LI NING COMPANY LIMITED
李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

- Reported net profit attributable to equity holders increased by 42% to RMB269 million, net profit margin raised from 4.7% to 5.7%:
  - Revenue increased by approximately 17.9% to RMB4,713 million
  - Gross profit margin expanded 1 percentage point
  - Maintained operating leverage notwithstanding investment in new initiatives
- Operating cash flow increased by 12% to RMB660 million.
- Significant improvement in working capital continued:
  - Gross average working capital improved (reduced) by 8% while revenue increased by approximately 17.9%
  - Cash conversion cycle further improved (shortened) by 11 days (2017: 56 days/2018: 45 days)

OPERATIONAL HIGHLIGHTS

- The retail sell-through for the overall platform increased by mid-teens, including online and offline channels.
- Channel inventory turnover further improved.
- Overall Same-Store-Sales in 2018H1 grew high-single digit.
- Offline channel new product sell-through increased by mid-teens with gross margin improved:

  – New product mix increased by 3 percentage points

INTERIM RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company" or "Li Ning Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2018, together with comparative figures, as follows:

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2018** *RMB'000*	Audited As at 31 December 2017 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**784,414**	838,185
Land use rights		**75,035**	75,986
Intangible assets		**237,166**	257,947
Deferred income tax assets		**251,537**	234,327
Other assets		**6,654**	–
Available-for-sale financial assets		**–**	14,000
Financial assets at fair value through other comprehensive income		**14,000**	–
Investments accounted for using the equity method		**721,199**	689,071
Other receivables		**92,843**	–
Other receivables and prepayments		**–**	101,451
Total non-current assets		**2,182,848**	2,210,967
Current assets			
Inventories	*4*	**1,159,389**	1,102,538
Other assets – current portion		**551,884**	–
Trade receivables	*5*	**1,043,284**	1,138,034
Other receivables – current portion		**47,750**	–
Other receivables and prepayments – current portion		**–**	339,867
Financial assets at fair value through profit or loss		**250,849**	–
Restricted bank deposits		**200**	721
Short-term deposits		**109,176**	–
Cash and cash equivalents		**2,692,546**	2,529,222
Total current assets		**5,855,078**	5,110,382
Total assets		**8,037,926**	7,321,349

	Note	Unaudited As at 30 June 2018 *RMB'000*	Audited As at 31 December 2017 *RMB'000*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**203,963**	203,347
Share premium		**3,221,519**	3,189,792
Shares held for Restricted Share Award Scheme		**(56,067)**	(69,600)
Other reserves		**1,108,426**	1,086,613
Retained earnings		**929,464**	660,895
		5,407,305	5,071,047
Non-controlling interests in equity		**2,550**	2,550
Total equity		**5,409,855**	5,073,597
LIABILITIES			
Non-current liabilities			
License fees payable		**33,925**	39,203
Derivative financial instruments		**13,740**	5,584
Deferred income tax liabilities		**24,344**	18,323
Deferred income		**52,719**	56,832
Total non-current liabilities		**124,728**	119,942
Current liabilities			
Trade payables	*6*	**1,104,298**	1,145,113
Contract liabilities		**109,169**	–
Other payables and accruals		**1,156,512**	929,263
License fees payable – current portion		**49,634**	33,392
Current income tax liabilities		**83,730**	20,042
Total current liabilities		**2,503,343**	2,127,810
Total liabilities		**2,628,071**	2,247,752
Total equity and liabilities		**8,037,926**	7,321,349

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June **2018** ***RMB'000***	 2017 *RMB'000*
Revenue	*3*	**4,712,773**	3,996,051
Cost of sales	*7*	**(2,418,906)**	(2,091,882)
Gross profit		**2,293,867**	1,904,169
Distribution expenses	*7*	**(1,735,145)**	(1,501,996)
Administrative expenses	*7*	**(297,106)**	(229,355)
Reversal of impairment losses on financial assets – net		**1,062**	9,319
Other income and other gains – net	*8*	**31,121**	19,639
Operating profit		**293,799**	201,776
Finance income	*9*	**8,546**	24,851
Finance expenses	*9*	**(7,050)**	(16,583)
Finance income – net	*9*	**1,496**	8,268
Share of profit of investments accounted for using the equity method		**32,128**	34,862
Profit before income tax		**327,423**	244,906
Income tax expense	*10*	**(58,854)**	(55,736)
Profit for the period		**268,569**	189,170
Attributable to:			
Equity holders of the Company		**268,569**	189,170
Non-controlling interests		**–**	–
		268,569	189,170
Earnings per share attributable to equity holders of the Company for the period (expressed in RMB cents per share)			
Basic earnings per share	*11*	**11.10**	7.93
Diluted earnings per share	*11*	**10.98**	7.50

