and healthcare services</li> </ul>	<ul style="list-style-type: none"> <li>Arrange regular body checkup for its employees and popularize health knowledge through seminars on health knowledge and other activities.</li> <li>Establishment of health consultation rooms to provide its employees with basic medicines for treating common diseases.</li> <li>In addition to statutory medical insurance, maintain supplementary commercial insurance covering accident insurance and critical illness insurance for its employees free-of-charge.</li> </ul>
SDG5 Gender equality	<ul style="list-style-type: none"> <li>Adhere to the basic national policy of gender equality to eliminate all forms of discrimination and bias against women</li> <li>Enhance the working and entrepreneurial capability of women by offering public childcare services</li> </ul>	<ul style="list-style-type: none"> <li>The work performance of employees would not be evaluated based on their gender, and great efforts have been made to safeguard its employees from being harassed or discriminated due to such reasons.</li> <li>Establishment of "Home of Employees" to provide free childcare services for children of the employees during winter or summer holidays or under extreme weather conditions so as to assist the employees to maintain a balance between work and family life.</li> </ul>
SDG8 Decent work and economic growth	<ul style="list-style-type: none"> <li>Promote the development of the manufacturing industry towards a high-end, intelligent, green and service-oriented direction</li> <li>Improve the employment and entrepreneurial system and implement a life-long work skills training system</li> </ul>	<ul style="list-style-type: none"> <li>Develop training programs that are in line with the demands for the development of the Company and the staff, at the same time providing a diversified development mechanism to enhance the employees' knowledge, work capability and motivation.</li> </ul>
SDG10 Reduced inequalities within and among countries	<ul style="list-style-type: none"> <li>Attach great importance to providing equal opportunities and ensuring equal rights of participation and development for all employees</li> <li>Consistently promote growth of both resident income and the economy, as well as growth of both salary and work productivity</li> </ul>	<ul style="list-style-type: none"> <li>Comply with the recruitment principle of open, transparent, fair and equitable to provide equal employment opportunities.</li> <li>Formulate remuneration strategy in line with the Company' strategies to provide various performance incentives based on the results contribution of employees working at different positions.</li> </ul>



SDGs	China's National Plan Regarding SDGs	Actions for Sustainable Development taken by the Group in 2019
<b>Community Investment</b> SDG1 No poverty	<ul style="list-style-type: none"> <li>Accurately provide classified support for impoverished people in rural villages</li> </ul>	<ul style="list-style-type: none"> <li>Enter into the "Eastern Airline Cooperation Agreement Regarding Assistance for the Disabled (東航殘疾人幫扶合作協議)" to foster organic combination of poverty alleviation, charity and public services with a focus on areas such as support through industry and employment, support for disabilities, etc..</li> </ul>
SDG2 No hunger	<ul style="list-style-type: none"> <li>Ensure that everyone stays safe with enough nutritious food all year</li> <li>Provide nutrition guidance and intervention for targeted groups such as teenage girls, pregnant women, women who are lactating and elderly women</li> </ul>	<ul style="list-style-type: none"> <li>Since 2012, the Company collaborated with China Women's Development Foundation to organize charitable events. The "Postal Parcels for Mothers" Project was organized every year to lend a helping hand to mothers struggling with poverty. Donation of monies and supplies worth over RMB60 million has been made in aggregate.</li> </ul>
SDG4 Quality education	<ul style="list-style-type: none"> <li>Safeguard equal rights of vulnerable groups for receiving compulsory education</li> <li>Implement a model for cultivation of technologies, skills and talents through collaboration of schools and enterprises</li> <li>Strengthen sports education in schools</li> </ul>	<ul style="list-style-type: none"> <li>Join hands with Chinese Athletes Educational Foundation to support the education and sports development in poverty-stricken and remote regions in China with 44 "Chinese Athletes Hope Primary Schools" and 37 "All-weather Playgrounds" established so far.</li> <li>Enhance sports education for teenagers by entering into contracts with point-to-point (P2P) sports teams and jointly developed schools for the establishment of Li Ning Sports Scholarship.</li> <li>Organize activities such as winter camps and summer camps to provide diversified and professional sports programs for children and teenagers.</li> </ul>

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

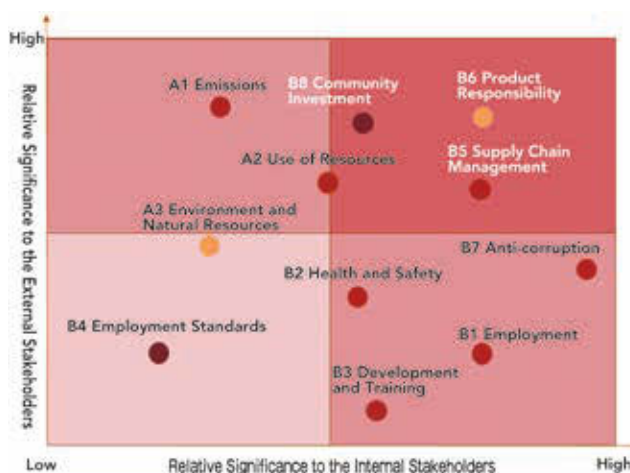
## Communication with Stakeholders and Key Issues Identification

We are fully aware that communication with stakeholders is a foundation for the sustainable development of a corporation. Based on the features of the industry and its own conditions, the Group has identified seven major stakeholders groups that are closely related to its development, including government and regulatory authorities, shareholders and investors, employees, distributors and suppliers, media, consumers, communities and general public. In order to better achieve sustainable development, fulfill its corporate social responsibilities and respond to the expectation of the stakeholders, the Group has maintained sound communication with stakeholders through various methods and channels, identified their main concerns and responded actively.

### 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
Shareholders and investors	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
Employees	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
Distributors and suppliers	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
Consumers	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

In respect of the 11 aspects identified in the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange, the Group has invited various key stakeholders to conduct evaluations on the significance of ESG issues by way of questionnaires. Based on the feedback from representatives of key internal and external stakeholders, the Group has identified the main concerns of stakeholders, including product responsibility, community investment 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 actively put into practice the principle of green operation and adhered to the basic national policy of resources conservation and environmental protection. It strictly complied with laws and regulations such as “the Environmental Protection Law of the People’s Republic of China”, “Laws of the People’s Republic of China on Prevention and Control of Water Pollution”, “Laws of the People’s Republic of China on Conserving Energy”, and “Implementation Plan for Household Waste Segregation”. The Group has also devoted great efforts to enhance the level of sustainable development of the Company by, in its daily operation, reducing the emission of greenhouse gases, efficiently utilizing various types of energy, prioritizing the use of renewable energy, strengthening water management, standardizing the supervision over waste management, and transferring the wastes to respective qualified companies for transportation, storage, utilization and disposal. In 2019, no significant pollution and impact on the environment was found in the course of the Group’s operation.

### Environmental Management Measures

In order to realise its goals for energy conservation and emission reduction, and promote green operation and management, the Group has formulated and optimized various internal management systems, including the “Li Ning Company Energy Saving Arrangements (李寧公司節能工作安排)”, “Li Ning Company Energy (Resources) Saving Management Standards (李寧公司節能(源)管理標準)”, “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)”. Upholding the low-carbon and environmental principle, the Group has reduced the use of resources, reduced and controlled the emission of gases and solid wastes from its production and operation activities, increased the employees’ awareness of environmental protection, gradually increased the investment in environmental protection every year, and actively responded to the national policy of low carbon development. Meanwhile, we exercised stringent monitoring and control over various key procedures in the course of operation and

production along the supply chain, urging them to formulate approaches and management systems for environmental protection, adopt and improve measures for resources conservation and emission reduction in an effort to promote circular economy.

### Reducing Emission of Wastes

The emission from the operation of the Group mainly involves the emission of wastes from office operation. We encouraged employees to use public transportation, and introduced professional shuttle bus companies to the office park of the Group’s headquarter to provide employees with convenient shuttle services for commuting to work, thereby reducing the exhaust gas emission from vehicles and hence reducing the carbon emission of employees for commuting to work. At the same time, the Group encouraged its employees to use environmental-friendly electric vehicles for transportation by installing 6 charging stations for electric vehicles in the office park of the headquarter to provide convenience to staff using environmentally-friendly electric vehicles. In addition, the Group provided transportation subsidies to its employees to encourage them to use shuttle bus or other public transportation, hence reducing the frequency of using private cars and advocating them to travel green.

We collaborated with qualified professional companies to properly recycle the wastes generated in our operation. The Group strictly managed the use of printing equipment. Hazardous wastes produced from printing such as toner, toner cartridges, and ink cartridges were collected centrally and stored at designated locations, which were then passed to relevant qualified professional companies for cleansing, transportation and disposal. We also encouraged the staff to participate in the “Clean Your Plate (光盤行動)” campaign when dining and treasure the office equipment in daily operation to reduce the emission of non-hazardous wastes.

### Reducing Resources Consumption

The Group attached great importance to the management of energy consumption and advocated efficient use of resources. Old facilities were replaced in a timely manner and energy saving plans were formulated based on actual conditions to enhance its employees’ awareness of energy conservation with an aim to become an enterprise that practices green operation.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- **Save electricity by promoting the use of smart equipment:** The Group has installed lighting automation systems and temperature sensors for the office park of its headquarter in Beijing, which is able to automatically switch to energy-saving lighting mode during non-office hours, and collect temperature data to timely adjust the mode of the cooling/heating systems, hence reducing energy consumption and improving the utilization efficiency of electrical appliance.
- **Power generation with the use of new energy:** To fully utilize the enormous space available at the top of the buildings of the office park of its headquarter, the Group cooperated with professional companies and installed over 5,700 solar panels with a total area of approximately 15,000 square meters to provide the office park with electricity required for daily operation through solar energy. Currently, this small solar energy power station is able to satisfy over 30% of the electricity demand in the office park of the headquarter, which has significantly reduced the use of power generated with non-clean energy.
- **Strengthen management of paper and packaging materials:** The Group advocates the concept of paperless office. Our printing equipment used duplex and black-and-white printing as default setting and regular examination of printing procedures of the employees has been conducted to reduce unnecessary printing demand. Moreover, we have implemented centralized management over the use of packaging materials. Each department is required to submit application for obtaining and distribution of packaging materials based on actual needs.
- **Strengthen water management:** The Group implemented ecological management over the landscape pond in the office park and utilize the water from the pond for watering of plants within the office park. It has also reduced the frequency of changing water of the pond to avoid the increase in water consumption due to deterioration of water quality. Meanwhile, we have strengthened the monitoring of water pipelines in the office park in an effort to timely identify and fix leakage of equipment. Promotional slogans about water conservation were posted in common areas such as pantries and bathrooms to enhance the employees' awareness of water conservation.
- **Energy saving management for warehouses:** The Group has established a dedicated warehouse energy saving management team and assigned part-time management officers in various regions to analyze the energy consumption on a monthly basis so as to explore potentials for energy saving. It also conducted comprehensive inspection and maintenance for water pipelines in the office park on a quarterly basis to ensure that the equipment are completely sealed. Routine patrol and inspection at certain locations were carried out every day after work to ensure that lighting and electrical appliance in office areas without staff working have been switched off.
- **Energy saving management for stores:** The Group required all stores to switch off the lighting in warehouse and lounges in a timely manner and strictly prohibited "lights staying on all night long". It also implemented strict requirements on the time period for switching on the spotlights at the entrance of stores on ground floor and prohibited "Lights staying on during daytime". During overtime work and inventory-taking at night, the spotlights of stores shall be switched on according to zoning. Air-conditioning is not allowed before 10:00am and shall be turned off 20 minutes before store closing; and the temperature of the air-conditioning shall not be lower than 24°C in summer and not higher than 20°C in winter.

## 2019 Environmental Performance

Unless otherwise stated, the statistical basis of environmental performance herein covered major operating premises of the Group's headquarter 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.

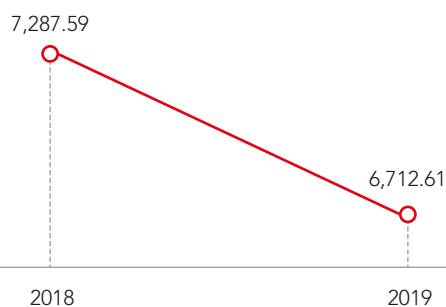
## 1. Emission

Indicator	Performance
Total emission of greenhouse gases (Scope 1 and Scope 2) (tons) <sup>2</sup>	6,712.61
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)	769.77
Company car oil consumption	1.65
Natural gas	768.12
Indirect emission (Scope 2) (tons)	5,942.84
Externally-purchased electricity	5,942.84
Total amount of hazardous waste (tons) <sup>3</sup>	1.93
Weight of hazardous waste per square meter of floor area (tons/square meter)	0.000014
Total amount of non-hazardous waste (tons) <sup>4</sup>	508.35
Weight of non-hazardous waste per square meter of floor area (tons/square meter)	0.0036

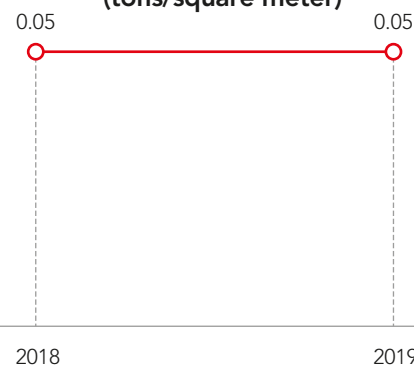
### Notes:

- Due to the nature of the Group's operation, the major types of gas emissions are greenhouse gases as well as electricity and fuels converted from fossil fuels.
- 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 "2017 Baseline Emission Factors for Regional Power Grids in China for Emission Reduction Projects" (《2017年度减排項目中國區域電網基準線排放因子》) issued by the Ministry of Ecology and Environment of the People's Republic of China and the "IPCC 2006 Guidelines for National Greenhouse Gas Inventories (2019 Revision)" (《IPCC 2006年國家溫室氣體清單指南 2019修訂版》) issued by the Intergovernmental Panel on Climate Change ("IPCC").
- 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.
- Non-hazardous wastes generated from the Group's operation mainly included office waste, kitchen waste and waste production hard disks. Office waste and kitchen waste were centrally processed at the premises where they are located, while waste production hard disks were recycled by recyclers. In particular, the office wastes of the Group's retail subsidiaries in Nanning, Xiamen (Fuzhou office), Harbin, Daqing, Xinjiang, Wuhan, Shenyang, Shenzhen and Foshan office area 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係數手冊》) issued by the State Council.

Total emission of greenhouse gases (tons)



Emission of greenhouse gases per square meter of floor area (tons/square meter)



Change in total emission of greenhouse gases and intensity

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

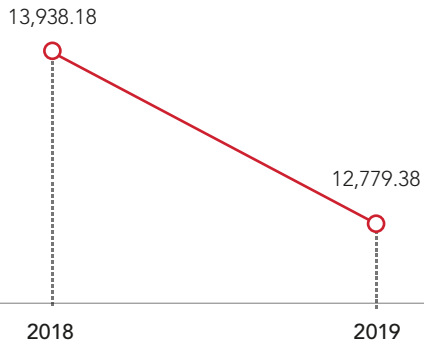
## 2. Energy and Resources Consumption

Indicator	Performance
Total energy consumption (MWh) <sup>1</sup>	12,779.38
Energy consumption per square meter of floor area (MWh/square meter)	0.09
Direct energy consumption (MWh)	3,935.05
Gasoline	6.75
Natural gas	3,928.30
Indirect energy consumption (MWh)	8,844.33
Externally-purchased electricity	8,844.33
Daily water consumption (tons) <sup>2</sup>	64,313.10
Daily water consumption per square meter of floor area (tons/square meter)	0.46
Total amount of paper used (tons) <sup>3</sup>	14.98
Total amount of packaging material used for finished products (tons) <sup>4</sup>	14,323.56
Amount of packaging material for finished products consumed per million revenue (tons/million yuan) <sup>5</sup>	1.03

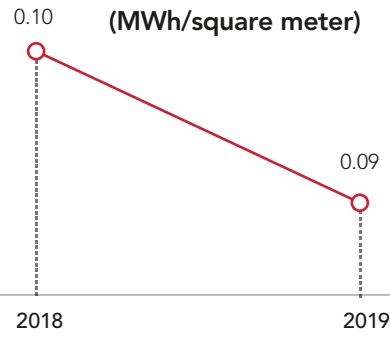
*Notes:*

- 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.
- 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, Xiamen (Fuzhou office), Hefei, Tianjin, Guangzhou, Hangzhou, Wuhan, Shenyang, Shenzhen, Xi'an, Changsha and Jinan 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 "Regulations for Design of Water Supply and Drainage of Buildings (GB50015-2019) (《建築給水排水設計規範》(GB50015-2019))" issued by the Ministry of Housing and Urban-Rural Development of the People's Republic of China.
- Copying paper includes both A4 and A3 copying paper.
- Packaging material mainly includes plastic packaging bags, paper boxes, cartons and paper bags.
- Amount of packaging material consumed per million revenue represents the weight of packaging material consumed per million income of the Group.

**Total energy consumption (MWh)**

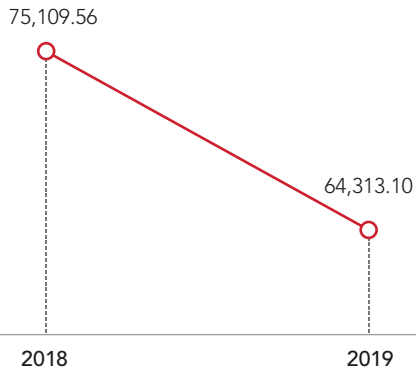


**Energy consumption per square meter of floor area (MWh/square meter)**

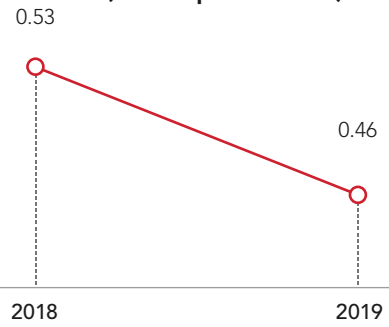


**Change in energy consumption and intensity**

**Daily water consumption (tons)**



**Daily water consumption per square meter of floor area (tons/square meter)**



**Change in daily water consumption and intensity**



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## III. EMPLOYMENT MANAGEMENT

The Group 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” and “Social Insurance Law of the People’s Republic of China” and has formulated various systems and measures including “Staff Handbook of Li Ning Company Limited (《李寧有限公司員工手冊》)” in order to optimize the employment management system, effectively protect the legitimate rights and interests of employees, show its care for the health of employees as well as their ongoing development, thereby providing employees with a healthy and safe working environment and stable promotion channels. These measures protect the interests of employees and at the same time lay a solid foundation for the Group’s sustainable development.

As at 31 December 2019, the Group had 3,783 employees, among which 3,610 employees were at the Group’s headquarter and retail subsidiaries, and 173 employees were at other subsidiaries.

### Lawful Employment with Protection of Employees’ Rights and Interests

The Group always adheres to the principle of openness, high transparency and fairness in the recruitment process, and offers equal employment opportunity for all candidates. In the contract, the rights and obligations of both parties are clearly stipulated to ensure lawful employment with a view to establishing a harmonious and stable employment relationship. Our “Staff Handbook” expressly stipulates that candidates must provide valid identification document before confirming employment to ensure he/she must meet the legitimate age. Taking employees’ ability and actual situation at work into consideration, forced labour is strictly prohibited. No employment of minors or forced labour has been found by the Group so far.

The Group encourages gender equality and diversity of employment and strictly prohibits discrimination in any form. We strive to create a fair, respectful and diverse working environment and respect every employee regardless of gender, age, ethnicity, religion, disability, sexual orientation, family background and maternity status. In the event of discrimination or harassment, the Company will conduct responsibility assessment and record as well as necessary punishment.