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Profit for the period	**268,569**	189,170
Other comprehensive loss:		
Items that may be reclassified to profit or loss		
Currency translation differences	**(873)**	(1,848)
Total comprehensive income for the period	**267,696**	187,322
Attributable to:		
Equity holders of the Company	**267,696**	187,322
Non-controlling interests	**–**	–
	267,696	187,322

Notes:

1. General Information

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

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

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

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board on 10 August 2018.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation and significant accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2018 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

The accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 December 2017, as described in those annual financial statements except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2018.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments, if applicable, as a result of adopting the following standards:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in 2(b) to 2(d) below. The other standards did not have any impact on the Group’s accounting policies and did not require retrospective adjustments.

(b) IFRS 9 Financial Instruments – Impact of adoption

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

The adoption of IFRS 9 Financial Instruments from 1 January 2018. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

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

- investments in unlisted companies previously classified as available-for-sale financial assets was reclassified to financial assets at fair value through other comprehensive income (“FVOCI”) under IFRS 9;
- loans and receivables previously measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9; and
- wealth management products was currently classified as at fair value through profit or loss (“FVPL”) as a whole under IFRS 9.

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

- trade receivables for sales of goods or provision of services; and
- other receivables.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The new impairment model requires the recognition of impairment provisions based on expected credit losses model rather than only incurred credit losses model as is the case under IAS 39. The impact of the change in impairment methodology on the Group's retained earnings as at 1 January 2018 was immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

(c) IFRS 15 Revenue from Contracts with Customers – Impact of adoption

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

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

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

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

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

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

(e) Impact of standards issued but not yet applied by the Group

IFRS 16 Leases

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB775,830,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

3. Segment information and revenue

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

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

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

Revenue breakdown by product category is as follows:

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Footwear	**2,190,747**	2,016,771
Apparel	**2,299,615**	1,759,487
Equipment and accessories	**222,411**	219,793
Total	**4,712,773**	3,996,051

Geographical information of revenue

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
The PRC (including the Hong Kong Special Administrative Region)	**4,639,133**	3,904,583
Other regions	**73,640**	91,468
Total	**4,712,773**	3,996,051

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

The Group has a large number of customers. For the six months ended 30 June 2018 and 2017, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Inventories

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Raw materials	**1,737**	1,270
Work in progress	**3,162**	3,134
Finished good	**1,288,963**	1,228,486
	1,293,862	1,232,890
Less: provision for write-down of inventories to net realisable value	**(134,473)**	(130,352)
	1,159,389	1,102,538

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB2,366,250,000 for the six months ended 30 June 2018 (30 June 2017: RMB2,047,932,000). Inventory provision and the amount of reversal have been included in cost of sales in the interim condensed consolidated income statement for the six months ended 30 June 2018 and 2017.

5. Trade receivables

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
Accounts receivable	**1,436,884**	1,530,779
Notes receivable	**4,080**	9,100
	1,440,964	1,539,879
Less: allowance for impairment of trade receivables	**(397,680)**	(401,845)
	1,043,284	1,138,034

Customers are normally granted credit terms within 90 days. At 30 June 2018 and 31 December 2017, ageing analysis of trade receivables based on invoice date are as follows:

	Unaudited 30 June 2018 *RMB'000*	Audited 31 December 2017 *RMB'000*
0 – 30 days	**477,349**	671,736
31 – 60 days	**179,321**	229,891
61 – 90 days	**226,208**	176,579
91 – 180 days	**185,314**	118,219
Over 180 days	**372,772**	343,454
	1,440,964	1,539,879

6. Trade payables

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

	Unaudited 30 June 2018	Audited 31 December 2017
	RMB'000	*RMB'000*
0 – 30 days	**710,348**	852,855
31 – 60 days	**329,253**	258,212
61 – 90 days	**48,211**	15,238
91 – 180 days	**7,836**	7,059
181 – 365 days	**4,101**	6,621
Over 365 days	**4,549**	5,128
	1,104,298	1,145,113

7. Expenses by nature

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses included in cost of sales	**2,366,250**	2,047,932
Depreciation on property, plant and equipment *(Note a)*	**177,379**	155,161
Amortisation of land use rights and intangible assets	**24,176**	23,827
Advertising and marketing expenses	**492,733**	449,888
Commission and trade fair related expenses	**75,494**	64,460
Staff costs, including directors' emoluments *(Note a)*	**539,950**	428,585
Operating lease rentals and related expenses in respect of land and buildings	**443,861**	405,388
Research and product development expenses *(Note a)*	**61,632**	55,561
Transportation and logistics expenses	**175,672**	140,731
Auditor's remuneration	**2,707**	2,982
– Audit services	**2,500**	2,500
– Non-audit services	**207**	482
Management consulting expenses	**23,612**	14,842
Travelling and entertainment expenses	**23,995**	18,283

Note:

(a) Research and product development expenses include depreciation on property, plant and equipment and staff costs in Research & Development Department, which are also included in depreciation expense and staff costs as disclosed above.

8. Other income and other gains – net

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Government grants	**15,088**	10,845
License fees income	**7,896**	8,794
Fair value gains on financial assets at fair value through profit or loss	**16,293**	–
Fair value losses on derivative financial instruments at fair value through profit or loss	**(8,156)**	–
	31,121	19,639

9. Finance income and expense

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Finance income		
Interest income on bank balances and deposits	**4,560**	10,762
Net foreign currency exchange gain	**3,986**	2,869
Reversal of accrued interest expenses on convertible bonds	**–**	11,220
	8,546	24,851
Finance expense		
Amortisation of discount – license fees payable	**(2,160)**	(2,896)
Interest expense on bank and other borrowings	**–**	(5,006)
Interest expense on convertible bonds	**–**	(4,234)
Others	**(4,890)**	(4,447)
	(7,050)	(16,583)
Finance income – net	**1,496**	8,268

10. Income tax expense

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax	**1,057**	660
– PRC corporate income tax	**68,504**	19,670
– Withholding income tax on interest income from subsidiaries in PRC	**482**	–
	70,043	20,330
Deferred income tax	**(11,189)**	35,406
Income tax expense	**58,854**	55,736

11. Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue less shares held for Restricted Share Award Scheme during the period. 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 completed the issuance of offer securities. The below market subscription price of these two events effectively resulted in 57,689,000 ordinary shares (30 June 2017: 57,691,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and the impact of such bonus element has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share.

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company	**268,569**	189,170
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,418,896**	2,386,214
Basic earnings per share *(RMB cents)*	**11.10**	7.93

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential shares. The Company's dilutive potential shares comprise shares to be issued under convertible bonds, share option schemes and Restricted Share Award Scheme. In relation to shares issued under share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the year) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 30 June	
	2018	2017
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**268,569**	182,184
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,418,896**	2,386,214
Adjustment for the restricted shares *(in thousands)*	**14,345**	11,645
Adjustment for the share option schemes *(in thousands)*	**12,926**	4,170
Adjustment for the convertible bonds *(in thousands)*	**–**	28,105
Deemed weighted average number of shares for diluted earnings per share *(in thousands)*	**2,446,167**	2,430,134
Diluted earnings per share *(RMB cents)*	**10.98**	7.50

Note:

As at 30 June 2018, there were 53 million share options that could potentially have a dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2018. As at 30 June 2017, there were 6 million share options that could potentially have dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2017.

12. Dividends

The Board did not propose interim dividend for the six months ended 30 June 2018 and 2017.

DIVIDENDS

The Board resolved not to distribute any interim dividend for the six months ended 30 June 2018 (2017: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the six months ended 30 June 2018 are set out below:

	Unaudited Six months ended 30 June		
	2018	2017	**Change** *(%)*
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**4,712,773**	3,996,051	**17.9**
Gross profit	**2,293,867**	1,904,169	**20.5**
Operating profit	**293,799**	201,776	**45.6**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 1)*	**527,482**	415,626	**26.9**
Profit attributable to equity holders *(Note 2)*	**268,569**	189,170	**42.0**
Basic earnings per share *(RMB cents) (Note 3)*	**11.10**	7.93	**40.0**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**48.7**	47.7	
Operating profit margin *(%)*	**6.2**	5.0	
Effective tax rate *(%)*	**18.0**	22.8	
Margin of profit attributable to equity holders *(%)*	**5.7**	4.7	
Return on equity attributable to equity holders *(%)*	**5.1**	4.3	
Expenses to revenue ratios			
Staff costs *(%)*	**11.5**	10.7	
Advertising and marketing expenses *(%)*	**10.5**	11.3	
Research and product development expenses *(%)*	**1.3**	1.4	
Asset efficiency			
Average inventory turnover *(days) (Note 4)*	**85**	85	
Average trade receivables turnover *(days) (Note 5)*	**42**	56	
Average trade payables turnover *(days) (Note 6)*	**82**	85	

	Unaudited 30 June 2018	Audited 31 December 2017
Asset ratios		
Debt-to-equity ratio *(%) (Note 7)*	**48.6**	44.3
Net asset value per share *(RMB cents)*	**248.89**	234.65

Notes:

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

2. Including profit attributable to equity holders for the period from 1 January to 31 March 2018: RMB120,567,000.

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

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

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

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

7. 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 period.