The Group has established a trade union. For any major measures involving the interests of employees, we should seek the opinions and recommendations from the trade union representatives and the measures can only be implemented after voting and approval by the union representatives. In addition, employees can make complaints and feedback on the Company’s management or unfair treatment through the suggestion box. Management also communicate with employees from time to time to understand their needs and challenges encountered with a view to practically promoting democratic management and paying great attention to the protection of employees’ rights and interests.

### Caring for Employees and Improving their Well-being

The Group has established a comprehensive social security system and provided employees with basic salary, incentive bonus, medical insurance, pension, unemployment insurance, work-related injury insurance, maternity insurance and housing provident fund pursuant to the requirements of the national and local government. In addition, it maintains accident insurance and supplementary medical insurance for employees. We have formulated the “Employee Attendance and Leave Management System (《員工考核及休假管理制度》)” that clearly stipulated the number of entitled holidays and provided employees with additional benefits such as festival allowance and birthday presents. Employees can arrange working hours according to the job nature and business needs in a reasonable approach. In the case of exceeding the standard working hours due to work reasons, the Group will compensate employees by way of compensatory leave or overtime payment.

In order to enrich the leisure life of employees, the Group has established diversified sports clubs and built fitness premises in the office park so as to encourage the employees to exercise during leisure time with an aim to maintain physical health and relieve stress at work. We have also set up a mutual assistance fund to help employees who encounter difficulty in daily living due to accidents or critical illnesses, thereby easing their burden. Moreover, we establish a “Home for Employees” that offer free caring services for employees’ children during winter and summer vacations or extreme weather to facilitate the employees’ balance between work and family, and thus bringing warmth from the Company and improving their sense of belonging.



"Home for Employees"



Fitness Center in Office Park of the Headquarter

## Focusing on Health and Safety Protection

Employees are the foundation of corporate development and the health and safety of employees are the prerequisites for the Company's efficient operations. The

Group strictly abides by various provisions of the "Labour Contract Law of the People's Republic of China" on the employment environment and the laws and regulations such as the "Production Safety Law of the People's Republic of China" and the "Law of the People's Republic of China on the Prevention and Control of Occupational Diseases", and is committed to providing employees with a comfortable, healthy and safe working environment so as to guarantee the employees' personal and property safety in the workplace, enhance employees' safety and health awareness and strengthen the prevention of occupational diseases.

The Group appoints professional property company to provide 24-hour security services and sets up monitoring equipment covering the office park. External visitors are required to register and verify their identity before entering to ensure the safety of the office area. In order to timely check the potential safety hazards in the office area and identify security risks, the Group organized more than 10 series of "5S" inspection activities in 2019 that ensures the facilities and equipment are always in normal working status.

For accidents and emergencies, the Group has formulated systems including "Li Ning Group Emergency Plan for Fire Protection (《李寧集團消防應急預案》)" and "Li Ning Group Emergency Evacuation Plan (《李寧集團疏散應急預案》)", and formulated the most safe and effective evacuation route by integrating into the overall planning of the office park. In 2019, the Group held two full-scale fire education activities to promote firefighting knowledge, organize employees to learn the actual operation of fire equipment, thereby enhancing employees' ability in response to emergencies.

The Group conducts annual health checkup for employees in a regular basis, and invites experts to explain the results of medical checkup through on-site consultation, telephone consultation and APP interpretation to facilitate employees' understanding on their own health condition. We also set up a health consultation room to provide employees with basic medicines for prevention and control of common illness, and organize health education talks from time to time so as to raise employees' health awareness and therefore helping employees to develop healthy living and working habits.

*Note:*

1. 5S: SEIRI, SEITON, SEISO, SEIKEISU and SHITSUKE.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Talent Training and Promotion of Mutual Development

Adhering to the philosophy of co-development with employees, the Group has developed a competitive remuneration system and provided various performance incentives such as sales bonuses, share options and share awards, and profit sharing plans based on the performance and contributions of employees from different positions. The Group adjusts employees' remuneration and welfare benefits on a regular basis according to the Company's development stage, market and industry environment and employees' past performance. Moreover, we have formulated a comprehensive performance appraisal mechanism to carry out performance appraisal for our staff and assess employees' potential based on the appraisal results. Leveraging the talent development evaluation mechanism, the Group achieves a high degree of unity in organizational development, talent development and corporate strategy.

Employees' career development and capability improvement is the most valuable strategic investment of an enterprise. The Group encourages employees to receive on job training while providing consulting feedback and training courses for employees. Through close integration of training goals into corporate development strategies, the Group has formulated training plans that satisfy the development needs of the Company and employees, created learning opportunities for employees, provided diversified growth mechanisms, thereby continuously enhancing employees' knowledge standards, working ability and initiative. By means of professional training, leadership development and talent team building, the Group has established a learning organization to facilitate employees to improve their capabilities, achieve self-realization, and therefore enhancing the Company's core competitiveness.



2019 Li Ning Training Session for Retail Staff



2019 Li Ning Training Camp for Management Trainee

The basic principles of our training are as follows:



We organize training for new office staff and retail staff from stores on a monthly basis to help them understand the Company's system, marketing skills, product knowledge and management skills. Featured trainings including product knowledge contest, management trainee training, WeChat self-learning, management training are held from time to time so as to enhance employees' career development capabilities and overall quality and working ability. In 2019, the Group's staff in service participated in various trainings organized by the Group, with over 20,000 training hours in aggregate.



Diagram on the Group's Talent Training

## IV. SUPPLY CHAIN MANAGEMENT

Through benchmarking international standards and industry best practices, the Group hopes to facilitate the mutual development with its partners along the brand value chain. In 2019, we have formulated and issued "Manual for Corporate Social Responsibility Management of Suppliers of Li Ning Company Limited (《李寧有限公司供應商企業社會責任管理手冊》)" which integrated the corporate social responsibility management into the introduction, evaluation, continuous improvement and termination process of suppliers, and gave explicit details of the working procedures, assessment standards and target requirements of the supply chain management, and therefore achieving responsible supply chain goals and facilitating the sustainable development of the supply chain.

### 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 the compliance of suppliers.

For new suppliers, the Group introduces the evaluation process including four major steps, i.e. collection of suppliers' information, document self-examination by suppliers, first round and second round of document provision. The potential suppliers are subject to the assessment in aspects such as basic qualifications, scale requirement, quality system, business level, environmental and social responsibility, etc. We will first conduct assessment on the environmental and social responsibility of the potential suppliers. Only suppliers who have passed the assessment on the social responsibility can undergo the next round of assessment. In 2019, the passing rate of potential supplier assessment of the Group was 85.5%.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For existing suppliers, the Group sets up assessment index for different types of suppliers at various levels in accordance with the international-accepted Supply Chain Operations Reference Model (SCOR System), and conducts regular quarterly inspection and on-site assessments of its environmental and social responsibility performance and risks on a quarterly or annual basis so as to ensure the continuous improvement of social responsibility management of the suppliers.

- **Quarterly Assessment:** The Group requires suppliers to actively conduct quarterly self-examination and submit social responsibility materials including employee management, emergency drill records, environmental inspection reports and greenhouse gas list. The Group evaluates the materials provided by the suppliers, confirms the review results and eventually proposes improvement requirements to the suppliers for the new quarter.
- **On-site Assessment:** Taking factors such as cooperation level of suppliers into account, the Group selects the suppliers for on-site assessment in the coming year annually based on the suppliers' assessment results of the previous year. Assessment includes four aspects namely business ethics and morals, labour, health and safety as well as environment. Suppliers with serious problems will be required to make corrections with time limit.

For suppliers who ceased to meet the business needs and standards of the Group, or who was found any "zero-tolerance circumstance" such as false records, commercial bribery, employment of child labour, illegal discharge of sewage and hazardous waste during the review, the Group shall have the right to terminate the cooperation. At the same time, we will consider the vacancy and other related risks arising from the termination of suppliers, and formulate the exit solution and risk prevention and control measures that pose minimum effect on the overall supply chain so as to ensure the healthy and sustainable development of the supply chain.

## Environmental Responsibility of Supply Chain

In order to achieve sustainable development of the supply chain, the Group facilitates the suppliers to strengthen the environmental management and enhance their environmental awareness by ways of policy management, testing and inspection as well as awareness promotion.

### Policy Management

- In 2019, the Group revised the "Li Ning's Restricted Substances List Policy on Manufacturing (《李寧公司生產工藝中限用物質清單政策》)" and "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》)" that further regulated the management and control of restricted substances during the manufacturing process, and urged all material suppliers to conduct self-examination of environmental performance and strengthen its self-management on environmental performance.
- The Group required its suppliers to sign 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》)" that they undertake not to deliberately use toxic and hazardous substances and prevent such substances from entering the production process at source and therefore minimizing the environmental pollution and at the same time enhancing the protection of its employees' health.



## Energy Saving, Emission Reduction and Chemicals Management

- The Group conducted testing and inspection of the wastewater data of the core material suppliers and facilitated the disclosure of IPE<sup>2</sup> data by all suppliers. In 2019, we aided the rectification for environmental compliance by 24 suppliers with poor IPE record.
- The Group continuously collected the energy consumption data along the supply chain and the related climate change data on a quarterly basis, which serves as the baseline data for the strategic planning of the Group's sustainable development. The Group also completed the "Report on Greenhouse Gases Data of Suppliers for 2018".
- The Group included the suppliers' energy consumption statistics, energy consumption assessment system or formulation of action plan for energy saving as well as list of greenhouse gas into the assessment scope during the quarterly review of suppliers.
- The Group conducted chemical management audit on key material suppliers using third-party chemical management performance audit tools and assessed the risks of the suppliers' chemicals. The audit mainly focused on the procurement, labeling, storage, testing, usage and protection of the chemicals, emergency drills and training.

Note:

2. IPE: Institute of Public and Environmental Affairs.

## Climate Leadership and Low Carbon Training Camp

On 31 October 2019, the Group, as the first brand committed in "Climate Stewardship 2030", jointly organized the "Climate Leadership and Low Carbon Training Camp of Li Ning" in Shanghai with the Social Responsibility Office of China National Textile and Apparel Council (CNTAC). Such initiative aimed to accelerate the transformation of low-carbonization of the industry, improve the utilization of clean energy and the application efficiency of emission reduction, and enhance the international competitiveness of Chinese enterprises in the global low-carbon supply chain. In the training camp, representatives from multiple suppliers participated in discussions on practical experiences and development directions in tackling climate change and achieving energy saving and emission reduction.



Climate Leadership and Low Carbon Training Camp of Li Ning

## Social Responsibility of Supply Chain

The Group regards the performance of social responsibility as the focus of supplier audits and, based on the audit, expects to promote the health and safe management of suppliers, protect the rights of their employees and enhance their social responsibility management level. In 2019, on the basis of "Code of Conduct Regarding Social Responsibilities of Suppliers of Li Ning (《李寧公司供應商社會責任行為準則》)", the Group has formulated the "Manual for Social Responsibility Management of Suppliers of Li Ning (《李寧供應商社會責任管理手冊》)" and "Social Responsibility Implementation Guideline of Li Ning Supplier (《李寧供應商社會責任實施指南》)" to further standardize the social responsibility management system and procedures along the supply chain.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In terms of audit, the Group adopts a combination of supplier self-examination, audit from the Group and third party. In 2019, the Group conducted multi-dimensional social responsibility audits on suppliers:

- The Group appointed a third-party audit organization to select an influential group of 12 first-tier suppliers and 10 second-tier suppliers for on-site audits.
- The Group strictly implemented the annual certification principles for product manufacturing factories of cooperating brands and a total of 49 factories obtained WCA<sup>3</sup> certification throughout the year.
- The Group, adhering to the principles combining audit and rectification, conducted tracking and rectification for all finished product suppliers participating in the audit, and substantially improved their social responsibility management capabilities.

*Note:*

3. WCA: Workplace Conditions Assessment.

## Participating in ZDHC Program<sup>4</sup>

ZDHC Program is committed to formulating comprehensive environmental performance standards for the global clothing and footwear industry, guiding the industry's awareness to environmental protection, and striving to achieve zero emissions of hazardous chemicals in the manufacturing process. As one of the six founding brands of ZDHC Program, the Group proactively participated in regular meetings organized by ZDHC Committee, and took part in the resolutions and voting of major issues concerning the ZDHC, collaborated with other brands in facilitating the sustainable development of textile industry and was rewarded the "ZDHC Roadmap 2020 Awards" by ZDHC. In 2019, the major tasks that the Group took part in are as follows:

- The Group continuously promoted the application of ZDHC gateway for chemicals, encouraged training for chemical management in the industry, while simultaneously activated the pilot schemes of InCheck gateway for chemicals.
- As the sole Chinese brand, the Group involved in the formation of the updated version of "Wastewater Guidelines (《廢水指南》)" published by ZDHC and made active contributions to the goal of zero discharge of hazardous chemicals in textile supply chain.
- The Group assisted the ZDHC Foundation and CNTAC to jointly organize the Implementation Circuit Workshop of Chemicals Stewardship 2020 in order to enhance the management capability for chemicals of Chinese textile enterprises and push forward their green transformation and upgrade.
- The Group actively participated in the contracted brand leadership project team of ZDHC, developed key performance indicators, verified third-party selection criteria and training materials, and formulated the 2020 joint roadmap for corresponding brands.

*Note:*

4. ZDHC Program: Zero Discharge of Hazardous Chemicals Program.



**ZDHC Wastewater Guidelines  
Best Practice Sharing**

## V. PRODUCT LIABILITY MANAGEMENT

The Group strictly abides by the laws and regulations such as the “Product Quality Law of the People’s Republic of China” and the “Law of the People’s Republic of China on the Protection of Consumer Rights and Interests” and has formulated relevant systems and measures in order to strictly control the product quality, pay attention to customer demands, guarantee the security and privacy of customer information, protect customer rights and interests, and safeguard brand reputation and value, thereby ensuring consumers to shop at ease and enjoy high-quality products and services.

### Product Quality Control

The Group strives for strict product quality control and 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 addition, the Group has formulated quality requirements and management standards beyond the national regulations, industrial and group standards including “Quality Management and Control Procedures for Clothing R&D Phase (《服裝研開發階段質量管控流程》)”, “Quality Management and Control Requirements for Development and Production of QS Clothing (《QS服裝開發及生產質量管控要求》)”, “Physical Property Standard Manual for Li Ning’s Footwear Product (《李寧鞋產品物性標準手冊》)” and “Safety Technical Requirements for Footwear, Clothing and Accessories (《鞋、服裝及配件安全技術要求》)”.

The Group conducted comprehensive supervision throughout the production process and established a risk assessment team comprised of the product development project team, quality control department (QC) and quality assurance department (QA) as well as a joint audit review team comprised of members of QC and QA. During the development stage, the Risk Assessment Team evaluated the product quality piece by piece to ensure the comprehensiveness and completeness of the quality assessment. In the production stage, the joint audit review team conducted joint quality inspections on finished products from procedure management, material quality and production techniques. In order to guarantee the product quality at source, the Group required all suppliers to conduct quality management self-assessments on a quarterly basis, and conducted random inspections on the batch production from material suppliers. If the quality of the materials provided by the suppliers fails to meet the requirements of the Group, we will implement penalty measures based on the actual situation including interviews, circulation of a notice of criticism, reduction in order volume and request of withdrawal from Li Ning supply chain, that urge the suppliers to improve their service quality and supply level.

### Customer Complaints and Protection

In order to better serve the customers and improve consumer shopping experience, the Group adheres to the service goal of “customer priority and professional services” and has formulated “Li Ning Product Aftersales Service Manual (《李寧產品售後服務手冊》)”, “Customer Services and Phone Replies Management Regulations (《客戶服務電話解答管理規定》)” and “Customer Services Knowledge Management Principles (《客戶服務知識管理準則》)”, to optimize the customer service management system and provide guidelines for the improvement of customer service standards. We complied common problems regarding product quality and services in the system, and formulated the corresponding policies, standards, handling procedures, judgment diagram and complaint solutions for aftersales services so as to ensure customer problems can be resolved in a quick and effective approach.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group continued to optimize its multi-media customer service platforms for customers to give feedback via various channels including our stores, official websites, 400 customer care hotlines, emails, official WeChat and Weibo accounts. Professional customer service personnel in various channels help solve problems for customers and timely follow up and handle customer feedback. In addition, we arranged return visits and adopted other methods to ensure customers' queries and suggestions can be properly addressed. In 2019, the customers' overall satisfaction on the Group was 99.07%.

## 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 comprehensive and sound information security management system and mechanism and formulated customer privacy protection policies in order to prevent leakage and misuse of customer information.

For the collection of customer information, the Group will not proactively collect any information from customers other than mobile authentication of customers required by the government. Additional membership requirements, such as email address, birthday information and shipping address, are collected upon customer consent. For the management of information reception, processing and storage device, the Group applies technologies such as advanced firewalls so as to strictly monitor the entire process of customer data flow and protect information from external malicious theft. Authorization must be obtained if the department requires the usage of relevant information, and the information could only be used within the specified scope. In addition, the Group signed confidentiality agreement with cooperating third parties and suppliers, supervised their confidential management of customer information, and required them to implement the same confidentiality standards as the Group so as to prevent information leakage.

## Product Examination and Recall

In accordance with laws and regulations of 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 the management measures including "Li Ning Company's Defective Product Recall Management Regulations (《李寧公司缺陷產品召回管理規定》)", "Service Commitment (Repair, Replacement and Return) of Product Quality (《產品質量三包服務承諾》)" and "Procedures and Standards on Recall of Li Ning's Defective Goods (《李寧殘品收殘程序及標準》)" to standardize the product examination and recall procedures, and improve the aftersales service system. We attach great importance to product quality and guarantee our products fulfill the corresponding national inspection requirements of nationally-recognized testing institutions before launching.

During the production and sales process, if the products are found to be defective which may harm the safety of users, public, property and environment, the Group will take prompt measures such as sales suspension, warnings, product recalls, harmless disposal and destruction in order to protect the health and safety of consumers. For any product quality problems arising within the promised period, the Group will offer return, replacement and repair services. In 2019, in order to swiftly resolve customer issues, we gradually conducted training for sales staff, provided operating guidelines for sales staff in product quality problem resolution, aftersales services, management of defective goods, and recall and return of defective goods. The Group also set up an examination team engaging in inspections of the defective goods returned from sales end, and provided feedback of the inspection results to customers, sales team and suppliers. At the same time, the Group gathered the relevant data and analysis of the defective products into the Monthly Quality Report on a monthly basis which provided effective market feedback for R&D Department and therefore continuously enhancing and improving product quality.

## Intellectual Property and Brand Protection

The Group strictly abides by the 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" and "Advertising Law of the People's Republic of China" and has formulated and promulgated internal management systems such as "Patent Management Measures of Li Ning Company Limited (《李寧有限公司專利管理辦法》)", "Master Logo Usage Standards of Li Ning Company Limited (《李寧公司主標識使用規範》)" and "Logo Standards of China Li Ning (《中國李寧標識規範》)" to gradually improve the intellectual property protection system, enhance employees' awareness of intellectual property protection, strictly manage the usage of brand logos, continuously strengthen brand image promotion, and further standardize the review procedures of product promotion, prohibit any misrepresentation or exaggerated advertising, thereby preventing the occurrence of infringements.

In order to minimize the risks of intellectual property infringement, the Group identified key risk factors in the design, production and sales processes, and established corresponding approval and supervision procedures based on the risk factors so as to enhance the approval level of important risk factors. While strengthening internal management, the Group made full use of external resources by building long-term partnerships with renowned law firms and agencies to conduct patent infringement risk analysis on important research and development results and products, including pre-assessment, patent infringement retrieval and analysis, and patent novelty retrieval and analysis so as to ensure the patents are legally used. Recently, no material dispute or litigation of intellectual property against the Group has been identified.