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

* *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 six months ended 30 June 2018 amounted to RMB4,712,773,000, representing an increase of approximately 17.9% as compared to the corresponding period of 2017, with a higher year-on-year increment. The growth in revenue was mainly attributed to: (a) revenue from e-commerce channel has been maintaining a high growth rate for a few consecutive years and the growth rate is still significantly higher than other business channels despite a gradual slowdown; (b) during the period, with the increased recognition of the Company's products in the market and continuous enhancement of the operation capability of self-operated stores, the increase in sales revenue from direct operation grew significantly over the corresponding period last year; and (c) with the enhancement in channel operation capability and terminal sales capability of distributors, the Group increased the amount of trade fair orders of distributors, and revenue generated by the franchised distributors also recorded positive growth compared to the corresponding period in 2017. Meanwhile, new businesses represented by kidswear were carried out in an orderly manner and received positive responses from the market.

Revenue breakdown by product category

	Six months ended 30 June				
	2018		2017		
	RMB'000	**% of total revenue**	*RMB'000*	% of total revenue	**Revenue Change (%)**
Footwear	**2,190,747**	**46.5**	2,016,771	50.5	**8.6**
Apparel	**2,299,615**	**48.8**	1,759,487	44.0	**30.7**
Equipment and accessories	**222,411**	**4.7**	219,793	5.5	**1.2**
Total	**4,712,773**	**100.0**	3,996,051	100.0	**17.9**

Revenue breakdown (in %) by sales channel

	Six months ended 30 June		
	2018	2017	
	% of revenue	% of revenue	**Change (%)**
PRC market			
Sales to franchised distributors	**44.4**	45.9	**(1.5)**
Sales from direct operation	**33.2**	33.6	**(0.4)**
Sales from e-commerce channel	**20.8**	18.2	**2.6**
International markets	**1.6**	2.3	**(0.7)**
Total	**100.0**	100.0	

Revenue breakdown by geographical location

		Six months ended 30 June				
		2018		2017		
	Note	***RMB'000***	**% of revenue**	*RMB'000*	% of revenue	**Revenue change (%)**
PRC market						
Northern region	*1*	**2,570,602**	**54.5**	2,110,762	52.8	**21.8**
Southern region	*2*	**2,068,531**	**43.9**	1,793,821	44.9	**15.3**
International markets		**73,640**	**1.6**	91,468	2.3	**-19.5**
Total		**4,712,773**	**100.0**	3,996,051	100.0	**17.9**

Notes:

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

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

Cost of Sales and Gross Profit

For the six months ended 30 June 2018, the overall cost of sales of the Group amounted to RMB2,418,906,000 (2017: RMB2,091,882,000), and the overall gross profit margin was 48.7% (2017: 47.7%). During the period, the proportion of higher-margin e-commerce channel business was increased; and there was improvement in sales of new products of retail channel; the tag-cost-ratio of new products also improved (partially due to the increase of tag price). The aforesaid factors contributed to the increase of 1.0 percentage point in gross profit margin compared to the corresponding period last year.

Distribution Expenses

For the six months ended 30 June 2018, the Group's overall distribution expenses amounted to RMB1,735,145,000 (2017: RMB1,501,996,000), accounting for 36.8% (2017: 37.6%) of the Group's total revenue.

Due to the Group's reasonable control over advertising and marketing expenses during the period, the percentage of distribution expenses to revenue dropped significantly by 0.8 percentage point. However, distribution expenses increased as compared to the same period last year, which is mainly attributable to: (1) Along with the development of the Group's business, both logistics expenses directly related to sales and license fees that are linked to part of the income of particular products have been increased; (2) the Group continued to focus on exploring users' shopping experience and launching large-scale stores with brand influence, resulting in the increase of the relevant staff costs and corresponding depreciation on the asset investment of points of sales ("POSs"); and (3) during the period, the Group tried various marketing activities and participated in New York and Paris Fashion Week, and also increased its online promotion expenses, all of which have received positive feedbacks from the public.

Administrative Expenses

For the six months ended 30 June 2018, the Group's overall administrative expenses amounted to RMB297,106,000 (2017: RMB229,355,000), accounting for 6.3% (2017: 5.7%) of the Group's total revenue with a year-on-year increase of 0.6 percentage point. Administrative expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes and other miscellaneous daily expenses.

During the period, the Group recorded substantial increase in labor costs, which is mainly attributable to the Group's greater effort in product design, employment of experts in related field and provision of incentives to personnel from key positions in the second half of last year. Consequently, the Group's administrative expenses and its percentage to revenue increased year-on-year.

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

For the six months ended 30 June 2018, the Group's EBITDA amounted to RMB527,482,000 (2017: RMB415,626,000), representing a year-on-year increase of 26.9%. This was mainly attributable to the increase in revenue and gross profit margin.

Finance Income

For the six months ended 30 June 2018, the Group's net finance income amounted to RMB1,496,000 (2017: RMB8,268,000), accounting for 0.0% (2017: 0.2%) of the Group's total revenue. The decrease in net finance income was mainly due to the investment of wealth management products with floating interest rate by the Group, and its income was classified as other income and other gains instead of bank deposit interest income during the period. For the six months ended 30 June 2017, the net interest impact of convertible bonds was an income amounting to RMB6,986,000.

Income Tax Expense

For the six months ended 30 June 2018, the income tax expense of the Group amounted to RMB58,854,000 (2017: RMB55,736,000) and the effective tax rate was 18.0% (2017: 22.8%). The lower effective tax rate is due to the utilization of tax losses of prior years for some subsidiaries of the Group, and recognition of certain deferred income tax assets.

Overall Profitability Indicators

The sales revenue and gross profit margin of the Group were both improved, and other income and other gains increased during the period, thus the overall profitability indicators of the Group for the six months ended 30 June 2018 improved accordingly. During the period, the Group's profit attributable to equity holders amounted to RMB268,569,000 (2017: RMB189,170,000), representing a year-on-year increase of 42.0%; the margin of profit attributable to equity holders was 5.7% (2017: 4.7%); return on equity attributable to equity holders was 5.1% (2017: 4.3%).

Provision for Inventories

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

As at 30 June 2018, the accumulated provision for inventories was RMB134,473,000 (31 December 2017: RMB130,352,000). During the period, the gross value of inventories increased slightly and the Group increased the balance of the provision for inventories accordingly.

Provision for Doubtful Debts

The Group adjusted the policy in respect of provision of doubtful debts for the first half of 2018 under requirements of IFRS 9 effective since 1 January 2018. The provision of doubtful debts was recorded at an amount equal to the lifetime expected credit losses of the trade receivables that do not contain a significant financing component.

As at 30 June 2018, the accumulated provision for doubtful debts was RMB397,680,000 (31 December 2017: RMB401,845,000). As the operating conditions of our channel distributors improved steadily, the Group therefore reversed certain provision for doubtful debts during the period.

Liquidity and Financial Resource

The Group's net cash from operating activities for the six months ended 30 June 2018 amounted to RMB660,199,000 (2017: RMB588,718,000). As at 30 June 2018, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB2,692,546,000 (excluding RMB109,176,000 of short-term deposits and RMB250,849,000 of wealth management products), representing a net increase of RMB163,324,000 as compared with the position as at 31 December 2017. The increase was due to the following items:

	Unaudited Six months ended 30 June 2018 *RMB'000*
Item	
Operating activities:	
Net cash from operating activities	660,199
Investing activities (excluding payment for short-term deposits and wealth management products):	
Net capital expenditure	(187,419)
Net cash from other investing activities	20,004
Financing activities:	
Net cash from financing activities	21,356
Add: Exchange gains on cash and cash equivalents	8,360
Subtotal	**522,500**
Payment for short-term deposits	(109,176)
Net payment for wealth management products	(250,000)
Net increase in cash and cash equivalents	**163,324**

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

As at 30 June 2018, the Group's banking facilities amounted to RMB1,065,000,000, without outstanding borrowings.

During the period, 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 period. Any significant exchange rate fluctuations of foreign currencies against the Renminbi may have had financial impact on the Group.

Pledge of Assets

As at 30 June 2018 and 31 December 2017, the Group had no pledged assets.

Contingent Liabilities

As at 30 June 2018, the Group had no significant contingent liabilities.

BUSINESS REVIEW

Driven by favorable national policies and continual steady growth of macro sports demands, domestic sports market sustained its robust growth momentum. Meanwhile, the enhanced consumption structure resulted in more sophisticated demands in the sports market. The Company continued to focus on creating and enhancing LI-NING's experience value, including sport experience, product experience and shopping experience, and improving online and offline sales efficiency through digitalization strategy to cater to the growingly explicit and mature consumer demands. Digitalization also enabled the Company to bring our brand closer to the young consumer groups, stay abreast of hot topics and offer flexible and diversified interactive experience, thereby consolidating our brand image and brand value. During the period, key operational indicators have been optimized continuously, the Group's revenue maintained steady growth and profitability have been continuously improved.