Regarding brand protection, we have strengthened our cooperation with external agencies in order to protect and enhance the Company's brand image and its intangible value, and strived to achieve online and offline brand protection. By ways of customer and distributor reporting, routine inspections by enforcement organizations and daily monitoring, the Group obtained evidences of manufacturing and sales of counterfeit products or patent infringement, carried out litigation and right protection actions including administrative and criminal crackdown, and civil litigation so as to control the spread of counterfeit products and at the same time protect the Company's brand interests.

## VI. ANTI-CORRUPTION MANAGEMENT

Adhering to the operation philosophy of being honest, the Group strictly complies with the requirements of relevant laws and regulations such as "Company Law of the People's Republic of China (中華人民共和國公司法)" and "Interim Provisions on Banning Commercial Bribery (關於禁止商業賄賂行為的暫行規定)". It has also formulated and timely revised "Anti-Corruption and Anti-Bribery System of Li Ning Group (李寧集團反腐敗和反賄賂制度)". The Group arranges trainings for all staff regarding anti-corruption and anti-bribery annually and regularly reports the investigation and punishment of suspected crimes of staff so as to procure all staff to always maintain the professional ethics of dedication, justice and integrity and strengthen the staff awareness of anti-corruption and anti-bribery through trainings and warnings. To prevent behaviours such as malpractice for selfish ends and commercial bribery, the Group required its 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 partners so as to combat commercial bribery with joint efforts.

The Group has established dedicated reporting channels where staff can report any suspected cases of violating laws or regulations, corruption and bribery to the Group via emails and other channels, and the Company will keep the identity of reporting staff strictly confidential to avoid revenge and discrimination against such reporting staff as a result of speaking up, so as to guide all staff to prevent and stop corruptive behaviours with concerted efforts and hence promote business development of the Company and maintain a healthy market environment.



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## VII.COMMUNITY INVESTMENT MANAGEMENT

With the charity philosophy of “Practicing Love with Sports” and as a global leading sports brand, the Group, while constantly offering quality sports products, fully leverages its own advantages to convey culture and sportsmanship through various charity and volunteering events so as to encourage nationwide fitness and promote the development of sports in China and within the community. The Group has constantly been giving back to the society, spreading love and warm-heartedness and is passionate about social welfare with a view to constructing a harmonious society. Meanwhile, the Group has been carrying out targeted poverty alleviation in regions of ethnic minorities to make its own contribution in building a society of common prosperity.

### Building a harmonious society with charity

The Group takes pragmatic actions in charity events and is concerned about the economic development in the impoverished regions. Through long-term cooperation with China Women’s Development Federation, the Group offers practical help to impoverished mothers to solve living difficulties with an aspiration to influence more people to join public charity and help more people earn a better life by spreading love and charity philosophy.

### *Caring Women and Children-charity event of China Women’s Development Federation*

In August 2019, the Group joined hands with China Women’s Development Federation and specially invited partners to carry out charity visit in Yanbian Prefecture, Jilin Province, during which the Group donated LI-NING brand apparels worth RMB10 million to China Women’s Development Federation and 20 representatives of impoverished mothers and children accepted the loving donation on site. The charity visit tour carried out a visit and survey on women’s hand crafts and cared impoverished mothers in counties and cities such as Longjing and Dunhua to give them loving supplies. Since organizing charity events with China Women’s Development Federation in 2012, the Group has cumulatively donated money and items worth over RMB60 million.



**Caring Impoverished Women and Children--charity visit in Jilin Province**

### ***Caring special groups—integration event during International Special Olympics***

On 5 December 2019, at the integration experiencing event of the International Special Olympics in East Asia, special Olympic athletes from Pudong Special Education School demonstrated integrated floor ice hockey. Mr. Li Ning and various other senior council members from East Asia experienced integrated sports with athletes. In the evening, Mr. Li Ning was invited to attend “2019 Charity Banquet for Integration (2019融合慈善晚宴)” hosted by China Friendship Foundation for Peace and Development where he participated in charity auction with numerous compassionate individuals from all walks of life such as enterprise representatives, caring people and representatives from integrated education. In the future, Li Ning Company will continue to join hands with the International Special Olympics to provide a cultivation platform for mentally handicapped individuals and to make concerted efforts in integration project.



Demonstration of integrated floor ice hockey

### ***Empowering and building a beautiful Va ethnicity region with knowledge—targeted poverty alleviation, from fish to fishing***

On 17 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, for launching the poverty alleviation for Baraoke folk costume handicraft companies in Cangyuan Va Autonomous County, Yunnan Province. For hardware, the Group procured over 20 internationally-leading quality equipment and tools and for software, the Group took the lead on a number of occasions in arranging staff of Baraoke folk costume handicraft companies to attend trainings regarding production management and technological skills in leading enterprises and has assigned its own engineers to front production lines to give comprehensive technological training numerous times. In terms of internal management, from preliminary plant design to internal procedure consolidation at later stages, the Group spared no effort in helping them. With their joint efforts, on 19 April 2019, the new workshop under the Group’s alleviation project for Baraoke folk costume handicraft companies was officially put into operation. In the second half of 2019, the Group again assigned engineers and designers to improve and enhance the production procedures and designs in Baraoke folk costume handicraft companies. In the future, the Li Ning Group will definitely offer constant help and alleviation to them.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT



Demonstration base for industrial poverty alleviation for the disabled

## Supporting green environmental protection with charity

As a Chinese brand practicing sustainable development, apart from launching environmental protection products, the Group also advocates sustainable living approach, with a view to helping more people to understand and recognize plastic recycled materials and facilitating the progress of global sustainable development.

## “24-hour Clean Water Scheme”—brand-new environmentally-friendly life vests

In September 2019, the Group, together with Coca-Cola China, participated in the “24-hour Clean Water Scheme” charity event, where the Group provided rescue personnel with brand-new environmentally-friendly life vests. The life vests use bright red design with reflective printing process to ensure safe operation at night as well as waterproof and breathable materials and special crafts to ensure no water seepage or leakage, offering more comprehensive protection to the rescue personnel and ensuring smooth rescue actions. Besides, in response to the sustainable development initiative, the life vests adopt environmentally-friendly recycled materials which are in compliance with the Global Recycled Standard (GRS) and are made out of environmentally-friendly yarns processed from waste water bottles. The Group hopes to make its contribution to reducing environmental pollution through recycling and reutilization.



“24-hour Clean Water Scheme” – brand-new environmentally-friendly life vests



### ***Li Ning X UPanda themed products of "Environmental Protection"—advocating "zero" waste and "zero" pollution***

In 2019, regarding "UPanda", a global cultural promotion scheme for teenagers, Li Ning created cross-over product series and successively launched two new products under the themes of "waste sorting" and "protecting the ocean", using daily plastic recycling materials to manufacture "apparel" and advocating the living approach of "zero" waste and "zero" pollution. At the offline experience event, through activities such as creative plastic recycling workshop and charity workshop for waste-made hand crafts, the Group informed the public on the living attitude of making the best use of items and turning waste into treasure.



Charity workshop for waste-made hand crafts

### ***Vitalizing the community with sports***

By integrating charity with sports, the Group actively engages in surrounding communities to encourage more people to know new technologies and new ways of healthy sports, take part in sports and learn sportsmanship so as to build a healthy society.

### ***Badminton competition for staff of foreign enterprises***

In October 2019, the "19<sup>th</sup> Badminton Friendship Competition", hosted by Beijing Trade Union Federation for Foreign Enterprises and organized by the Group, was successfully held in the tennis court in Li-Ning Centre. A total of 232 badminton enthusiasts from 31 enterprise trade unions actively enrolled in the competition. During the competition, participants played wholeheartedly and aggressively and fully enjoyed the joyfulness of badminton sports. As a member entity of Beijing Trade Union Federation for Foreign Enterprises and fully leveraging the advantage of its own venues, consecutive years of experience in organizing badminton friendship competition for staff of foreign enterprises has facilitated communication between the Group and foreign enterprises as well as making a contribution to promoting sportsmanship.



Badminton friendship competition for staff of foreign enterprises

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## Joint establishment project for secondary school sports teams

The Group pays attention to the sport education of primary and secondary school students and hopes to educate sporting knowledge to students through in-depth communications with various types of schools so as to develop sport hobbies and cultivate sportsmanship. In March 2019, the Group and Luhe Middle School held the signing ceremony for joint establishment of sports teams. As the Group's first school for peer-to-peer joint establishment of sport teams, the Group will establish Li Ning Sport Scholarship in Luhe Middle School to provide professional sporting equipment for school sports teams free of charge and offer technological guidance with a view to helping students do sports in a scientific manner. In addition, the Group will invite Luhe Middle School to visit office park of the headquarter and lead the students to visit Li Ning laboratory for sports science every year to gain an in-depth understanding of cutting-edge sports science.



Signing ceremony of joint establishment of secondary school sports team between Li Ning and Luhe Middle School

## VIII. PARTICULARS OF THE REPORT

### Report Summary

This report aims to disclose to the stakeholders the latest progress of the Group's work in respect of Environmental, Social and Governance (ESG) in 2019. This report has been prepared in accordance with the ESG Reporting Guide set out in Appendix 27 to the Listing Rules on the Hong Kong Stock Exchange. This report should be read together with the "Corporate Governance Report" section in the 2019 Annual Report and the "Social Responsibility" column on the Group's website.

### Reporting period

From 1 January 2019 to 31 December 2019, with some contents of the report dating back to previous year as appropriate.

### Reporting scope

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

### Reporting principles

- Materiality:** This report evaluates the areas of major concerns of the stakeholders and provides disclosure on major issues.
- Quantification:** All key performance indicators disclosed in this report are measurable, and the basis for calculation of the environmental data has also been disclosed.
- Balanced:** The contents presented in this report are unbiased with no selection, omission or presentation that will have inappropriate influence on the decision-making or judgement of the readers of this report.
- Consistency:** The methods and scope of statistics in this report remained unchanged and the data disclosed is comparable to that of the previous years.



# INVESTOR RELATIONS REPORT

In 2019, the sports market was still booming. The sports enthusiasts' professional insights on consumption has become increasingly matured, with their fields of focus on sports continuously breaking the tradition and expanding towards more diversified combinations driven by various interests and hobbies. Meanwhile, their vertical expertise and reserve in various fields has become more systematic. While the incremental market boosted further increase in demand, the existing market led the overall industry towards a promising future through optimization and upgrade. On this basis, the Group continued to reinforce the development strategy of "Single brand, Multi-categories, Diversified channels" with products, channels and retail capability, and supply chain management as main business focuses, and attracted the attention of consumers with innovative and special activities such as fashion weeks and cross-sector crossover collaborations. In addition, the launch of exclusive products and the development of innovative and diversified channels have further enriched the brand image and influence. During the year, with the remarkable performance of LI-NING core brand, China LI-NING and the new business, the Group saw improvements in its overall profitability with steady improvements in both key operational indicators and operation efficiency.

Never will we reach the goal if we refuse to take the first step. The steady improvement of brand competitiveness and the excellent results performance have won the brand with more consumers on the one hand, and attracted more attention from global capital market on the other, which has in turn brought about new demands and new challenges on the investor relation of the Company. During the year, in strict compliance with the relevant information disclosure requirements of the Hong Kong Stock Exchange, the Investor Relations Department of the Company took "Communication and Discovery, Transmission and Recommendation" as its major task, and adhered to the communication principle of "accessible, credible and timely" to ensure effective communication between seller/analysts and buyer/investors, striving to demonstrate a more complete picture of the Company's business development to the investment community.

## • COMMUNICATION AND DISCOVERY

- Except the black-out period prior to the publication of results announcement, 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 Investor Relations Department deepened and broadened the conveying of information by further enhancing the participation in investors' forums and conducting more focused interactive communication;
- The Investor Relations Department actively listened and responded to the demand of the investment community for the knowledge on the business development of the Company, including issues such as "Environment, Social Responsibility, Corporate Governance" which received increasing attention year by year, as well as focused on discovering outstanding industry standards.

## • TRANSMISSION AND RECOMMENDATION

- As a two-way bridge for information communication, apart from helping the investors experience LI-NING's experience value in a more detailed, practical and comprehensive way, the Investor Relations Department summarized and collected the feedbacks from the investment community and reported to the Company's management, which has become a common work practice;
- The Investor Relations Department consistently summarized and explored excellent industry experience and work practice and report and offer recommendation on such information to the management so as to be committed to providing forward-looking plans to improve operation and corporate governance of the Company.

# INVESTOR RELATIONS REPORT

Investor communication activities of the Company during the year are summarized as below:

Type of activities	2019	2018	2017
Roadshows (including reverse roadshows)	2 times (64 meetings in total)	2 times (67 meetings in total)	2 times (49 meetings in total)
Forum	8 times (64 meetings in total)	8 times (79 meetings in total)	4 times (55 meetings in total)
Meeting	110 times	115 times	130 times
Conference call	236 times	241 times	206 times
Store visit	18 times	19 times	25 times

In 2019, the Company was awarded the Most Honored Company in "All-Asia Executive Team" organized by Institutional Investor and ranked the first place in a number of awards such as Best Investor Relations Program, Best Investor Relations Professional, Best ESG/SRI Report and Best Corporate Governance in Discretionary Consumption Sector. The Company was also awarded, among others, Best IR Company (Mid Cap) and Best Investor Relations Officer issued by Hong Kong Investor Relations Association. These honors and awards are not only evidence of confidence in the Company from the capital market, but also represent positive recognition from the investment community for our long-term, consistent and stable investor relation work.

Looking forward to 2020, positive and fighting spirit of sportsmanship will still continue to demonstrate self-breakthrough in "Anything is Possible". In line with the Company's development progress, the Investor Relations Department of the Company will continue to focus on the core working principle of "Communication and Discovery, Transmission and Recommendation", emphasize on helping the investment community gain a more comprehensive and prompt understanding of the Company's current development and future approach so as to continuously and proactively maintain confidence of the Company's long-term development from the capital market.



The Company was awarded a number of awards in "All-Asia Executive Team" organized by Institutional Investor such as the Most Honored Company and the Best ESG/SRI Report.

## 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 2019: 2,315,749,455

Market capitalisation as at 31 December 2019: approximately HK\$54,072,749,774

### Dividend for 2019

Interim dividend: Nil

Final dividend: RMB15.47 cents per share

### Financial Calendar

Announcement of annual results: 26 March 2020

Annual General Meeting: 12 June 2020

### Corporate Websites

Li Ning Official Website: <http://www.lining.com>

Li Ning IR Website: <http://ir.lining.com>

### Contact for Investor Relations

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Millennium City 5, 418 Kwun Tong Road

Kowloon, Hong Kong

Investor Relations Department, Li Ning Company Limited

Telephone: +852 3541 6000

Fax: +852 3102 0927

Email: [investor@li-ning.com.cn](mailto: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 57, is the founder of the LI-NING brand and the Group's Executive Chairman, Joint Chief Executive Officer and an executive Director, he is also a member of the nomination committee of the Company. Mr. Li served as an Interim Chief Executive Officer of the Company from 18 March 2015 to 1 September 2019, and has been re-designated as the Joint Chief Executive Officer of the Company with effect from 2 September 2019 with his focus on the overall control and strategic planning of the Group. 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 the Hong Kong Stock Exchange and a substantial shareholder of the Company. 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. Kosaka Takeshi**, aged 49, a Japanese-Chinese whose former Chinese name was Qian Wei (錢煒), is an executive Director and the Joint Chief Executive Officer of the Company. Mr. Kosaka joined the Group on 2 September 2019 and focus on the operations of the Group. Mr. Kosaka graduated from Kwansai Gakuin University in Japan. Prior to joining the Company, he was the chief executive officer of South Korea Uniqlo. Mr. Kosaka joined Fast Retailing Co., Limited ("Fast Retailing") in 1996 and worked in various divisions and Asian regions gaining extensive experience in supply chain, products and merchandising as well as retail management. Fast Retailing is the holding company of Uniqlo and its securities are secondary listed as depositary receipts on the Hong Kong Stock Exchange (Stock Code: 6288). He served as the vice general manager and the chief operating officer of the PRC Uniqlo in 2001 and 2005 respectively. Mr. Kosaka has over 16 years' experience in the development and management of the PRC market.

## DIRECTORS AND SENIOR MANAGEMENT



**Mr. Li Qilin**, aged 33, 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 the Hong Kong Stock Exchange and a substantial shareholder of the Company. Mr. Li is the nephew of Mr. Li Ning, the Executive Chairman and Joint 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 63, 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. 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 the 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 the 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 64, 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 26 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 62, 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 33 years of experience in the garment industry and is currently the chairman of Prospective Holdings Ltd. Dr. Chan serves as an independent non-executive director of Great Harvest Maeta Group Holdings Limited, Speedy Global Holdings Limited and Glorious Sun Enterprises Limited, all of which are listed on the Main Board of the Hong Kong Stock Exchange. Dr. Chan is active in community affairs in Hong Kong. He was appointed as member of the Council for Sustainable Development from 1 March 2015. He is a member of the Court of the Open University of Hong Kong from 2012. 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 67, 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. Mr. Su has served as an independent non-executive Director of BeiGene, Ltd. since May 2019, a company listed on the Main Board of the Hong Kong Stock Exchange.

## SENIOR MANAGEMENT



**Mr. Tsang, Terence Wah-Fung**, aged 58, 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 28 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 47, 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 25 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.



## DIRECTORS AND SENIOR MANAGEMENT



**Mr. Hong Yu Ru**, aged 54, 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 45, 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 17 years of experience in the sportswear and apparel industry. He worked at the Company from 2003 to 2012. 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 64, general manager of the brand project management center of the Group, joined the Group in November 1991, and is responsible for the public relationship, media management, market research and medal teams' sports marketing. Mr. Zhang has over 38 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 40, 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 16 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 50, general manager of apparel research and development and production division of the Group, joined the Group in January 2002, and is responsible for businesses such as the research and development, production and procurement of apparel goods. Mr. He has over 26 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 51, the general manager of the footwear research and development and production division of the Group, joined the Group in March 1998, and is responsible for businesses such as the research and development, production and procurement of footwear goods. Mr. Xu has over 27 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 master degree in business administration from Renmin University of China.



**Mr. Hu Nan**, aged 54, 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 27 years of experience in the sportswear and apparel industry. He worked at the Company from 1993 to 2010. 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.

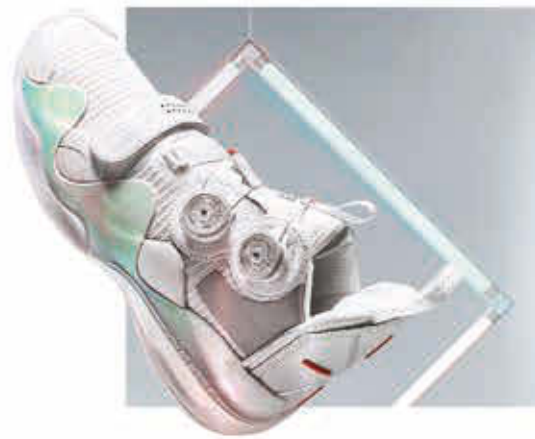
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# REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2019.

## PRINCIPAL ACTIVITIES

Li Ning Company Limited is one of the leading sports brand companies in China, mainly operating professional and leisure footwear, apparel, equipment and accessories 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 retail distribution network and supply chain management system in China. We are committed to becoming a world-class international professional sports brand enterprise with fashion attributes that can represent China and be recognised worldwide.

In addition to its core LI-NING brand, the Group also manufactures, develops, markets, distributes, 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.

## SUBSIDIARIES AND JOINTLY CONTROLLED ENTITIES

Particulars of the Company's subsidiaries and its investments in associates and joint ventures as at 31 December 2019 are set out in notes 10 and 11 respectively, to the consolidated financial statements.