During the period, we continued to create LI-NING's experience value in full swing through three major pillars, namely the enhanced products, channels and retail capability. Professional sports remained the main-theme and positioning of the branded products. Our innate sports DNA has impelled us to place more emphasis on sports research and investment in product research and development (R&D) to constantly launch new professional products for athletes and sports enthusiasts. Meanwhile, imagination is driving LI-NING brand to be more fashionable and trendy, therefore creating more professional and stylish products and sports experience for those who enjoy life. During the period, the brand demonstrated its product competitiveness on the international stage through the two Fashion Week shows, thus gaining positive feedbacks and good reputation from the market and further consolidating the brand's influence among consumers as well as the influence of domestic brands on the international stage. During the period, we continued to close down the loss-making stores and renovate the inefficient stores, expand the coverage of our sales network, and actively optimize the structure of sales channels. We have segmented high- and low-end market based on the regional difference of consumer demands, providing versatile and diverse sports experience and shopping experience with regards to attributes of different sports categories, and efficiency of sales channels continued to be enhanced. During the period, the overall retail sell-through registered a mid-teens growth, and the contribution from new products sales to total sell-through continued to improve.

Latest trade fair orders and operational update

In terms of tag price, trade fair orders for LI-NING brand products (excluding LI-NING YOUNG) from franchised distributors registered a year-on-year growth for nineteen consecutive quarters. The orders from the latest trade fair for the first quarter of 2019, held in June 2018 registered a high-single-digit growth on a year-on-year basis.

For the second quarter ended 30 June 2018, in respect of LI-NING POS which have been in operation since the beginning of the same quarter last year, the same-store-sales for the overall platform registered a high-single digit growth on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a high-single-digit growth, wholesale (franchised distributors) channel registered a low-single-digit increase, while the e-commerce virtual stores business registered a mid-thirties growth on a year-on-year basis.

For the second quarter ended 30 June 2018, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform increased by low-teens. In terms of channels, offline channel (including retail and wholesale) registered a high-single-digit growth, with retail increased by mid-teens and wholesale increased by mid-single-digit, while the e-commerce virtual stores business registered a high-thirties growth on a year-on-year basis.

As at 30 June 2018, the total number of LI-NING POS (including LI-NING YOUNG) in China amounted to 6,898, representing a net increase of 168 POS since the end of previous quarter and a net increase of 463 POS since the beginning of this year. Among the net increase of 463 POS, direct retail accounts for a net decrease of 39 POS, and wholesale accounts for a net increase of 44 POS. LI-NING YOUNG business recorded a net increase of 458 POS (Took over 361 POS from distributors of the third party on 1 January 2018).

PRODUCTS AND MARKETING

Integrating functional technology with creative culture to raise product competitiveness

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

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

– "SONIC VI" (音速VI) products adopted LI-NING Cloud technology, which offers seamless weaving shoe face and delicately-designed shoe laces system, thereby comprehensively enhanced the sport experience of the product. The product also fully capitalizes the marketing campaigns with NBA players and CBA regular/playoff, and delivers the professional reputation of LI-NING basketball shoes to consumers.

– Featured products were created based on different regional characteristics, such that basketball uniforms, apparel and culture costume for fans were frequently exposed throughout the CBA seasons. We have developed "metal wire" fabric for basketball games, which is anti-bacterial and more breathable and can thus provide better protection for the body. Meanwhile, we have sponsored the China University Basketball Association (CUBA) League. The intense competition between major universities helped enhance the recognition of LI-NING basketball products among young people. During the period, CBA All-Star products hit the New York Fashion Week and received overwhelming response.

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

– In term of training gears, with regards to seasonal climate changes and sports requirement, we have created gears with stronger sport attributes. The main theme of the first quarter is the “Protective functions + Eco-friendly fluorine-free”. Targeting the characteristics of outdoor sport, we have developed waterproof and windproof gears. An “Icy” product series has been established during the second quarter. Light ice yarn fabric and visual ventilation window are used to improve air circulation, which is an innovative technology integrating the perfect appearance with functionality.

– “Shadow Pro” (鋒影Pro) is an innovative LI-NING badminton shoe product, the brand new shoe face design was inspired by warrior armor, with the latest parametric design adopted for the outsoles. The success and promotion of the “RANGER” products has aroused great interest in the unique design of LI-NING badminton shoe products in the consumer market.

– In the first half of 2018, we further improved the “All-in-one Weaving Design” of LI-NING badminton apparel. On top of enhancing the overall comfortability of the products, preservatives were added to the yarns as effective antibacterial and deodorizing agents. The functional areas of yarns can be modified based on sport functions, thereby meeting the moisture-wicking requirement of different body parts. The undercut design on the back collar of game apparel help to minimizes the discomfort brought by friction during sport exercises. With extensive exposure of game apparel of the national team at 2018 Thomas Cup and Uber Cup as well as the debut of LI-NING products at New York Fashion Week, LI-NING’s badminton apparel was one of the hot items in the badminton industry in 2018.

In addition to developing professional products, we also reflected and proactively sought ways to enable our professional products to be more closely linked with cultural life. During the period, we continued to cooperate with sports stars, while delivering and integrating elements of their personality and lifestyle into the product designs. Meanwhile, we focused more on the trends amongst young consumers in order to keep up with the current fashion trend. We have aroused new focuses, attracted more attention from young consumers and increased our brand competitiveness through 2018 Fall/Winter New York International Fashion Week, 2019 Spring/Summer Paris International Fashion Week and the collaboration with the DISNEY Company.

– In respect of basketball culture footwear¸ we rode on the opportunity of the New York Fashion Week to showcase the original designs of LI-NING products. “Essence” (悟道) and “Reburn” (重燃) were the hottest fashion items in the first half of 2018. LI-NING brand integrated its interpretation of fashion trends into those products through different design styles. In respect of integrated marketing, LI-NING brand successfully entered into the channel of trendy freestanding boutiques, which allowed LI-NING brand to extend its reach to more target consumers.

– The apparel products of WADE series continued to focus on quality, high street sports and basketball style that combines functionality and fashion. We draw on celebrity resonance with Wade fans and features high level of workmanship, fashionable fitting and the mix and match of trendy colors in order to create trendy basketball products. “BADFIVE” apparel products focused on the pragmatism of street basketball in China. We provided a diversified street chic style for consumers through creation of unique China street basketball apparel which incorporates Chinese culture, street fashion and basketball attitude.

– “Butterfly 2018” (蝴蝶2018) which created the breathtaking debut in New York International Fashion Week, is a classic remake of the original LI-NING sport fashion and became the new focus in the domestic mainstream Sneaker culture group. “Butterfly 2018” has become one of the hottest topics during New York Fashion Week. Integrating the trendiest fashion element, the re-designed classic LI-NING 90s style, as represented by “Aurora Skywalk” (極光天行) and “001 R-I” (001 啓程), shone brightly on the runway of Paris Fashion Week as the hot topics.

– In the first half of 2018, we continued to work closely with the Disney brand. On the basis of the four major IPs, namely “Star War”, “Mickey Family”, “Toy Story” and “The Incredibles”, we launched collaborative packaged products that attracted the attention of young consumers and the market, while further enriching our product lines.

– In collaboration with four Russian artists, namely Alexey Butakov, Natalia Dzhola, Marina Okhromenko, Ostap and SELFMADECREW, we launched a series of packaged products under the theme of Russian culture and the FIFA World Cup, in order to integrate the hot topics related to “2018 Russia FIFA World Cup”. Their artworks demonstrated their understandings of Russian culture with their own illustration styles and fully integrated the traditions of Russia with art, promoting the culture of Russia and the FIFA World Cup.

Comprehensive marketing through resource planning for professional sports and fashion trends

During the period, our strategy of resources investment remained focused on the five major categories, including basketball, running, training, badminton and sports casual. We adhered to more precisely oriented consumer demand and allocate both sports and fashion resources to different areas based on category features. Our marketing coverage has been expanded from international events to grassroots leagues as well as fully captures the trendy hot elements. We thereby consolidated our brand image in all domains. Meanwhile, by establishing the connection and resonation with consumers both emotionally and through content sharing using digital marketing, we utilized multiple approaches to constantly explore new consumer groups while further reinforcing the brand recognition of existing consumers.

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

– LI-NING basketball integrated resources from events, such as CBA, CUBA, and players, and launched the promotion theme of “Basketball and LI-NING in China” (中國籃球 中國李寧), which ignited the national pride of Chinese consumers and created emotional resonance. Moreover, during the playoff games, the promotion theme of “Kickoff” (開幹) was launched by capitalizing the excitement of the games, and received positive feedback from the fans. On the NBA front, we continued to explore the promotion value of outstanding players, such as C.J. McCollum, as the endorser for a series of professional basketball products, such as “Speed” (閃擊), “Power” (空襲) and “Sonic” (音速). We also cooperated with Tencent Sports, the NBA live streaming platform, through which our professional basketball products have been made known and loved by more NBA fans. Meanwhile, the LI-NING basketball segment exclusively organized “3+1” street basketball league, attracting more teenage basketball lovers to participate in and experience the unique basketball culture that is absolutely of street chic style and creating opportunities for product experience.

– LI-NING brand first launched the top-notch running shoes series, “Wind Chaser”* (追風) and “Battle Axe”* (戰斧), which assisted the athletes to achieve good results at Wuxi Marathon, a Gold Babel marathon event in China during the first half of the year. Subsequently, we also helped the top Chinese runners to win the championship and second runner-up of half marathon at Dongying International Marathon, as well as first runner-up and second runner-up of women’s group at Shanghai Half Marathon by providing them with strong gears. All of these outstanding results have significantly enhanced the influence and recognition of LI-NING professional running products among runners.