## RESULTS

The results of the Group for the year ended 31 December 2019 are set out in the consolidated income statement on page 109 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 2019 (2018: nil).

The Board has recommended the payment of a final dividend of RMB15.47 cents per ordinary Share issued or to be issued upon conversion of CS for the year ended 31 December 2019 (2018: RMB8.78 cents). The proposed dividend payment is subject to approval by the Shareholders at the 2020 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 12 June 2020. Such dividend will not be subject to any withholding tax. Upon Shareholders' approval, the proposed final dividend will be paid:

- (i) on 30 June 2020 to ordinary Shareholders whose names shall appear on the register of members of the Company on 19 June 2020;
- (ii) on 30 June 2020 to CS Holders issued under the 2015 Open Offer and remain outstanding on 19 June 2020; and
- (iii) on 6 July 2020 (i.e. the third business day after 30 June 2020) to CS Holders issued under the 2013 Open Offer and remain outstanding on 19 June 2020.

For the avoidance of doubt, any CS subject to a conversion notice completed, executed and deposited on or before final dividend record date (being 19 June 2020) shall be entitled to the distribution of such final dividend of the Company. For details of calculation of distribution of the final dividend entitled to the 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 2020 AGM and Shareholders and CS Holders qualifying for the proposed final dividend to be approved at the 2020 AGM, the register of members and register of CS Holders of the Company will be closed as set out below:

- (i) For ascertaining eligibility to attend and vote at the 2020 AGM:

Latest time to lodge transfer documents	4:30 p.m. on 8 June 2020 (Monday)
Period of closure of register of members	9 June 2020 (Tuesday) to 12 June 2020 (Friday) (both days inclusive)
Record date	12 June 2020 (Friday)
2020 AGM date	12 June 2020 (Friday)



In order to qualify for attending and voting at the 2020 AGM, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 8 June 2020.

- (ii) For ascertaining entitlement to the proposed final dividend to be approved at the 2020 AGM:

Latest time to lodge transfer documents	4:30 p.m. on 17 June 2020 (Wednesday)
Period of closure of register of members and register of CS Holders	18 June 2020 (Thursday) to 19 June 2020 (Friday) (both days inclusive)
Final dividend record date	19 June 2020 (Friday)

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

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

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2019 are set out in note 17 to the consolidated financial statements.

## RESERVES

As at 31 December 2019, reserves of the Company amounted to RMB5,005,206,000 (2018: RMB4,460,184,000). Details of movements in reserves of the Company during the year are set out in note 35 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 2019 were as follows:

	Year ended 31 December	
	2019 % of total revenue	2018 % of total revenue
The largest customer	4.0	3.7
Five largest customers	14.0	14.4

	% of total purchases	
	2019 % of total purchases	2018 % of total purchases
The largest supplier	8.1	8.7
Five largest suppliers	31.3	33.6

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 2019 was nil (2018: nil).

## DONATIONS

Charitable and other donations made by the Group during the year amounted to RMB7,897,501 (2018: RMB15,143,961).

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

## REPORT OF THE DIRECTORS

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 (the "2015 Convertible Securities")) (the "Offer Securities") on the basis of 5 Offer Securities for every 12 existing Shares held on 8 January 2015. Details of the 2015 Open Offer and the terms thereof are set out in the Company's announcement dated 16 December 2014 and the prospectus dated 9 January 2015 respectively.

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

As a result of the 2015 Open Offer and pursuant to the terms and conditions of the 2013 Convertible Securities, the conversion price of the 2013 Convertible Securities was

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

During the year ended 31 December 2019, the 2013 Convertible Securities in an aggregate principal amount of approximately HK\$614,264.89 had been converted into 192,983 Shares, and the 2015 Convertible Securities in an aggregate principal amount of approximately HK\$291,280,267.20 has been converted into 112,030,872 Shares. As at 31 December 2019, the outstanding 2013 Convertible Securities amounted to approximately HK\$402,133,072.62 and the outstanding 2015 Convertible Securities amounted to HK\$33,041,764.60 which are convertible into a total of 126,337,754 Shares and 12,708,371 Shares respectively.

Assuming all outstanding CS were converted into shares as at 31 December 2019, 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 CS		No. of Shares convertible under the CS	No. of Shares after including convertible shares under the outstanding CS	
		% of holdings			% of holdings
Li Ning	274,553,268	11.86%	137,796,671	412,349,939	16.80%
	(Note 2)				
Public	2,041,196,187	88.14%	1,249,454	2,042,445,641	83.20%
Total	2,315,749,455	100.00%	139,046,125	2,454,795,580	100.00%

#### Notes:

- The substantial shareholder has the same meaning ascribed to it under the Listing Rules.
- Mr. Li Ning is interested in 274,553,268 Shares, among which:—
  - 11,148,396 Shares are held as personal interest; and
  - 263,404,872 Shares are held by Viva China Holdings Limited.

Mr. Li Qilin, the nephew of Mr. Li Ning and the son of Mr. Li Chun, is deemed to be interested in the 263,404,872 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 Chun, the brother of Mr. Li Ning and the father of Mr. Li Qilin, is deemed to be interested in the 263,404,872 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 29 to the consolidated financial statements.

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

## **FIVE-YEAR FINANCIAL HIGHLIGHTS**

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

## **PRE-EMPTIVE RIGHTS**

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

## **DIRECTORS**

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

### **Executive Directors**

Mr. Li Ning	<i>(Executive Chairman and Joint Chief Executive Officer) (re-designated as Joint Chief Executive Officer on 2 September 2019)</i>
Mr. Kosaka Takeshi	<i>(appointed as an executive Director and Joint Chief Executive Officer on 2 September 2019)</i>
Mr. Li Qilin	

### **Independent non-executive Directors**

Mr. Koo Fook Sun, Louis	<i>(re-elected as an independent non-executive Director on 14 June 2019)</i>
Ms. Wang Ya Fei	
Dr. Chan Chung Bun, Bunny,	
GBS, JP	
Mr. Su Jing Shyh, Samuel	<i>(re-elected as an independent non-executive Director on 14 June 2019)</i>

In accordance with article 86(3) of the Company’s Articles of Association, Mr. Kosaka Takeshi, who has been appointed by the Board as an executive Director with effect from 2 September 2019, shall hold office until the 2020 AGM and shall then be eligible for election.

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, Ms. Wang Ya Fei (“Ms. Wang”) and Dr. Chan Chung Bun, Bunny (“Dr. Chan”) shall retire from the office by rotation and, being eligible, offer themselves for re-election as Directors at the 2020 AGM.

Ms. Wang and Dr. Chan have served on the Board for more than nine years respectively. The Board considers Ms. Wang and Dr. Chan to be independent of the management and free of any relationship which could materially affect the exercise of their 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 Ms. Wang and Dr. Chan remain independent.

The Board considers that in a long-term, complex and technologically advanced business environment, it is essential that independent non-executive Directors have the opportunity to acquire, over a number of years, the experience and knowledge of the business and the sectors within which the Company operates. Hence, the Board considers that the long service provided by Ms. Wang and Dr. Chan would not affect their exercise of independent judgement when serving the Company, and recommends Ms. Wang and Dr. Chan to be re-elected as independent non-executive Directors at the 2020 AGM.

# REPORT OF THE DIRECTORS

## 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 2020 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.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year, according to the Listing Rules, the following Directors have interests in the following businesses which are considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group:

### Businesses which are considered to compete or likely to compete with the businesses of the Group

Name of Director	Name of entity	Description of the entity's business	Nature of interest of the Director in the entity
Mr. Li Ning & Mr. Li Qilin	Viva China Holdings Limited	principally engaged in (i) sports competition and event production and management; (ii) operation of an e-sports club; (iii) sports talent management; (iv) provision of sports-related marketing and consultancy service; (v) operation of sports premises (including sports parks, sports centres, and ice-skating rinks); and (vi) development, design and sale of sports, health and leisure consumables and apparels which might compete, directly or indirectly, with the business of Li Ning Group.	director and substantial shareholder (within the meaning of the SFO)

As the Board of Directors of the Company is independent of the board of the above-mentioned entity and none of the above Directors can control the Board of the Company, the Group is therefore capable of carrying on its businesses independently of, and at arm's length from the businesses of these entities.

## 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 2019 were RMB83,617,000 (2018: RMB73,530,000).

## EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2019, 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 Report of the Directors), the Company has not entered into any equity-linked agreement, nor did any equity linked agreement subsist at the end of the year.

## SIGNIFICANT INVESTMENT

The Group has always been proactively exploring and broadening room for business development as well as strengthening its research and development in relation to sports science to enhance our product competitiveness.

On 8 November 2019, 李寧體育(廣西)有限公司 (Li Ning Sports (Guangxi) Company Limited) (an indirect wholly owned subsidiary of the Company) entered into an investment agreement (the "Investment Agreement") with 廣西－東盟經濟技術開發區管理委員會 (Guangxi ASEAN Economic and Technological Development Zone Management Committee), pursuant to which the Group has conditionally agreed to invest in the construction of a supply chain base in Guangxi Province of the PRC (the "Project") which also involves the acquisition of land use right over a piece of industrial land in Guangxi Province of the PRC (the "Land"). The maximum investment amount of the Project is approximately RMB1,500,000,000. Please refer to the announcement of the Company dated 8 November 2019 in regard to the Investment Agreement for details.

As at 31 December 2019, the Project was subject to the successful bidding by the Group of the land use right over the Land through listing-for-sale process according to the terms of the Investment Agreement. In March 2020, the Group completed the listing-for-sale process for the land use right over the Land and thereafter entered into an agreement to acquire the land use right over the Land at a total consideration of RMB95,610,000.

Save as the Investment Agreement mentioned above, the Group did not make other significant investment or any material acquisition or disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2019.

## 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 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 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 contributions to the business of the Group based on his/her performance and/or years of service, or are 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 51,531,959 Shares, representing approximately 2.10% of the Shares in issue.



## REPORT OF THE DIRECTORS

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 twenty-eight (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 of options; and (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the five (5) business days immediately preceding the date of grant of options.

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 2019 entitled the holders to subscribe for 357,799 Shares. Details of movements of the options granted under the 2004 Share Option Scheme for the year ended 31 December 2019 are set out below and in note 32 to the consolidated financial statements.

Grantees	Date of grant	Exercise price per Share HK\$	Adjusted exercise price per Share upon the 2015 Open Offer HK\$ (Note 1)	Number of Shares							Vesting Period	Exercise Period
				As at 01/01/2019	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	As at 31/12/2019			
<b>Employees of the Group</b>												
In aggregate	13/08/2013	5.07	4.60	457,577	-	457,577 (Note 2(a))	-	-	-	-	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	6.35	882,449	-	563,612 (Note 2(b))	52,479	-	266,358	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020	
In aggregate	04/04/2014	5.10	4.63	104,566	-	50,000 (Note 2(c))	-	-	54,566	05/04/2015 – 05/04/2019	05/04/2015 – 31/12/2020	
<b>Other participants</b>												
In aggregate	13/08/2013	5.07	4.60	122,914	-	122,914 (Note 2(d))	-	-	-	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 (Note 2(e))	-	-	-	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	
				3,752,783	-	3,342,505	52,479	-	357,799			

### Notes:

- 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.
- The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$15.33.
  - The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$16.68.
  - The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$17.88.
  - The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$15.02.
  - The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$22.35.

Details of movements of the options granted under the 2014 Share Option Scheme for the year ended 31 December 2019 are set out below and in note 32 to the consolidated financial statements.

Grantees	Date of grant	Exercise price per Share HK\$	Number of Shares					As at 31/12/2019	Vesting Period	Exercise Period
			As at 01/01/2019	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year			
<b>Executive Director</b>										
Kosaka Takeshi	19/09/2019	22.52	-	3,155,800 (Note 1)	-	-	-	3,155,800	01/09/2020 – 01/09/2024	01/09/2020 – 31/12/2027
<b>Independent non-executive Directors</b>										
Koo Fook Sun, Louis	17/05/2019	13.16	-	300,000 (Note 2)	-	-	-	300,000	17/05/2020 – 17/05/2022	17/05/2020 – 16/05/2029
Wang Ya Fei	17/05/2019	13.16	-	300,000 (Note 2)	-	-	-	300,000	17/05/2020 – 17/05/2022	17/05/2020 – 16/05/2029
Chan Chung Bun, Bunny	17/05/2019	13.16	-	300,000 (Note 2)	-	-	-	300,000	17/05/2020 – 17/05/2022	17/05/2020 – 16/05/2029
Su Jing Shyh, Samuel	17/05/2019	13.16	-	300,000 (Note 2)	-	-	-	300,000	17/05/2020 – 17/05/2022	17/05/2020 – 16/05/2029
<b>Employees of the Group</b>										
In aggregate	01/04/2015	4.44	14,216,333	-	6,701,333 (Note 4(a))	900,000	-	6,615,000	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
In aggregate	08/06/2016	3.30	3,000,000	-	-	-	-	3,000,000	08/06/2017 – 08/06/2019	08/06/2017 – 07/06/2026
In aggregate	20/12/2017	6.12	52,541,900	-	2,080,140 (Note 4(b))	-	-	50,461,760	01/09/2019 – 01/04/2021 (Note 5)	01/09/2019 – 31/12/2022
In aggregate	30/05/2018	9.09	390,400	-	-	-	-	390,400	01/09/2019 – 01/04/2021 (Note 5)	01/09/2019 – 31/12/2023
In aggregate	13/09/2018	7.07	1,030,000	-	-	-	-	1,030,000	01/09/2019 – 01/04/2021 (Note 5)	01/09/2019 – 31/12/2023
In aggregate	15/04/2019	13.36	-	407,400 (Note 3)	-	-	-	407,400	01/04/2020 – 01/04/2021 (Note 5)	01/04/2020 – 31/12/2024
<b>Other participants</b>										
In aggregate	01/04/2015	4.44	800,000	-	-	-	-	800,000	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
			71,978,633	4,763,200	8,781,473	900,000	-	67,060,360		

Notes:

- The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 19 September 2019 is HK\$23.30 per Share.
- The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 17 May 2019 is HK\$13.44 per Share.
- The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 15 April 2019 is HK\$13.42 per Share.
- (a) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$19.60.  
(b) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$24.58.
- The Board has resolved on 11 December 2019 to amend and accelerate the vesting dates of these share options to be vested in 2020 and 2021.

## REPORT OF THE DIRECTORS

Details of valuation of the share options granted during the year ended 31 December 2019 under the 2004 Share Option Scheme and 2014 Share Option Scheme are set out in note 32 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 2019, the number of issued Shares of the Company is 2,315,749,455 Shares and the maximum number of Shares which may be administered under the 2016 Restricted Share Award Scheme is 115,787,472 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 2019, no unvested Restricted Shares granted under the 2006 Restricted Share Award Scheme. Details of movements of the Restricted Shares granted under the 2006 Restricted Share Award Scheme for the year ended 31 December 2019 are set out below and in note 32 to the consolidated financial statements.

Date of grant	Fair value per Restricted Share HK\$ (Note)	Number of Restricted Shares				As at 31/12/2019	Vesting period
		As at 01/01/2019	Granted during the year	Vested during the year	Lapsed during the year		
17/06/2016	3.20	4,643,660	–	4,621,560	22,100	–	01/04/2017 – 01/04/2019
		4,643,660	–	4,621,560	22,100	–	

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 2019 are as follows:

Date of grant	Fair value per Restricted Share HK\$ (Note 1)	Number of Restricted Shares					As at 31/12/2019	Vesting period
		As at 01/01/2019	Granted during the year	Vested during the year	Lapsed during the year	As at 31/12/2019		
15/08/2016	4.66	75,168	–	75,168	–	–	01/04/2017 – 01/04/2019	
06/09/2017	5.74	6,031,600	–	1,118,660	438,300	4,474,640	06/09/2019 – 01/04/2021 (Note 2)	
23/11/2017	6.18	114,800	–	22,960	–	91,840	06/09/2019 – 01/04/2021 (Note 2)	
20/12/2017	6.12	19,085,500	–	3,817,100	–	15,268,400	01/09/2019 – 01/04/2021 (Note 2)	
29/05/2018	8.80	204,800	–	32,600	41,800	130,400	01/09/2019 – 01/04/2021 (Note 2)	
04/07/2018	8.21	1,076,000	–	215,200	–	860,800	01/09/2019 – 01/04/2021 (Note 2)	
12/09/2018	6.69	239,600	–	47,920	–	191,680	01/09/2019 – 01/04/2021 (Note 2)	
02/04/2019	12.48	–	252,900	–	–	252,900	01/04/2020 – 01/09/2022 (Note 2)	
14/05/2019	12.52	–	73,300	–	55,000	18,300	01/04/2020 – 15/06/2022 (Note 2)	
16/09/2019	22.10	–	45,100	–	–	45,100	01/04/2020 – 01/09/2022 (Note 2)	
19/09/2019	22.40	–	1,186,100	–	–	1,186,100	01/09/2020 – 01/09/2022	
19/09/2019	22.40	–	247,100	–	–	247,100	01/09/2020	
19/09/2019	22.40	–	1,235,500	–	–	1,235,500	01/09/2020 – 01/09/2024	
29/11/2019	25.10	–	46,600	–	–	46,600	01/09/2020 – 01/09/2022	
		26,827,468	3,086,600	5,329,608	535,100	24,049,360		

Notes:

- The fair values of the Restricted Shares were based on the closing price per Share at the date of grant.
- The Board has resolved on 11 December 2019 to amend and accelerate the vesting dates of these restricted award shares to be vested in 2020 and 2021.

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.

## REPORT OF THE DIRECTORS

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

As at 31 December 2019, 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	274,553,268	145,278,851	419,832,119 (Note 1)	18.13%
Kosaka Takeshi	Personal interest	–	4,638,400 (Note 2)	4,638,400	0.20%
Li Qilin	Personal interest & Beneficiary of two discretionary trusts	263,620,072	138,657,471	402,277,543 (Note 3)	17.37%
Koo Fook Sun, Louis	Personal interest	–	300,000 (Note 4)	300,000	0.01%
Wang Ya Fei	Personal interest	491,888	300,000 (Note 4)	791,888	0.03%
Chan Chung Bun, Bunny	Personal interest	413,130	300,000 (Note 4)	713,130	0.03%
Su Jing Shyh, Samuel	Personal interest	–	300,000 (Note 4)	300,000	0.01%

\* The percentage has been calculated based on 2,315,749,455 Shares in issue as at 31 December 2019.

#### Notes:

- Mr. Li Ning ("Mr. Li") is interested in 274,553,268 Shares, among which 11,148,396 Shares are held as personal interest, and he is deemed to be interested in 263,404,872 Shares held by Viva China Holdings Ltd ("Viva China BVI"). Moreover, Mr. Li is deemed to be interested in 145,278,851 underlying Shares, among which (i) 7,482,180 Shares are invested Restricted Shares granted by the Company, and (ii) the convertible securities in the total amount of HK\$431,197,868 which is convertible into 137,796,671 Shares, is held by Viva China BVI. Details are as follows:
  - Viva China BVI, a wholly-owned subsidiary of Viva China Holdings Limited ("Viva China"), is interested in 263,404,872 Shares and 137,796,671 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\$33,041,564.40 which is convertible into 12,708,294 Shares at the conversion price

of HK\$2.60 each. As at 31 December 2019, Viva China is owned as to approximately 18.95% by Victory Mind Assets Limited ("Victory Mind"), approximately 24.06% by Lead Ahead Limited ("Lead Ahead") and approximately 22.56% by Dragon City Management (PTC) Limited ("Dragon City") respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Lead Ahead 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). Dragon City is the trustee of a unit trust, the units of which are owned as to 60% by a discretionary trust of which Mr. Li is a settlor and 40% 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 263,404,872 Shares and the 137,796,671 underlying Shares held by Viva



China. Mr. Li is also an executive director, the chairman and chief executive officer of Viva China.

- (b) Mr. Li is interested in 7,482,180 unvested Restricted Shares under the 2016 Restricted Share Award Scheme.
- Mr. Kosaka Takeshi is interested in 3,155,800 share options granted under the 2014 Share Option Scheme at an exercise price of HK\$22.52 each, and 1,482,600 unvested Restricted Shares under the 2016 Restricted Shares Award Scheme.
  - Mr. Li Qilin is interested in 263,620,072 Shares, among which 215,200 Shares are held as personal interest, and he is deemed to be interested in 263,404,872 Shares and 137,796,671 underlying Shares held by Viva China by virtue of the SFO. Moreover, Mr. Li Qilin is interested in 860,800 unvested Restricted Shares under the 2016 Restricted Share Award Scheme. 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.

- The underlying Shares are the share options granted by the Company to the respective Directors under the 2014 Share Option Scheme at an exercise price of K\$13.16 each.

Save as disclosed above, so far as was known to any Director, as at 31 December 2019, 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 2019, 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	Approximate % of total issued Shares*	
				Total (Long Position)	
Li Ning	Personal interest & Interests of controlled corporations	274,553,268	145,278,851	419,832,119 (Note 1)	18.13%
Li Qilin	Personal interest & Beneficiary of two discretionary trusts	263,620,072	138,657,471	402,277,543 (Note 2)	17.37%
Li Chun	Interest of controlled corporations	263,404,872	137,796,671	401,201,543 (Note 3)	17.32%
Viva China Holdings Limited	Interest of controlled corporation	263,404,872	137,796,671	401,201,543 (Note 1(a))	17.32%
BlackRock, Inc.	Interest of controlled corporation	183,221,981	–	183,221,981	7.91%
Schroders Plc	Interest of controlled corporation	118,193,500	–	118,193,500	5.10%

\* The percentage has been calculated based on 2,315,749,455 Shares in issue as at 31 December 2019.

# REPORT OF THE DIRECTORS

## Notes:

1. Mr. Li Ning is interested in 274,553,268 Shares, among which 11,148,396 Shares are held as personal interest, and he is deemed to be interested in 263,404,872 Shares held by Viva China BVI. Moreover, Mr. Li is deemed to be interested in 145,278,851 underlying Shares, among which (i) 7,482,180 Shares are unvested Restricted Shares granted by the Company, and (ii) the convertible securities in the total amount of HK\$431,197,868 which is convertible into 137,796,671 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 263,404,872 Shares and 137,796,671 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\$33,041,564.40 which is convertible into 12,708,294 Shares at the conversion price of HK\$2.60 each. As at 31 December 2019, Viva China is owned as to approximately 18.95% by Victory Mind, approximately 24.06% by Lead Ahead and approximately 22.56% by Dragon City respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Lead Ahead 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). Dragon City is the trustee of a unit trust, the units of which are owned as to 60% by a discretionary trust of which Mr. Li is a settlor and 40% 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 263,404,872 Shares and the 137,796,671 underlying Shares held by Viva China. Mr. Li is also an executive director, the chairman and chief executive officer of Viva China.
  - (b) Mr. Li is interested in 7,482,180 unvested Restricted Shares under the 2016 Restricted Share Award Scheme.
2. Mr. Li Qilin is interested in 263,620,072 Shares, among which 215,200 Shares are held as personal interest, and he is deemed to be interested in 263,404,872 Shares and 137,796,671 underlying Shares held by Viva China by virtue of the SFO. Moreover, Mr. Li Qilin is interested in 860,800 unvested Restricted Shares under the 2016 Restricted Share Award Scheme. 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 263,404,872 Shares and the 137,796,671 underlying Shares held by Viva China. He is the brother of Mr. Li Ning and the father of Mr. Li Qilin.

Save as disclosed above, as at 31 December 2019, 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). 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 to revise the annual cap for the financial year ended 31 December 2018. Please refer to the announcement of the Company dated 10 January 2018 in regard to the revision of annual cap for details. The 2016 Renewed Master Agreement expired on 31 December 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 financial year ended 31 December 2019 and for the financial years ending 31 December 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 financial year ended 31 December 2019 and for the financial years ending 31 December 2020 and 2021 are RMB10,000,000, RMB22,000,000 and RMB40,000,000 respectively.

As at 31 December 2019, Viva China, who indirectly holds approximately 11.37% shares in the Company, is a substantial Shareholder and thus a connected person of the Company.

For the year ended 31 December 2019, there was an aggregate contracted amount of approximately RMB281,885,000 for the Viva China Transactions under the 2019 Renewed Master Agreement, and there was an aggregate contracted amount of approximately RMB5,568,000 for Sales Transactions under the Master Sales 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 Sales 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 28 December 2018.

## **RELATED-PARTY TRANSACTIONS**

The Viva China Transactions and the Sales Transactions also constituted related-party transactions which, among others, are set out in note 34 to the consolidated financial statements.

Apart from the Viva China Transactions and the Sales Transactions, other related-party transactions set out in note 34 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.

# REPORT OF THE DIRECTORS

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company did not redeem any of its Shares during the year ended 31 December 2019. Except for the purchase of Shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the rules of Restricted Share Award 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 2019 and up to the date of this report, the Company has maintained a sufficient public float of more than 25% of the Company's issued shares as required under the Listing Rules.

## **CORPORATE GOVERNANCE**

Throughout the year ended 31 December 2019, 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 2019, if any, and an indication of likely future developments of the Group's business, can be found in the Chairman's Statement, the Management Discussion and Analysis, the Corporate Governance Report set out on pages 8 to 11, pages 14 to 33 and pages 34 to 49 of this annual report, respectively and the notes to the consolidated financial statements.

In addition, matters in relation to the Group's environment, employee, customer and supplier as well as compliance with the relevant laws and regulations that have a significant impact on the Company can be found in the Corporate Governance Report and the Environmental, Social and Governance Report set out on pages 34 to 49 and pages 50 to 76 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 2020 AGM.

By order of the Board

**Li Ning**

*Executive Chairman and Joint CEO*

Hong Kong, 26 March 2020

# INDEPENDENT AUDITOR'S REPORT



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 107 to 191, which comprise:

- the consolidated balance sheet as at 31 December 2019;
- 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

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

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

### Independence

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

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# INDEPENDENT AUDITOR'S REPORT

## Key Audit Matters

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

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

- Allowance for impairment of trade receivables
- Inventory provision

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Allowance for impairment of trade receivables</b></p> <p>Refer to Note 3.1 and Note 14 to the consolidated financial statements</p> <p>As at 31 December 2019, the Group's balance of gross trade receivables was RMB945 million, against which an allowance for impairment of RMB258 million was made.</p> <p>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.</p> <p>The impairment assessment was an area of focus for us given the inherent uncertainties of the expected credit loss and the significant amount of the related balances.</p>	<p>Our audit procedures to address the risk of material misstatement relating to allowance for impairment of trade receivables mainly included:</p> <ul style="list-style-type: none"><li>• Understood, evaluated and validated key controls over the estimation of allowance for impairment;</li><li>• Challenged management's determination in estimating expected credit losses by performing procedures such as (1) inquiring management regarding the credit worthiness of 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.</li><li>• Sent out confirmations to major customers on sample basis to verify the receivables balances;</li><li>• 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</li><li>• Checked subsequent settlements up to 29 February 2020 against cash receipts or other supporting documents.</li></ul> <p>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 2019 to be supportable by available evidence.</p>

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**Inventory provision**

Refer to Note 4 and Note 12 to the consolidated financial statements

As at 31 December 2019, the Group's balance of gross inventories was RMB1,540 million, against which a provision of RMB133 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.

The impairment assessment was an area of focus for us given the inherent uncertainties that involved future events and the significant amount of the related balances.

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) based on which management's estimate of future sales projection was made, (3) 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 (4) comparing the selling price used in the determination of 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 2019 to be supportable by available evidence.

# INDEPENDENT AUDITOR'S REPORT

## OTHER INFORMATION

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

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

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

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

## RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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## 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.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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# INDEPENDENT AUDITOR'S REPORT

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

The engagement partner on the audit resulting in this independent auditor's report is Brian Ming Yan Choi.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 26 March 2020

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# CONSOLIDATED BALANCE SHEET

				As at 31 December		
		Note	2019 RMB'000	2018 RMB'000		
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	6		1,038,588	830,085		
Right-of-use assets	6		981,422	–		
Investment properties	7		119,278	–		
Land use rights	8		72,233	74,092		
Intangible assets	9		193,261	233,921		
Deferred income tax assets	22		431,715	239,047		
Other assets	13		83	132,491		
Investments accounted for using the equity method	11		1,056,866	728,499		
Other receivables	15		114,712	102,916		
Total non-current assets			4,008,158	2,341,051		
<b>Current assets</b>						
Inventories	12		1,407,257	1,239,741		
Other assets – current portion	13		443,406	508,536		
Trade receivables	14		686,606	928,895		
Other receivables – current portion	15		39,476	37,340		
Restricted bank deposits	16		1,126	200		
Cash and cash equivalents	16		5,961,445	3,671,542		
Total current assets			8,539,316	6,386,254		
<b>Total assets</b>			<b>12,547,474</b>	<b>8,727,305</b>		

# CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2019 RMB'000	2018 RMB'000
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares	17	214,300	204,435
Share premium	17	3,547,682	3,249,389
Shares held for Restricted Share Award Scheme	17	(276,664)	(168,809)
Other reserves	18	1,153,645	1,314,569
Retained earnings	18	2,482,676	1,217,456
		<b>7,121,639</b>	5,817,040
<b>Non-controlling interests in equity</b>		<b>2,554</b>	2,550
<b>Total equity</b>		<b>7,124,193</b>	5,819,590
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
License fees payable	21	24,581	27,565
Derivative financial instruments		25,806	14,274
Lease liabilities	6	557,451	–
Deferred income tax liabilities	22	45,002	34,730
Deferred income	23	53,821	53,675
<b>Total non-current liabilities</b>		<b>706,661</b>	130,244
<b>Current liabilities</b>			
Trade payables	19	1,348,206	1,133,314
Contract liabilities	5	293,926	97,979
Lease liabilities – current portion	6	336,870	–
Other payables and accruals	20	2,173,658	1,383,118
License fees payable – current portion	21	31,349	28,719
Current income tax liabilities		530,635	134,341
Derivative financial instruments – current portion		1,976	–
<b>Total current liabilities</b>		<b>4,716,620</b>	2,777,471
<b>Total liabilities</b>		<b>5,423,281</b>	2,907,715
<b>Total equity and liabilities</b>		<b>12,547,474</b>	8,727,305

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

The financial statements on pages 107 to 191 were approved by the Board of Directors on 26 March 2020 and were signed on its behalf.

**Li Ning**  
Joint Chief Executive Officer & Chairman

**Kosaka Takeshi**  
Joint Chief Executive Officer

# CONSOLIDATED INCOME STATEMENT

				Year ended 31 December	
	Note	2019 RMB'000	2018 RMB'000		
Revenue	5	13,869,630	10,510,898		
Cost of sales	24	(7,064,168)	(5,458,124)		
<b>Gross profit</b>		<b>6,805,462</b>	5,052,774		
Distribution expenses	24	(4,445,070)	(3,708,446)		
Administrative expenses	24	(968,264)	(679,873)		
Reversal of impairment losses on financial assets – net		12,258	18,176		
Other income and other gains – net	25	138,823	94,546		
<b>Operating profit</b>		<b>1,543,209</b>	777,177		
Finance income	27	28,873	23,376		
Finance expenses	27	(59,005)	(13,865)		
Finance (expenses)/income – net	27	(30,132)	9,511		
Share of profit of investments accounted for using the equity method	11	343,469	63,633		
<b>Profit before income tax</b>		<b>1,856,546</b>	850,321		
Income tax expense	28	(357,403)	(135,058)		
<b>Profit for the year</b>		<b>1,499,143</b>	715,263		
<b>Attributable to:</b>					
Equity holders of the Company		1,499,139	715,263		
Non-controlling interests		4	–		
		<b>1,499,143</b>	715,263		
<b>Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB cents per share)</b>					
Basic earnings per share	29	61.94	29.63		
Diluted earnings per share	29	60.13	29.19		

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

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	2019 RMB'000	2018 RMB'000
<b>Profit for the year</b>		<b>1,499,143</b>	715,263
<b>Other comprehensive income/(loss):</b>			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences	18	<b>2,641</b>	1,320
<i>Items that may not be reclassified to profit or loss</i>			
Changes in the fair value of equity investments at fair value through other comprehensive income	18	–	(2,888)
<b>Total comprehensive income for the year</b>		<b>1,501,784</b>	713,695
<b>Attributable to:</b>			
Equity holders of the Company		<b>1,501,780</b>	713,695
Non-controlling interests		<b>4</b>	–
<b>Total comprehensive income for the year</b>		<b>1,501,784</b>	713,695

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company							Non-controlling interests in equity	Total equity
	Ordinary shares	Share premium	Shares held for Restricted Share Award Scheme	Other reserves	Retained earnings	Subtotal			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	(Note 17)	(Note 17)	(Note 17)	(Note 18)	(Note 18)				
<b>As at 1 January 2018</b>	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)	-	-	-	
<i>Transactions with owners:</i>									
Net proceeds from share issuance pursuant to share option schemes (Note 32)	1,087	50,135	-	-	-	51,222	-	51,222	
Value of services provided under share option schemes and Restricted Share Award Scheme (Note 32)	-	-	-	97,941	-	97,941	-	97,941	
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium (Note 32)	-	9,444	-	(9,444)	-	-	-	-	
Shares vested under Restricted Share Award Scheme (Note 32)	-	-	17,656	(17,656)	-	-	-	-	
Shares purchased for Restricted Share Award Scheme (Note 32)	-	-	(116,865)	-	-	(116,865)	-	(116,865)	
Appropriations to statutory reserves	-	-	-	155,814	(155,814)	-	-	-	
Shares converted from convertible securities (Note 17, 18)	1	18	-	(19)	-	-	-	-	
<b>As at 31 December 2018</b>	204,435	3,249,389	(168,809)	1,314,569	1,217,456	5,817,040	2,550	5,819,590	

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company							Non-controlling interests in equity RMB'000	Total equity RMB'000
	Ordinary shares RMB'000 (Note 17)	Share premium RMB'000 (Note 17)	Shares held for Restricted Share Award Scheme RMB'000 (Note 17)	Other reserves RMB'000 (Note 18)	Retained earnings RMB'000 (Note 18)	Subtotal RMB'000			
<b>As at 1 January 2019</b>	204,435	3,249,389	(168,809)	1,314,569	1,217,456	5,817,040	2,550	5,819,590	
Total comprehensive income for the year	-	-	-	2,641	1,499,139	1,501,780	4	1,501,784	
<i>Transactions with owners:</i>									
Net proceeds from share issuance pursuant to share option schemes (Note 32)	1,082	54,816	-	-	-	55,898	-	55,898	
Value of services provided under share option schemes and Restricted Share Award Scheme (Note 32)	-	-	-	125,083	-	125,083	-	125,083	
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium (Note 32)	-	3,299	-	(3,299)	-	-	-	-	
Shares vested under Restricted Share Award Scheme (Note 32)	-	-	55,612	(55,612)	-	-	-	-	
Shares purchased for Restricted Share Award Scheme (Note 32)	-	-	(163,467)	-	-	(163,467)	-	(163,467)	
Appropriations to statutory reserves	-	-	-	19,224	(19,224)	-	-	-	
Shares converted from convertible securities (Note 17, 18)	8,783	240,178	-	(248,961)	-	-	-	-	
Dividends paid (Note 30)	-	-	-	-	(214,695)	(214,695)	-	(214,695)	
<b>As at 31 December 2019</b>	<b>214,300</b>	<b>3,547,682</b>	<b>(276,664)</b>	<b>1,153,645</b>	<b>2,482,676</b>	<b>7,121,639</b>	<b>2,554</b>	<b>7,124,193</b>	

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



# CONSOLIDATED STATEMENT OF CASH FLOWS

		Year ended 31 December	
	Note	2019 RMB'000	2018 RMB'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	31	3,646,974	1,680,942
Income tax paid		(143,505)	(9,073)
<b>Net cash generated from operating activities</b>		<b>3,503,469</b>	<b>1,671,869</b>
<b>Cash flows from investing activities</b>			
– purchases of property, plant and equipment		(635,974)	(430,795)
– prepayment for property purchases		–	(125,833)
– purchases of intangible assets		(49,831)	(44,321)
– proceeds on disposal of property, plant and equipment	31	3,603	4,037
– purchases of wealth management products	3.3	(6,742,000)	(4,662,500)
– redemption of the principal amounts of wealth management products	3.3	6,742,000	4,662,500
– interest received from wealth management products	25	78,236	46,641
– interest received from bank deposits	27	24,655	14,947
– dividends from associates		45,352	51,452
– payment for investment in associates		–	(9,650)
– payment for investment in joint ventures		(30,250)	(500)
– loan repayments from a joint venture		6,719	11,085
– net cash used in other investing activities		(15,853)	–
<b>Net cash used in investing activities</b>		<b>(573,343)</b>	<b>(482,937)</b>
<b>Cash flows from financing activities</b>			
– proceeds from issuance of ordinary shares	17	55,898	51,222
– shares purchased for Restricted Share Award Scheme		(163,467)	(116,865)
– payment of lease liabilities		(326,360)	–
– dividends paid		(214,695)	–
<b>Net cash used in financing activities</b>		<b>(648,624)</b>	<b>(65,643)</b>
<b>Net increase in cash and cash equivalents</b>		<b>2,281,502</b>	<b>1,123,289</b>
Cash and cash equivalents at beginning of year		3,671,542	2,529,222
Exchange gains on cash and cash equivalents		8,401	19,031
<b>Cash and cash equivalents at end of year</b>		<b>5,961,445</b>	<b>3,671,542</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 1. GENERAL INFORMATION

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

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

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

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the “Board”) on 26 March 2020.

## 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 (“HKCO”) Cap. 622.

#### (b) *Historical cost convention*

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

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

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

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

The Group had to change its accounting policies as a result of adopting IFRS 16. The Group elected to adopt the new standards retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. Please see the disclosures in Note 2.2 for details. The amendments to most of the other standards stated above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.1 Basis of preparation (Continued)

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

The following new accounting standards and interpretations have been published but are not mandatory for 31 December 2019 reporting period and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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

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

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

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

### 2.2 Changes in accounting policies

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

As indicated in Note 2.1 above, the Group has adopted IFRS 16 *Leases* retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing standards are therefore recognised in the opening balance sheet on 1 January 2019. The new accounting policies are disclosed in Note 2.27.

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

#### (a) *Practical expedients applied*

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.2 Changes in accounting policies (Continued)

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

#### (b) Measurement of lease liabilities

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

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

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

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

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

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

Land use rights are accounted for in accordance with the accounting policies for right-of-use assets (Note 2.10) and are presented as land use rights in the consolidated balance sheet.

## **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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 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 2.12.

#### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 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 as part of finance income or finance expenses, see Note 27 below.

#### (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)

### 2.7 Foreign currency translation (Continued)

#### (c) Group companies (Continued)

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

### 2.8 Investment properties

Investment properties are buildings that are held for the purpose of leasing, which are measured at the initial cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are occurred.

The Group adopts the cost model for subsequent measurement of investment properties. Buildings are depreciated to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of investment properties are as follows:

	Estimated useful lives	Estimated residual value	Annual depreciation rate
Buildings	30 years	5%	3.17%

When an investment property is transferred to owner-occupied properties, it is reclassified as fixed asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset is reclassified as investment properties at its carrying amount at the date of the transfer.

The investment property's estimated useful life, net residual value and depreciation method applied are reviewed and adjusted as appropriate at each year end.

An investment property is derecognised when it is disposed or when it is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

The carrying amount of investment properties shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount (Note 2.12).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.9 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 2.12).

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.

### 2.10 Land use rights

Land use rights, which are accounted for in accordance with the accounting policies for right-of-use assets (Note 2.27), are stated at cost less accumulated amortisation and accumulated impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 20 to 50 years. Amortisation of land use rights is calculated on a straight-line basis over the period of the land use rights.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.11 Intangible assets

#### (a) *Goodwill*

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

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

#### (b) *License rights*

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

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

#### (c) *Computer software*

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.12 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.

### 2.13 Financial assets

#### (a) Classification

The Group classifies its financial assets in the following measurement categories:

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

### 2.13 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.13 Financial assets (Continued)

#### (d) Impairment

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.

### 2.14 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.

### 2.15 Inventories

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

### 2.16 Trade 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 (or in the normal operating cycle of the business if longer), 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(b).

### 2.17 Cash and cash equivalents

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.18 Share capital/Convertible securities

#### (a) Ordinary shares

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

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

#### (b) Convertible securities

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

### 2.19 Trade payables

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

### 2.20 License fees payable

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

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

### 2.21 Borrowings

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.22 Borrowing costs

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

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

### 2.23 Current and deferred income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### (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.

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.

## 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 is similar pension scheme in 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 share award schemes. 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, 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.

Where the share options and awarded shares are forfeited prior to the vesting date due to a failure by the employee to satisfy the service conditions, any expenses previously recognised in relation to such share options and awarded shares are reversed effective from the date of the forfeiture. No further adjustments should be made after the vesting date, regardless of whether the options are forfeited later.

#### (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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 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 acceptance. 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 Leases

As explained in Note 2.2 above, the Group has changed its accounting policy for leases where the Group is the lessee. The new policy is described below and the impact of the change is disclosed in Note 2.2.

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases (Note 33). Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of properties for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable by the Group under residual value guarantees
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.27 Leases (Continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee within the Group as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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 25 below.

Interest income on financial assets at amortised cost and financial assets at FVOCI calculated using the effective interest method is recognised in profit or loss as part of other income and other gains.

Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes, see Note 27 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).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.31 Earnings per share

#### (a) *Basic earnings per share*

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

#### (b) *Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

### 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

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that in a currency other than the functional currency of the group entities. The Group operates mainly in the PRC and is primarily exposed to foreign exchange risk for monetary assets/liabilities denominated in Hong Kong dollars (HK\$), United States dollars (US\$) or EURO (EUR). The Group did not enter into any forward contract to hedge its exposure to foreign currency risk for the years ended 31 December 2019 and 2018.

As at 31 December 2019, the carrying amounts of the Group's monetary assets and liabilities that are denominated in currency other than functional currencies of the respective group entities are as follows:

	31 December 2019				31 December 2018			
	RMB	HK\$	US\$	EUR	RMB	HK\$	US\$	EUR
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cash and bank deposits	81,098	9,004	298,391	702	100,612	33,163	1,591	318
Trade and other receivables	-	-	19,861	3,381	-	-	41,155	1,323
Trade and other payables	(924)	(2,534)	(49,168)	-	(15,997)	(267)	(40,583)	-
License fees payables	-	-	(6,485)	-	-	-	(18,104)	-

For the year ended 31 December 2019, if RMB had weakened/strengthened by 5% (2018: 5%) with all other variables held constant, post-tax profit would have been RMB14,682,000 (2018: RMB4,564,000) higher/lower.

###### (ii) Cash flow and fair value interest rate risk

Financial assets and liabilities at fixed rates expose the Group to fair value interest-rate risk while financial assets and liabilities at floating rates expose the Group to cash flow 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 material assets/liabilities bearing significant interest. The Group currently does not hedge its exposure to interest rate risk.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

#### (b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, 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 reputable 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.

	2019 RMB'000	2018 RMB'000
Banks*		
Bank A	3,032,369	1,327,503
Bank B	755,224	406,922
Bank C	700,246	584,237
	<b>4,487,839</b>	2,318,662

\* All of these 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 sound credit ratings.

#### (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.



### 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

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

###### 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 2019 and 31 December 2018 was determined as follows for trade receivables:

31 December 2019	0–90 days RMB'000	91–365 days RMB'000	Over 365 days RMB'000	Total RMB'000
<b>Provision on individual basis</b>				
Lifetime expected credit loss rate	0%	0%	100%	
Gross carrying amount of certain debtor(s)	–	–	144,493	144,493
Loss allowance of certain debtor(s)	–	–	(144,493)	(144,493)
<b>Provision on collective basis</b>				
Lifetime expected credit loss rate	5%	48%	100%	
Gross carrying amount excluding certain debtor(s)	682,429	78,853	39,024	800,306
Loss allowance excluding certain debtor(s)	(36,845)	(37,831)	(39,024)	(113,700)
<b>Total loss allowance</b>	<b>(36,845)</b>	<b>(37,831)</b>	<b>(183,517)</b>	<b>(258,193)</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

#### (b) Credit risk (Continued)

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

Trade receivables (Continued)

31 December 2018	0 – 90 days RMB'000	91 – 365 days RMB'000	Over 365 days RMB'000	Total RMB'000
<b>Provision on individual basis</b>				
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)
<b>Provision on collective basis</b>				
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)
<b>Total loss allowance</b>	<b>(47,898)</b>	<b>(31,990)</b>	<b>(204,505)</b>	<b>(284,393)</b>

### 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

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

###### 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

	2019 RMB'000	2018 RMB'000
Reversal of impairment losses on trade receivables	(17,529)	(22,227)
Impairment losses on other receivables	5,271	4,051
Reversal of impairment losses on financial assets	(12,258)	(18,176)

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

### 3.1 Financial risk factors (Continued)

#### (c) Liquidity risk

Cash flow forecasting is performed in the operating entities of the Group and aggregated by Management. Management monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities 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
<b>As at 31 December 2019</b>				
License fees payable	31,634	5,000	22,000	10,000
Trade payables	1,348,206	–	–	–
Other payables	1,174,707	–	–	–
Lease liabilities	336,870	281,183	258,021	18,247
	<b>2,891,417</b>	<b>286,183</b>	<b>280,021</b>	<b>28,247</b>
<b>As at 31 December 2018</b>				
License fees payable	29,187	5,000	18,000	19,000
Trade payables	1,133,314	–	–	–
Other payables	632,494	–	–	–
	<b>1,794,995</b>	<b>5,000</b>	<b>18,000</b>	<b>19,000</b>

### 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. As at 31 December 2019 and 2018, the Group's gearing ratio was nil as it did not have any borrowings.

#### 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 2019 and 2018 on a recurring basis:

At 31 December 2019	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial liabilities</b>				
Derivative financial instruments	-	-	27,782	27,782
<b>Total financial liabilities</b>	-	-	27,782	27,782

At 31 December 2018	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
<b>Financial liabilities</b>				
Derivative financial instruments	-	-	14,274	14,274
<b>Total financial liabilities</b>	-	-	14,274	14,274

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 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 equity securities) is based on quoted (unadjusted) market prices at the end of the reporting period. The quoted market 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 2019:

	Wealth management products RMB'000	Unlisted equity investments RMB'000	Derivative financial instruments RMB'000	Total RMB'000
<b>As at 1 January 2018</b>	–	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
<b>As at 31 December 2018</b>	–	–	(14,274)	(14,274)
Additions	6,742,000	–	–	6,742,000
Settlements	(6,820,236)	–	–	(6,820,236)
Changes in fair value	78,236	–	(13,508)	64,728
<b>As at 31 December 2019</b>	–	–	(27,782)	(27,782)
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				
2019	–	–	(13,508)	(13,508)
2018	–	–	(8,690)	(8,690)

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

- binomial model: volatility rate, risk-free rate and dividend yield;
- 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 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 property, plant and equipment

The Group tests whether goodwill, intangible assets and property, plant and equipment have suffered any impairment, in accordance with the accounting policy stated in Note 2.11 and Note 2.12 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 9). 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 results and allocate resources. Management has determined the operating segments based on these reports.

The segment information presented by brand perspective has ceased since 1 January 2018 as the Group was principally engaged in a single line of business of sporting goods and Management reviewed the performance of the Group as a whole, thus there was only one reportable segment and no segment information was presented.

### (a) Disaggregation of revenue from contracts with customers

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

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

### Geographical information of revenue

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

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

The Group has a large number of customers. For the year ended 31 December 2019 and 2018, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 5. SEGMENT INFORMATION AND REVENUE (CONTINUED)

### (b) Liabilities related to contracts with customers

	2019 RMB'000	2018 RMB'000
Contract liabilities – advances from customers	263,030	84,143
Contract liabilities – customer loyalty programme	30,896	13,836
<b>Total</b>	<b>293,926</b>	<b>97,979</b>

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

#### **Revenue recognised in relation to contract liabilities**

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

## 6 (A) 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
<b>As at 1 January 2018</b>							
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
<b>Year ended</b>							
<b>31 December 2018</b>							
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
<b>As at 31 December 2018</b>							
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
<b>Year ended</b>							
<b>31 December 2019</b>							
Opening net book amount	345,733	349,333	49,335	39,501	46,055	128	830,085
Additions	–	556,725	49,290	15,427	23,396	14,145	658,983
Transfers	–	6,628	–	7,331	48	(14,007)	–
Disposals	(267)	(26,369)	(10)	(1,315)	(2,638)	–	(30,599)
Depreciation charge	(18,601)	(336,639)	(38,774)	(11,122)	(14,745)	–	(419,881)
Closing net book amount	326,865	549,678	59,841	49,822	52,116	266	1,038,588
<b>As at 31 December 2019</b>							
Cost	524,505	1,361,062	305,573	125,659	195,987	266	2,513,052
Accumulated depreciation	(197,640)	(811,384)	(245,732)	(75,837)	(143,871)	–	(1,474,464)
Net book amount	326,865	549,678	59,841	49,822	52,116	266	1,038,588

Depreciation expenses of RMB52,169,000 (2018: RMB37,387,000) has been charged to cost of sales, RMB356,778,000 (2018: RMB305,936,000) to distribution expenses and RMB10,934,000 (2018: RMB19,714,000) to administrative expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 6 (B) LEASES

This note provides information for leases where the Group is a lessee.

### (i) Amounts recognised in the consolidated balance sheet

The consolidated balance sheet shows the following amounts relating to leases:

	31 December 2019 RMB'000	1 January 2019* RMB'000
<b>Right-of-use assets</b>		
Properties	981,422	757,762
	31 December 2019 RMB'000	1 January 2019* RMB'000
<b>Lease liabilities</b>		
Current	336,870	264,443
Non-current	557,451	407,208
	894,321	671,651

\* For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to Note 2.2.

Additions to the right-of-use assets and the respective lease liabilities during the 2019 financial year were RMB653,696,000.

### (ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts relating to leases:

	Note	2019 RMB'000	2018 RMB'000
Depreciation on right-of-use assets	24	360,424	–
Amortisation of discount – lease liabilities (included in finance expenses)	27	45,400	–
Expense relating to short-term leases (included in distribution expenses and administrative expenses)	24	243,053	–
Expense relating to variable lease payments not included in lease liabilities (included in distribution expenses)	24	385,072	–

The total cash outflow for leases in 2019 was RMB931,910,000.



## 6 (B) LEASES (CONTINUED)

### (iii) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 1 to 6 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. For certain lease contracts of retail stores, there are terms about variable lease payments that based on the sales volume, which expose the Group to variable lease payments.

## 7. INVESTMENT PROPERTIES

	Buildings RMB'000
<b>As at 1 January 2019</b>	
Cost	–
Accumulated depreciation	–
<hr/>	
Net book amount	–
<hr/>	
<b>Year ended 31 December 2019</b>	
Opening net book amount	–
Additions	119,278
<hr/>	
Closing net book amount	119,278
<hr/>	
<b>As at 31 December 2019</b>	
Cost	119,278
Accumulated depreciation	–
<hr/>	
Net book amount	119,278

In December 2019, the Group acquired certain investment properties at the initial cost of RMB119,278,000. As at 31 December 2019, the fair values of the Group's investment properties approximated their carrying amounts, being the initial cost to acquire these investment properties.

During the year ended 31 December 2019, there was no transfer between investment properties and property, plant and equipment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 8. LAND USE RIGHTS

	RMB'000
<b>As at 1 January 2018</b>	
Cost	95,558
Accumulated amortisation	(19,572)
Net book amount	75,986
<b>Year ended 31 December 2018</b>	
Opening net book amount	75,986
Amortisation charge	(1,894)
Closing net book amount	74,092
<b>As at 31 December 2018</b>	
Cost	95,558
Accumulated amortisation	(21,466)
Net book amount	74,092
<b>Year ended 31 December 2019</b>	
Opening net book amount	74,092
Amortisation charge	(1,859)
Closing net book amount	72,233
<b>As at 31 December 2019</b>	
Cost	95,558
Accumulated amortisation	(23,325)
Net book amount	72,233

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 RMB1,859,000 (2018: RMB1,894,000) has been charged to administrative expenses.

## 9. INTANGIBLE ASSETS

	Goodwill RMB'000	Trademarks and patents RMB'000	Computer software RMB'000	License rights RMB'000	Customer relationships & Non-competes agreements RMB'000	Total RMB'000
<b>As at 1 January 2018</b>						
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
<b>Year ended 31 December 2018</b>						
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
<b>As at 31 December 2018</b>						
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
<b>Year ended 31 December 2019</b>						
Opening net book amount	139,474	11,072	49,501	32,518	1,356	233,921
Additions	–	1,354	33,189	–	–	34,543
Impairment charge	(36,394)	–	–	–	–	(36,394)
Amortisation charge	–	(1,408)	(21,416)	(14,627)	(1,356)	(38,807)
Disposal	–	–	(2)	–	–	(2)
Closing net book amount	103,080	11,018	61,272	17,891	–	193,261
<b>As at 31 December 2019</b>						
Cost	139,474	27,036	277,644	339,657	61,279	845,090
Accumulated amortisation and impairment	(36,394)	(16,018)	(216,372)	(321,766)	(61,279)	(651,829)
Net book amount	103,080	11,018	61,272	17,891	–	193,261

Amortisation of RMB14,627,000 (2018: RMB17,576,000) has been charged to distribution expenses and RMB24,180,000 (2018: RMB28,905,000) to administrative expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 9. INTANGIBLE ASSETS (CONTINUED)

### Impairment tests for goodwill

As at 31 December 2019, the original cost of goodwill amounted to RMB139,474,000, including goodwill of RMB72,387,000 arising from the acquisition of the Kason brand in 2009 and goodwill of RMB67,087,000 arising from the acquisition of the business of certain distributors of the Li Ning brand in 2014.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

Impairment review on goodwill of the Group has been conducted by Management as at 31 December 2019 according to IAS 36 "Impairment of assets". For the purpose of impairment testing, 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 certain CGUs of the Li Ning brand and the 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 CGUs operate. The pre-tax discount rates used for certain CGUs of the Li Ning brand range from 13.8% to 16.2% and the pre-tax discount rate used for the CGUs in relation to the Kason brand is 14.8%, which reflect specific risks relating to the respective CGUs.

As to the goodwill allocated to certain CGUs of the Li Ning Brand, Management's assessment of the values-in-use was less than their carrying values due to the realignment of the Group's overall sales channel structure of the Li Ning brand. As a result, an impairment loss of RMB36,394,000 was recognised for the year ended 31 December 2019.

As to the goodwill allocated to the CGUs of the Kason brand, Management's assessment of the values-in-use exceeds their carrying values, therefore no impairment provision was recorded by Management.

## 10. SUBSIDIARIES

The following is a list of the Group's subsidiaries as at 31 December 2019:

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
<i>Directly held:</i>				
RealSports Pte Ltd.	The British Virgin Islands, 8 October 2002 Limited liability company	US\$1,000	100%	Investment holding
<i>Indirectly held:</i>				
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
上海狐步體育用品有限公司 (Shanghai Hubu Sports Goods Co., Ltd.)	The PRC, 20 April 2000 Limited liability company	RMB2,000,000	100%	Provision of information technology service
上海少昊體育用品有限公司 (Shanghai Shao Hao Sports Goods 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
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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 10. SUBSIDIARIES (CONTINUED)

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
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
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

## 10. SUBSIDIARIES (CONTINUED)

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
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
大連悅奧體育用品銷售有限公司 (Dalian Yue Ao Sports Goods Sales Co., Ltd.)	The PRC, 13 June 2010 Limited liability company	RMB3,000,000	100%	Sale of sports goods



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 10. SUBSIDIARIES (CONTINUED)

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
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
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

## 10. SUBSIDIARIES (CONTINUED)

Name	Place of operation/ incorporation, date of incorporation and kind of legal entity	Issued share/ paid up capital	Effective equity interest held by the Company	Principal activities
大慶悅動體育用品銷售有限公司 (Daqing Yue Dong Sports Goods Sales Co., Ltd.)	The PRC, 25 December 2013 Limited liability company	RMB1,000,000	100%	Sale of sports goods
寧波一動體育用品有限公司 (Ningbo Edosports Goods Co., Ltd.)	The PRC, 2 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
重慶悅奧體育用品銷售有限公司 (Chongqing Yue Ao Sports Goods Sales Co., Ltd.)	The PRC, 15 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
溫州一動體育用品有限公司 (Wenzhou Edosports Goods Co., Ltd.)	The PRC, 22 April 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
貴陽悅奧體育用品有限公司 (Guiyang Yue Ao Sports Goods Co., Ltd.)	The PRC, 23 May 2014 Limited liability company	RMB1,000,000	100%	Sale of sports goods
深圳悅奧商貿有限公司 (Shenzhen Yue Ao Trading Co., Ltd.)	The PRC, 7 December 2015 Limited liability company	RMB1,000,000	100%	Sale of sports goods
長春悅奧體育用品銷售有限公司 (Changchun Yue Ao Sports Goods Sales Co., Ltd.)	The PRC, 22 April 2019 Limited liability company	RMB1,000,000	100%	Sale of sports goods
李寧體育(深圳)有限公司 (Li Ning Sports (Shenzhen) Co., Ltd.)	The PRC, 19 September 2019 Limited liability company	RMB400,000,000	100%	Sale of sports goods
李寧體育科技(深圳)有限公司 (Li Ning Sports Technology (Shenzhen) Co., Ltd.)	The PRC, 27 September 2019 Limited liability company	RMB20,000,000	100%	Research and development
李寧體育(廣西)有限公司 (Li Ning Sports (Guangxi) Co., Ltd.)	The PRC, 28 October 2019 Limited liability company	US\$36,000,000	100%	Sale of sports goods

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	2019 RMB'000	2018 RMB'000
Associates	939,697	660,156
Joint ventures	117,169	68,343
As at 31 December	1,056,866	728,499

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

	2019 RMB'000	2018 RMB'000
Associates	324,893	47,557
Joint ventures	18,576	16,076
For the year ended 31 December	343,469	63,633

### Investment in associates

The following is a list of the associates as at 31 December 2019:

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	10.22%	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	7.89%	Sale of sports goods	Equity
上海紅雙喜股份有限公司 (Shanghai Double Happiness Co., Ltd.) ("Double Happiness")	The PRC, 26 December 1995 Limited liability company	RMB112,000,000	47.50%	Manufacture and sale of sports goods	Equity
北京悅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 Dong Neng 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

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

### Investment in associates (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 (Note 25).

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 investments in Yue Wang Jin Fu, Tianjin Kuan Mao Mi and Tianjin Yue Hao Tuo have been reduced to nil since 31 December 2016, 2012 and 2012, respectively. There was no additional obligation to share the loss of Yue Wang Jin Fu, Tianjin Kuan Mao Mi and Tianjin Yue Hao Tuo for the years ended 31 December 2019 and 2018.

The Group received RMB45,352,000 dividends from Double Happiness for the year ended 31 December 2019 (2018: RMB45,467,000).

### Summarised financial information for associates

Set out below are the summarised financial information for Double Happiness which is individually material to the Group.

#### Summarised balance sheet

	2019 RMB'000	2018 RMB'000
<b>Current</b>		
Assets	1,161,444	810,618
Liabilities	493,218	800,334
<b>Non-current</b>		
Assets	915,040	1,010,505
Liabilities	128,942	152,170

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

### Summarised statement of comprehensive income

	2019 RMB'000	2018 RMB'000
Revenue	664,360	684,511
<b>Profit before income tax</b>	<b>909,437</b>	135,225
Income tax expense	(226,226)	(33,514)
<b>Profit for the year</b>	<b>683,211</b>	101,711
<b>Other comprehensive income</b>	<b>–</b>	–
<b>Total comprehensive income</b>	<b>683,211</b>	101,711

### Reconciliation of summarised financial information

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

### Summarised financial information

	2019 RMB'000	2018 RMB'000
Opening net assets as at 1 January	888,520	885,100
Profit for the year	683,211	101,711
Non-controlling interests	(2,406)	(2,571)
Dividends paid	(95,478)	(95,720)
Net assets of Double Happiness as at 31 December	1,473,847	888,520
Interest in an associate (47.5%)	700,077	422,046
Goodwill	216,882	216,882
<b>Carrying value</b>	<b>916,959</b>	638,928

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

### Individually immaterial associates

In addition to the interests in Double Happiness disclosed above, the Group also has interests in a number of individually immaterial associates that are accounted for using the equity method.

	2019 RMB'000	2018 RMB'000
As at 1 January	21,228	–
Addition	–	20,762
Share of profit	1,510	466
As at 31 December	22,738	21,228

### Investment in joint ventures

	2019 RMB'000	2018 RMB'000
As at 1 January	68,343	51,767
Addition	30,250	500
Share of profit	18,576	16,076
As at 31 December	117,169	68,343

Management is of the view that none of the Group's joint ventures is individually material to the Group as at 31 December 2019 and 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
Li-Ning Aigle Ventures Company Limited ("Li-Ning Aigle Ventures") (a)	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") (b)	The PRC, 8 August 2018 Limited liability company	RMB1,000,000	50%	Organise cultural and art exchange event
Laibin Cheng Xin Materials Co. Ltd ("Laibin Cheng Xin") (c)	The PRC, 12 April 2019 Limited liability company	RMB40,000,000	55%	Manufacture and sale of sports goods
Guangxi Ning Tai Garment Co. Ltd ("Guangxi Ning Tai") (c)	The PRC, 8 November 2019 Limited liability company	RMB30,000,000	55%	Manufacture and sale of sports goods

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (CONTINUED)

### Investment in joint ventures (Continued)

Notes:

- (a) 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.
- (b) 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", a substantial shareholder of the Company). Li-Ning Sports Culture is principally engaged in organising cultural and art exchange events in PRC.
- (c) The investments in these entities are accounted for investments in joint ventures as unanimous consent is required from all shareholders of these entities for approving certain relevant activities according to the respective shareholders' agreements of these entities.

## 12. INVENTORIES

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

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB6,842,827,000 for the year ended 31 December 2019 (2018: RMB5,312,201,000). Inventory provision and the amount of reversal have been included in cost of sales in the consolidated income statement for the years ended 31 December 2019 and 2018.

## 13. OTHER ASSETS

	2019 RMB'000	2018 RMB'000
Other assets in relation to refunds (Note 20)	299,083	262,644
Prepaid rentals and other deposits	37,516	180,321
Prepayment for advertising expenses	24,429	4,523
Advances to suppliers	17,011	11,148
Prepayment for property purchases	–	125,833
Others	65,450	56,558
	<b>443,489</b>	641,027
Less: non-current portion	<b>(83)</b>	(132,491)
	<b>443,406</b>	508,536



## 14. TRADE RECEIVABLES

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

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

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

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

	2019 RMB'000	2018 RMB'000
<b>As at 1 January</b>	284,393	401,845
Reversal of provision for impairment of trade receivables	(17,529)	(22,227)
Trade receivables written off during the year as uncollectible	(8,671)	(95,225)
<b>As at 31 December</b>	258,193	284,393

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 RMB26,200,000 to RMB258,193,000 for trade receivables during the current reporting period (2018: decreased by RMB117,452,000). Note 3.1(b) provides for details about the calculation of the 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 15. OTHER RECEIVABLES

	2019 RMB'000	2018 RMB'000
Deposits	138,290	114,387
Staff advances and other payments for employees	566	1,153
Loans to a joint venture (a)	–	6,309
Licence fees receivable	–	771
Others	24,454	21,687
Less: loss allowance for other receivables	(9,122)	(4,051)
	<b>154,188</b>	140,256
Less: non-current portion	(114,712)	(102,916)
Current portion	<b>39,476</b>	37,340

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

	2019 RMB'000	2018 RMB'000
<b>As at 1 January</b>	<b>4,051</b>	–
Provision for impairment of other receivables	5,271	4,051
Other receivables written off during the year as uncollectible	(200)	–
<b>As at 31 December</b>	<b>9,122</b>	4,051

Other receivables are measured at amortised cost. Non-current portion mainly comprises refundable 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 2019, the loan of Li-Ning Aigle Ventures was repaid. 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.

## 16. CASH, CASH EQUIVALENTS AND RESTRICTED BANK DEPOSITS

As at 31 December 2019, 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):

	2019 RMB'000	2018 RMB'000
Cash and cash equivalents	5,961,445	3,671,542
Restricted bank deposits	1,126	200
	<b>5,962,571</b>	<b>3,671,742</b>

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

	2019 RMB'000	2018 RMB'000
Denominated in RMB	5,645,196	3,603,961
Denominated in US\$	290,789	9,513
Denominated in HK\$	20,568	53,603
Denominated in EUR	3,085	2,493
Denominated in KRW	2,933	2,172
	<b>5,962,571</b>	<b>3,671,742</b>

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 other banks and financial institutions with good reputation in the PRC and Hong Kong.

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 cash and cash equivalents and restricted bank deposits mentioned above.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 17. ORDINARY SHARES AND SHARES HELD FOR RESTRICTED SHARE AWARD SCHEME

### Issued and fully paid

	Number of share of HK\$0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Subtotal RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
<b>As at 1 January 2018</b>	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 (a)	12,952	1,087	50,135	51,222	–	51,222
Shares converted from convertible securities	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)
<b>As at 31 December 2018</b>	2,162,481	204,435	3,249,389	3,453,824	(168,809)	3,285,015
<b>As at 1 January 2019</b>	2,162,481	204,435	3,249,389	3,453,824	(168,809)	3,285,015
Net proceeds from share issuance						
pursuant to share option schemes (a)	12,124	1,082	54,816	55,898	–	55,898
Shares converted from convertible securities (Note 18(d))	112,224	8,783	240,178	248,961	–	248,961
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	3,299	3,299	–	3,299
Shares vested under Restricted Share Award Scheme	9,951	–	–	–	55,612	55,612
Shares purchased under Restricted Share Award Scheme	(7,121)	–	–	–	(163,467)	(163,467)
<b>As at 31 December 2019</b>	2,289,659	214,300	3,547,682	3,761,982	(276,664)	3,485,318

- (a) During the year ended 31 December 2019, the Company issued 12,124,000 shares (2018: 12,952,000 shares) to certain directors and employees of the Group at weighted-average issue price of HK\$5.16 (2018: HK\$4.70) per share pursuant to the Company's 2004 and 2014 Share Option Scheme (see Note 32).

## 18. RESERVES

	Capital reserves RMB'000	Statutory reserve funds RMB'000	Share-based compensation 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
<b>As at 1 January 2018</b>	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)	-
<b>As at 31 December 2018</b>	141,470	466,264	147,303	557,426	2,106	-	1,314,569	1,217,456	2,532,025
<b>As at 1 January 2019</b>	141,470	466,264	147,303	557,426	2,106	-	1,314,569	1,217,456	2,532,025
Profit for the year	-	-	-	-	-	-	-	1,499,139	1,499,139
Value of services provided under share option schemes and Restricted Share Award Scheme	-	-	125,083	-	-	-	125,083	-	125,083
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	-	(3,299)	-	-	-	(3,299)	-	(3,299)
Appropriations to statutory reserves	-	19,224	-	-	-	-	19,224	(19,224)	-
Shares vested under Restricted Share Award Scheme	-	-	(55,612)	-	-	-	(55,612)	-	(55,612)
Share options lapsed	1,485	-	(1,485)	-	-	-	-	-	-
Shares converted from convertible securities (Note)	-	-	-	(248,961)	-	-	(248,961)	-	(248,961)
Translation difference of foreign currency financial statements	-	-	-	-	2,641	-	2,641	-	2,641
Dividends paid	-	-	-	-	-	-	-	(214,695)	(214,695)
<b>As at 31 December 2019</b>	142,955	485,488	211,990	308,465	4,747	-	1,153,645	2,482,676	3,636,321

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 18. RESERVES (CONTINUED)

- (a) In April 2013, the Company issued convertible securities (the "2013 CS") in the aggregate principal amount of approximately HK\$1,847,838,000 (equivalent to approximately RMB1,480,488,000). The 2013 CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK\$3.5 per ordinary share of the Company (subject to standard anti-dilution adjustments). Upon issuance, the 2013 CS can be converted into 527,953,814 ordinary shares of the Company.
- (b) In January 2015, the Company issued offer securities (qualifying shareholders can select either of subscribing ordinary shares or convertible securities collectively; referred to as "Offer Securities") in the aggregate principal amount of approximately HK\$1,553,530,000 (equivalent to approximately RMB1,229,930,000), under which 450,630,034 ordinary shares and 146,881,496 convertible securities (the "2015 CS") were issued. The 2015 CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK\$2.6 per ordinary share of the Company (subject to standard anti-dilution adjustments). Upon issuance, the 2015 CS can be converted into 146,881,496 ordinary shares of the Company.
- (c) The 2013 CS and 2015 CS (collectively referred to as "CS") cannot be redeemed unless the Company exercises the pre-emption right (but shall not be obliged) to redeem (or procure the purchase of) all or part of the principal amount of the CS.

The CS do not meet the definition of financial liabilities under International Accounting Standards 32 "Financial Instruments: Presentation", as (1) the Company has no contractual obligation to settle the CS in cash, it is the Company's own choice to redeem all or part of the principal amount of the CS, the CS holder has no right to receive and the Company has no obligation to deliver cash (i.e. there will be no exchange of cash for shares when the holders exercise the conversion right) or any financial assets; and (2) both the principal amount and the conversion price of the CS are denominated in HK\$, the number of shares to be issued upon conversion is therefore fixed. As a result, all of the CS are classified as equity upon initial recognition.

- (d) During the year ended 31 December 2019, CS with carrying value of HK\$318,101,000 (equivalent to approximately RMB248,961,000) were converted into 112,224,000 ordinary shares of the Company (Note 17).
- (e) Up to 31 December 2019, CS with an aggregate carrying value of HK\$1,777,138,000 (equivalent to approximately RMB1,426,454,000) had been converted into ordinary shares of the Company. As at 31 December 2019, CS with carrying value of HK\$394,128,000 (equivalent to approximately RMB308,465,000) were outstanding, which could be converted into 139,046,000 ordinary shares of the Company upon conversion.

## 19. TRADE PAYABLES

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

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

## 20. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Accrued sales and marketing expenses	379,253	307,662
Wages and welfare payables	326,022	160,480
Payable for property, plant and equipment	190,204	87,947
Other tax payables	79,645	89,003
Refunds liabilities (a)	593,284	501,141
Others	605,250	236,885
	<b>2,173,658</b>	1,383,118

- (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 2019: RMB593,284,000; 31 December 2018: RMB501,141,000). The Group also recognises a right to the goods expected to be returned measured by reference to the former carrying amount of the goods (31 December 2019: RMB299,083,000; 31 December 2018: RMB262,644,000; see Note 13). The costs to recover the products are not material because the customers usually return the product in a saleable condition.

## 21. LICENSE FEES PAYABLE

The Group entered into several license agreements with entities and athletes to obtain exclusive product development and marketing rights. Pursuant to the agreements, consideration shall be paid by the Group in tranches during the lives of the licenses.

Movement in license fees payable during the year is analysed as follows:

	RMB'000
As at 1 January 2018	72,595
Additions	46,522
Payment of license fees	(68,187)
Amortisation of discount (Note 27)	4,320
Adjustment for exchange difference	1,034
As at 31 December 2018	56,284
As at 1 January 2019	56,284
Additions	70,973
Payment of license fees	(74,764)
Amortisation of discount (Note 27)	3,197
Adjustment for exchange difference	240
As at 31 December 2019	55,930



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(All amounts in RMB unless otherwise stated)

## 21. LICENSE FEES PAYABLE (CONTINUED)

	2019 RMB'000	2018 RMB'000
Analysis of license fees payable:		
Non-current		
– the second to fifth year	18,699	16,919
– more than five years	5,882	10,646
Current	31,349	28,719
	<b>55,930</b>	56,284

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:

	2019 RMB'000	2018 RMB'000
Less than 1 year	31,634	29,187
Between 1 and 5 years	27,000	23,000
Over 5 years	10,000	19,000
	<b>68,634</b>	71,187

## 22. 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	Lease RMB'000	Others RMB'000	Total RMB'000
<b>Deferred income tax assets</b>								
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
<b>As at 31 December 2018</b>	948	47,694	–	19,305	121,095	–	50,005	239,047
As at 1 January 2019	948	47,694	–	19,305	121,095	–	50,005	239,047
Credited/(charged) to income statement	59,217	56,196	–	13,547	57,823	12,339	(6,454)	192,668
<b>As at 31 December 2019</b>	60,165	103,890	–	32,852	178,918	12,339	43,551	431,715
<b>Deferred income tax liabilities</b>								
As at 1 January 2018	–	–	(5,062)	–	–	–	(13,261)	(18,323)
Credited/(charged) to income statement	–	–	1,976	–	–	–	(18,383)	(16,407)
<b>As at 31 December 2018</b>	–	–	(3,086)	–	–	–	(31,644)	(34,730)
As at 1 January 2019	–	–	(3,086)	–	–	–	(31,644)	(34,730)
Credited/(charged) to income statement	–	–	626	–	–	–	(10,898)	(10,272)
<b>As at 31 December 2019</b>	–	–	(2,460)	–	–	–	(42,542)	(45,002)

## 22. DEFERRED INCOME TAX (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
<b>Deferred income tax assets</b>		
– to be recovered within 12 months	374,585	179,338
– to be recovered after more than 12 months	57,130	59,709
	<b>431,715</b>	239,047
<b>Deferred income tax liabilities</b>		
– to be recovered within 12 months	(264)	(2,378)
– to be recovered after more than 12 months	(44,738)	(32,352)
	<b>(45,002)</b>	(34,730)

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 RMB16,178,000 (2018: RMB32,625,000) in respect of tax losses amounting to RMB64,713,000 (2018: RMB130,501,000) that can be carried forward against future taxable income and will expire between 2020 and 2024 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 RMB125,461,000 (2018: RMB87,523,000) 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 RMB2,509,224,000 (2018: RMB1,750,469,000) are not currently intended to be distributed to the subsidiaries incorporated outside the PRC.

## 23. DEFERRED INCOME

	Government grants RMB'000	Customer loyalty programme RMB'000	Total RMB'000
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
As at 1 January 2019	<b>53,675</b>	–	<b>53,675</b>
Addition	<b>2,972</b>	–	<b>2,972</b>
Credited to income statement	<b>(2,826)</b>	–	<b>(2,826)</b>
As at 31 December 2019	<b>53,821</b>	–	<b>53,821</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 24. EXPENSES BY NATURE

	2019 RMB'000	2018 RMB'000
Cost of inventories recognised as expenses and included in cost of sales	6,842,827	5,312,201
Depreciation on property, plant and equipment (a)	419,881	363,037
Amortisation of land use rights and intangible assets	40,666	48,375
Depreciation on right-of-use assets	360,424	–
Impairment of goodwill	36,394	–
Advertising and marketing expenses	1,327,013	1,090,608
Commission and trade fair related expenses	268,430	180,637
Staff costs, including directors' emoluments (Note 26)	1,518,565	1,139,002
Short-term lease rentals and variable lease rentals payments not included in lease liabilities and rental related expenses (2018: Operating lease rentals and related expenses in respect of land and buildings)	628,125	898,440
Research and product development expenses (a)	362,494	228,798
Transportation and logistics expenses	497,343	395,775
Auditor's remuneration		
– Audit services	5,550	5,200
– Non-audit services	1,878	1,290
Management consulting expenses	107,443	78,877

(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.

## 25. OTHER INCOME AND OTHER GAINS – NET

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

## 26. STAFF COSTS

	2019 RMB'000	2018 RMB'000
Wages and salaries	714,172	428,030
Contributions to retirement benefit plan (b)	83,617	73,530
Share options and restricted shares granted to directors and employees	125,083	97,941
Housing benefits	36,268	29,779
Other costs and benefits	559,425	509,722
	<b>1,518,565</b>	<b>1,139,002</b>

### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group included one (2018: one) director for the years ended 31 December 2019, and his emoluments are reflected in the analysis shown in Note 36. The aggregate amounts of emoluments paid and payable to the remaining four (2018: four) individuals whose emoluments were the highest in the Group for the years are as follows:

	2019 RMB'000	2018 RMB'000
Salaries and allowances	32,567	11,222
Other benefits	37,012	33,581
Contributions to retirement benefit scheme	380	437
	<b>69,959</b>	<b>45,240</b>

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
Emoluments bands		
HK\$11,000,001 to HK\$11,500,000	–	1
HK\$12,500,001 to HK\$13,000,000	1	–
HK\$13,000,001 to HK\$13,500,000	–	1
HK\$14,000,001 to HK\$14,500,000	–	1
HK\$14,500,001 to HK\$15,000,000	–	1
HK\$15,000,001 to HK\$15,500,000	1	–
HK\$21,000,001 to HK\$21,500,000	1	–
HK\$29,500,001 to HK\$30,000,000	1	–
	<b>4</b>	<b>4</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 26. STAFF COSTS (CONTINUED)

### (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.

## 27. FINANCE INCOME AND EXPENSES

	2019 RMB'000	2018 RMB'000
Interest income on bank balances and deposits	24,655	14,947
Net foreign currency exchange gain	4,218	8,429
<b>Finance income</b>	<b>28,873</b>	23,376
Amortisation of discount – license fees payable (Note 21)	(3,197)	(4,320)
Amortisation of discount – lease liabilities	(45,400)	–
Others	(10,408)	(9,545)
<b>Finance expenses</b>	<b>(59,005)</b>	(13,865)
<b>Finance (expenses)/income – net</b>	<b>(30,132)</b>	9,511

## 28. INCOME TAX EXPENSE

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

## 28. 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) For the year ended 31 December 2019, provision for the corporate income tax of Chinese Mainland is calculated based on the statutory tax rate of 25% (2018: 25%) on the assessable income of each of the Group companies. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong (2018: 16.5%).
- (c) This mainly arose from the interests due by the Company's subsidiaries in Chinese Mainland to other group companies in Hong Kong during the years ended 31 December 2019 and 2018, which are subject to withholding tax at the rate of 7%.

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:

	2019 RMB'000	2018 RMB'000
Profit before income tax	1,856,546	850,321
Tax calculated at a tax rate of 25% (2018: 25%)	464,137	212,580
Effects of different overseas tax rates	(483)	(1,483)
Temporary differences and tax losses for which no deferred income tax asset is recognised	3,656	48,140
Utilisation of previously unrecognised temporary differences and tax losses	(37,330)	(149,605)
Expenses not deductible for tax purposes	4,588	24,919
Share of results of associates and joint ventures reported net of tax	(85,985)	(17,365)
Income not subject to tax	(2,788)	(1,684)
Withholding tax on dividends	11,608	19,556
<b>Tax charge</b>	<b>357,403</b>	<b>135,058</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 29. EARNINGS PER SHARE

### Basic

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

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

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

### 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 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.



## 29. EARNINGS PER SHARE (CONTINUED)

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

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

## 30. DIVIDENDS

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

The total dividends paid during the year ended 31 December 2019 amounted to RMB214,695,000 or RMB8.78 cents per share (2018: nil) which represented the final dividends for the year ended 31 December 2018.

On 26 March 2020, the Board proposed a final dividend of RMB15.47 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2019. The proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of distributable reserves in the year ending 31 December 2020.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 31. STATEMENT OF CASH FLOWS

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

	2019 RMB'000	2018 RMB'000
Profit before income tax	1,856,546	850,321
Adjustments for:		
Depreciation on property, plant and equipment	419,881	363,037
Depreciation on right-of-use assets	360,424	–
Amortisation of land use rights and intangible assets	40,666	48,375
Impairment of goodwill	36,394	–
Loss on disposal of property, plant and equipment	26,996	25,030
Loss on disposal of intangible assets	2	282
Reversal of provision for impairment of trade receivables and other receivables	(12,258)	(18,176)
Provision/(reversal of provision) for write-down of inventories to net realisable value	8,048	(5,713)
Share options and restricted shares granted to directors and employees	125,083	97,941
Finance expenses/(income) – net	19,723	(18,792)
Interest income from financial assets at FVPL	(78,236)	(46,641)
Amortisation of deferred income	(2,826)	(1,641)
Share of profit of investments accounted for using the equity method	(343,469)	(63,633)
Dividend income classified as investing cash flows	–	(5,985)
Fair value adjustment to derivatives	13,508	8,690
Operating profit before working capital changes	2,470,482	1,233,095
Increase in inventories	(175,564)	(131,490)
Decrease in trade receivables	259,818	227,315
Increase in other receivables	(136,144)	(6,847)
Decrease/(increase) in other assets	197,538	(35,274)
Increase/(decrease) in trade payables	214,892	(11,799)
Increase in other payables and accruals	620,931	366,655
Increase in contract liabilities	195,947	38,766
(Increase)/decrease in restrict bank deposits	(926)	521
Cash generated from operations	3,646,974	1,680,942

### 31. STATEMENT OF CASH FLOWS (CONTINUED)

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

	2019 RMB'000	2018 RMB'000
Net book amount	30,599	29,067
Loss on disposal of property, plant and equipment	(26,996)	(25,030)
<b>Proceeds from disposal of property, plant and equipment</b>	<b>3,603</b>	<b>4,037</b>

### 32. SHARE-BASED COMPENSATION

#### (a) 2004 Share Option Scheme

Pursuant to a shareholders' resolution passed on 5 June 2004, the Company adopted a share option scheme (the "2004 Share Option Scheme"). The 2004 Share Option Scheme will remain in force for a period of 10 years commencing from 5 June 2004.

The purpose of the 2004 Share Option Scheme is to provide incentives to eligible participants to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group. Eligible participants are any individuals being employees, officers, agents, consultants or representatives of any member of the Group who, based on the board of directors' discretion, have made valuable contributions to the business of the Group based on their performance and/or years of service, or are regarded as valuable human resources of the Group based on their work experience, knowledge of the industry and other factors.

HK\$1 is payable by the participant who accepts the grant of an option. The subscription price for the shares under the option to be granted will be determined by the Company's board of directors and will be the highest of: (a) the closing price of the shares of the Company as stated in The Hong Kong Stock Exchange Limited's daily quotations sheets on the date of the grant of the option; (b) the average closing price of the shares of the Company as stated in The Hong Kong Stock Exchange Limited's daily quotations sheets for the five business days immediately preceding the date of the grant of the option; and (c) the nominal value of the shares of the Company.

The maximum number of shares that may be granted under the 2004 Share Option Scheme and other share option schemes shall not exceed 30% of the number of issued shares of the Company from time to time. The total number of shares of the Company issued and which may be issued upon exercise of all options (whether exercised, cancelled or outstanding) granted in any 12-month period to each participant must not exceed 1% of the number of shares of the Company in issue. Lapsed or cancelled options may be re-granted in accordance with the terms of the 2004 Share Option Scheme.

An option may be exercised in accordance with the terms of the 2004 Share Option Scheme at any time during a period to be notified by the Company's board of directors, which must not be more than 10 years from the date of the grant.

Any share of the Company allotted and issued on the exercise of options will rank pari passu with the other shares of the Company in issue on the date of allotment.

The 2004 Share Option Scheme was terminated on 30 May 2014. The options which have been granted and remained outstanding as of that date shall continue to follow the provisions of the 2004 Share Option Scheme.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 32. SHARE-BASED COMPENSATION (CONTINUED)

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

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

	2019		2018	
	Weighted average exercise price (per share)	Outstanding options (Thousands)	Weighted average exercise price (per share)	Outstanding options (Thousands)
	HK\$		HK\$	
<b>As at 1 January</b>	<b>6.031</b>	<b>3,753</b>	5.316	10,682
Exercised	6.020	(3,343)	4.925	(6,913)
Lapsed	6.350	(52)	6.208	(16)
<b>As at 31 December</b>	<b>6.088</b>	<b>358</b>	6.031	3,753
<b>Exercisable as at 31 December</b>	<b>6.088</b>	<b>358</b>	6.020	3,501

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

Expiry date	2019		2018	
	Exercise price (per share)	Share options (Thousands)	Exercise price (per share)	Share options (Thousands)
	HK\$		HK\$	
30 September 2019	6.350	–	6.350	2,148
31 December 2019	4.600	–	4.600	581
31 December 2020	6.350	303	6.350	919
31 December 2020	4.630	55	4.630	105
<b>Total</b>		<b>358</b>		<b>3,753</b>
Weighted average remaining contractual life of options outstanding at end of period		<b>1.00</b>		1.13

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 to the consolidated income statement during the year ended 31 December 2019 was RMB18,000 (2018: RMB174,000).

## 32. 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:

	2019		2018	
	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)
<b>As at 1 January</b>	<b>5.682</b>	<b>71,978</b>	5.554	77,482
Granted	19.378	4,763	7.625	1,420
Exercised	4.838	(8,781)	4.440	(6,040)
Lapsed	4.440	(900)	6.120	(884)
<b>As at 31 December</b>	<b>6.782</b>	<b>67,060</b>	5.682	71,978
<b>Exercisable as at 31 December</b>	<b>5.049</b>	<b>19,127</b>	4.306	17,016

Share options outstanding under this scheme as at 31 December 2019 and 31 December 2018 have the following expiry dates and exercise prices:

Expiry date	2019		2018	
	Exercise price (per share) HK\$	Share options (Thousands)	Exercise price (per share) HK\$	Share options (Thousands)
31 December 2020	4.440	7,415	4.440	15,016
7 June 2026	3.300	3,000	3.300	3,000
31 December 2022	6.120	50,462	6.120	52,542
31 December 2023	9.090	390	9.090	390
31 December 2023	7.070	1,030	7.070	1,030
31 December 2024	13.360	407	13.360	–
16 May 2029	13.160	1,200	13.160	–
31 December 2027	22.520	3,156	22.520	–
<b>Total</b>		<b>67,060</b>		<b>71,978</b>
Weighted average remaining contractual life of options outstanding at end of period		<b>3.32</b>		<b>3.75</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 32. 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 2019 and 2018 determined by using Black-Scholes valuation model were as follows:

	2019 RMB'000	2018 RMB'000
The 2014 Share Option Scheme	32,426	3,665

The subjectivity and uncertainty of the values of share options are subject to a number of assumptions and the limitation of the model. Significant inputs into the model were as follows:

	2019	2018
<b>The 2014 Share Option Scheme</b>		
Weighted average share price (HK\$)	19.244	7.500
Weighted average exercise price (HK\$)	19.378	7.627
Expected volatility	49.4%	49.7%
Expected option life (years)	5.69	3.82
Weighted average annual risk free interest rate	1.3%	2.1%
Expected dividend yield	1.7%	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. During the year ended 31 December 2019, the board of directors decided to reduce the vesting periods for certain share options granted under the 2014 Share Option Scheme, which had no impact on the fair value of the unvested share options. The Group adopted the retrospective treatment in respect of the above reduction of vesting periods. Under the retrospective treatment, the cumulative expenses in relation to the share options were trued up in accordance with the reduced vesting periods as at 31 December 2019, to reflect the best estimate of share options expected to vest as at 31 December 2019.

The amount charged to the consolidated income statement during the year ended 31 December 2019 was RMB54,975,000 (2018: RMB42,358,000).

## 32. SHARE-BASED COMPENSATION (CONTINUED)

### (c) 2006 Restricted Share Award Scheme

The Company adopted Restricted Share Award Scheme (the "2006 Restricted Share Award Scheme") on 14 July 2006 with a duration of 10 years commencing from the adoption date. The objective of 2006 Restricted Share Award Scheme is to encourage and retain selected participants which include directors, employees, officers, agents and consultants of the Group, to work with the Group and to provide additional incentive for them to achieve performance goals.

The Group has set up the Li Ning Company Limited Restricted Share Award Scheme Trust ("Restricted Share Trust") to administer and hold the Company's shares before they are vested and transferred to selected participants. As the financial and operational policies of the Restricted Share Trust are governed by the Group, and Group benefits from the Restricted Share Trust's activities, the Restricted Share Trust is consolidated in the Group's financial statements as a special purpose entity.

Upon granting of shares to selected participants ("Restricted Shares"), the Restricted Share Trust purchases the Company's shares awarded from the open market with funds provided by the Company by way of contributions. Restricted Shares vest gradually after selected participants complete a period of service in the Group of 12 to 36 months from the date of grant. The vested shares are transferred to selected participants at nil consideration. Dividends on Restricted Shares are used to purchase additional shares and allocate to selected participants on a pro rata basis.

The maximum number of Restricted Shares shall not exceed 5% of the Company's share capital in issue from time to time. For each selected participant, the maximum number of Restricted Shares granted in aggregate shall not exceed 10,278,000 shares, being 1% of the Company's issued share capital as at the adoption date of 14 July 2006.

The fair value of 2006 Restricted Share Award Scheme was based on the market value of the Company's shares at the grant date.

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

	2019		2018	
	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	4,644	3.200	9,471
Vested	3.200	(4,622)	3.200	(4,717)
Lapsed	3.200	(22)	3.200	(110)
<b>As at 31 December</b>	<b>3,200</b>	<b>-</b>	<b>3.200</b>	<b>4,644</b>

The fair value of Restricted Shares charged to the consolidated income statement was RMB1,075,000 during the year ended 31 December 2019 (2018: RMB6,021,000).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 32. SHARE-BASED COMPENSATION (CONTINUED)

### (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.

Movements in the number of 2016 Restricted Share Award Scheme granted and related fair value are as follows:

	2019		2018	
	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)
<b>As at 1 January</b>	<b>6.140</b>	<b>26,827</b>	6.018	25,990
Granted	21.389	3,087	8.027	1,546
Vested	6.126	(5,329)	4.660	(75)
Lapsed	6.676	(535)	5.918	(634)
<b>As at 31 December</b>	<b>8.088</b>	<b>24,050</b>	6.140	26,827

The fair value of the 2016 Restricted Share Award Scheme is charged to the consolidated income statement over the vesting period of the awarded shares. During the year ended 31 December 2019, the board of directors decided to reduce the vesting periods for certain awarded shares under the 2016 Restricted Share Award Scheme, which had no impact on the fair value of the unvested shares. The Group adopted the retrospective treatment in respect of the above reduction of vesting periods. Under the retrospective treatment, the cumulative expenses in relation to the awarded shares were trued up in accordance with the reduced vesting periods as at 31 December 2019, to reflect the best estimate of shares expected to vest as at 31 December 2019.

The amount charged to the consolidated income statement was RMB69,015,000 during the year ended 31 December 2019 (2018: RMB49,388,000).

### 33. COMMITMENTS

#### (a) Operating lease commitments – where any group companies are the lessee

As the adoption of IFRS 16 on 1 January 2019, the lease commitment disclosed only included the short-term lease, low-value lease and lease contracts signed with lease terms has not commenced. As the 31 December 2018, 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
Not later than 1 year	415,500
Later than 1 year and not later than 5 years	541,418
Later than 5 years	2,582
	<hr/>
	959,500

#### (b) Capital commitments

During the year ended 31 December 2019, the Group entered into a subscription agreement pursuant to which the Group agreed to subscribe certain interest in a limited partnership with a total capital commitment of US\$61,000,000. As at 31 December 2019, the Group had yet to make the subscription and hence the Group's total capital commitment to the limited partnership remained at US\$61,000,000.

### 34. 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:

	2019 RMB'000	2018 RMB'000
Subsidiary of Viva China	5,568	2,747

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 34. RELATED-PARTY TRANSACTIONS (CONTINUED)

### (b) Purchases of goods from:

	2019 RMB'000	2018 RMB'000
Hubei Dong Neng (an associate of the Group)	311,064	35,290
Subsidiary of Li-Ning Aigle Ventures	1,820	5,805
Laibin Cheng Xin (a joint venture of the Group)	797	–
Subsidiary of Viva China	–	5
	<b>313,681</b>	<b>41,100</b>

### (c) Sales of services to:

	2019 RMB'000	2018 RMB'000
Subsidiary of Viva China	1,320	1,667
Subsidiary of Li-Ning Aigle Ventures	687	664
Li-Ning Sports Culture (a joint venture of the Group)	176	–
Tianjin Kuan Mao Mi (an associate of the Group)	–	9,906
	<b>2,183</b>	<b>12,237</b>

### (d) Purchases of services from:

	2019 RMB'000	2018 RMB'000
Subsidiaries of Viva China*	281,885	278,194
Shanghai Double Happiness Co., Ltd.	6,809	6,405
Elite Holiday (Beijing) Sports Development Co., Ltd., controlled by a substantial shareholder of the Company	–	2,264
	<b>288,694</b>	<b>286,863</b>

\* 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.

### 34. RELATED-PARTY TRANSACTIONS (CONTINUED)

#### (e) other transactions:

	2019 RMB'000	2018 RMB'000
Transfer of trademark to: Subsidiary of Viva China	1,280	–

#### (f) Key management compensation:

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

	2019 RMB'000	2018 RMB'000
Salaries and other benefits	49,389	20,349
Contribution to retirement benefit scheme	813	583
Employee share schemes for value of services provided	71,415	51,838
	121,617	72,770

#### (g) Year-end balances:

	2019 RMB'000	2018 RMB'000
Receivables from related parties:		
Subsidiaries of Viva China	659	701
Li-Ning Sports Culture (a joint venture of the Group)	89	–
	748	701
Payables to related parties:		
Hubei Dong Neng (an associate of the Group)	66,251	30,113
Laibin Cheng Xin (a joint venture of the Group)	900	–
Subsidiaries of Viva China	872	–
	68,023	30,113

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 35. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

	Note	As at 31 December	
		2019 RMB'000	2018 RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		2,841	–
Investment in subsidiaries		3,859,064	3,725,965
<b>Total non-current assets</b>		<b>3,861,905</b>	3,725,965
<b>Current assets</b>			
Dividends receivable		1,378,065	724,959
Fixed deposits held at banks		926	–
Cash and cash equivalents		3,134	217,789
<b>Total current assets</b>		<b>1,382,125</b>	942,748
<b>Total assets</b>		<b>5,244,030</b>	4,668,713
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares		214,300	204,435
Share premium		3,547,682	3,249,389
Other reserves	(a)	602,280	785,069
Retained earnings	(a)	855,244	425,726
<b>Total equity</b>		<b>5,219,506</b>	4,664,619
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Other payables and accruals		24,524	4,094
<b>Total current liabilities</b>		<b>24,524</b>	4,094
<b>Total liabilities</b>		<b>24,524</b>	4,094
<b>Total equity and liabilities</b>		<b>5,244,030</b>	4,668,713

The balance sheet of the Company was approved by the Board of Directors on 26 March 2020 and was signed on its behalf

**Li Ning**  
Joint Chief Executive Officer & Chairman

**Kosaka Takeshi**  
Joint Chief Executive Officer

### 35. 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 securities reserves RMB'000	Total RMB'000
<b>As at 1 January 2018</b>	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)
<b>As at 31 December 2018</b>	425,726	80,340	147,303	557,426	1,210,795
<b>As at 1 January 2019</b>	425,726	80,340	147,303	557,426	1,210,795
Total comprehensive income for the year	644,213	-	-	-	644,213
Value of services provided under share option schemes and Restricted Share Award Scheme	-	-	125,083	-	125,083
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	-	(3,299)	-	(3,299)
Shares vested under Restricted Share Award Scheme	-	-	(55,612)	-	(55,612)
Share options lapsed	-	1,485	(1,485)	-	-
Shares converted from convertible securities	-	-	-	(248,961)	(248,961)
Dividends paid	(214,695)	-	-	-	(214,695)
<b>As at 31 December 2019</b>	855,244	81,825	211,990	308,465	1,457,524

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in RMB unless otherwise stated)

## 36. BENEFITS AND INTERESTS OF DIRECTORS

The remuneration of each director for the year ended 31 December 2019 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	–	8,311	25,023	402	33,736
Mr. Kosaka Takeshi (ii)	–	2,250	7,196	31	9,477
Ms. Wang Ya Fei	270	–	531	–	801
Mr. Koo Fook Sun, Louis	270	–	531	–	801
Mr. Chan Chung Bun, Bunny	250	–	531	–	781
Mr. Su Jing Shyh, Samuel	270	–	531	–	801
Mr. Li Qilin (iii)	1,200	–	4,061	–	5,261

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 (iii)	382	–	1,850	–	2,232

- (i) Other benefits include insurance premium and fair value of share options charged to the consolidated income statement during the year.
- (ii) Mr. Kosaka Takeshi was appointed as an executive director and the joint chief executive officer of the Company with effect from 2 September 2019.
- (iii) 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.



### **36. 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, none of the directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group (2018: nil). 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 (2018: nil). No consideration was provided to or receivable by third parties for making available directors' services (2018: nil). There are no loans, quasi-loans or other dealings in favour of the directors, their controlled bodies corporate and connected entities (2018: 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 (2018: 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 (2018: none).

### **37. EVENTS AFTER THE BALANCE SHEET DATE**

#### **Conversion of convertible securities ("CS")**

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

#### **The assessment of the impact of the novel coronavirus ("COVID-19")**

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

# GLOSSARY

In this annual report, unless the context states otherwise, the following expressions have the following meanings:

"2004 Share Option Scheme"	the share option scheme adopted by the Company on 5 June 2004, amended on 15 May 2009 and 11 October 2012 and terminated on 30 May 2014
"2006 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006, as amended on 30 April 2009 and 4 July 2012 and expired on 14 July 2016
"2013 Open Offer"	the open offer of convertible securities issued by the Company as set out in the listing document of the Company dated 27 March 2013
"2014 Share Option Scheme"	the share option scheme adopted by the Company on 30 May 2014
"2015 Open Offer"	the open offer of offer securities issued by the Company as set out in the listing document of the Company dated 9 January 2015
"2016 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2016
"2020 AGM"	the annual general meeting of the Company to be held on Friday, 12 June 2020
"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"	holder(s) of Shares
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"%"	per cent.