– In respect of badminton resources, LI-NING brand continued to work diligently towards the goal of internationalization, with focuses on sports marketing and product endorsement with tournaments as the key marketing platform to realize high-frequency and high-quality exposure of products. At the 2018 Thailand Thomas Cup and Uber Cup, LI-NING helped the China national badminton team to recapture the championship and back to the top; while the Indonesia men's team sponsored by us ranked second runner-up, both of which has further enhanced the professionalism and authority of LI-NING in badminton as well as the brand's global influence. In 2018, the uniform for All England Open Badminton Championships, Thomas Cup and Uber Cup, Sonic Boom (音爆) shoes, Chameleon Ranger professional competition shoes as well as Dragon Wing Blade 900 (湛龍風刃 900) series rackets, Zhang Nan Blast 7000 (張楠風動 7000) rackets, Li Junhui N7 II (李俊慧 N7 II) ultra-light version were taken as product story pack. Through players' performance and via CCTV-5 broadcast, reports by top 4 web portals and reproduction by other media, we have achieved outstanding propagation effect of over hundreds of million times. Meanwhile, we gained more exposure through product reviews, online events, offline competitions, etc. During the Thomas Cup and Uber Cup, we continued to organize online live events, arrange world champion Xu Chen (徐晨) to launch online World Championship live broadcast and offline watching game activities on the cooperation platform, during which we ran product placement such as the World Championship competition uniforms and China LI-NING, and the peak number of viewers during the period exceeded 5 million.

Integrating with fashionable trends to create topics and enhance brand recognition

– In respect of LI-NING basketball marketing, we crossover with IPs including "Chinese Culture", "GAI (the Great Wall)", "LI-NING's street skateboard", sponsor activities such as "3+1" street basketball, "Hot Blood Dance Crew" (熱血街舞團) and our products were launched in trendy freestanding boutiques, which has aroused heated discussion among young consumers. At Fall/Winter 2018 New York Fashion Week, LI NING products debut under the theme of "Essence" (悟道), which combines the ancient Chinese elements with contemporary Western fittings and remakes the 90s retro fashion as a tribute to the classic series. At 2019 Spring/Summer Paris Fashion Week, we adopted the theme of "China LI-NING"* (中國李寧), as inspired by the legendary athlete career of Mr. Li Ning, and integrated modern sports fashion with classical vintage culture that inherited by our brand, demonstrating a well integration of LI-NING's legend with our national pride.

– During the period, we have achieved more effective communication with young consumers through the incorporation of entertainment elements. We explored the fan economy with the product endorsements of showbiz artists and key opinion leaders (KOL), which in turn effectively explored more potential customers. By making our brand more fashionable, we provided existing users with more fashionable product choices. With the influence of the Fashion Week, the scope of cooperative artists has been expanded rapidly. The famous artists such as Jolin Tsai (蔡依林), Vic Chou (周渝民), Huang Jingyu (黃景瑜), Joe Chen (陳喬恩), Angela Chang (張韶涵), Qi Wei (戚薇), Li Chen (李晨), Dylan Xiong (熊梓淇), He Jie (何潔), Kan Qingzi (闞清子), Liu Chang (劉暢), Guo Junchen (郭俊臣) wore our products during shooting or their daily lives. Our products also received positive feedbacks from cooperative media, artists and fans.

– We strived to make our brand more fashionable and trendy via cross-sector collaboration, through which we have boosted the product sales by leveraging the influence of the cooperative brand(s) and our own brand. We also cooperated with Disney IP to launch crossover products under different themes. Moreover, we integrated online and offline marketing to explore more potential customers via the IPs. We joined hands with BWM X2 to launch crossover products under the "Wu Kong" (悟空) series by adopting the theme of "There is Rationale to Run Counter to the Current of the Times (反之亦有道，逆向而行)". Marketing activities were conducted by integrating hot issues and product features to increase the product competitiveness.

– For the “Super Light 15th” running shoes, we maximized the marketing effect by integrating existing resources and used the storytelling marketing approach with the concept of “The Lighter, The Better” (勢輕天下) to maximize exposure of the “Super Light 15th” products. Reputation of the products accumulated rapidly through the exposure during the Ultra-light Vertical Running Activity held at Shanghai Center and live events with KOL/artists. At the same time, we launched online running activity via cross-over collaboration with running APPs, which has attracted more than 100,000 participants. We also completed member registration and conversion of direct sales through free gifts activity at stores, which simultaneously advanced the sales efficiency of both online and offline platforms.

Sales Channel Expansion and Management

During the first half of 2018, the Company continued its closure of loss-making stores and reform of inefficient stores, strengthened its sales network coverage. As at 30 June 2018, the number of major distributors of LI-NING Core Brand was 31, representing a net decrease of 1 as compared to 31 December 2017. During the period, the Company developed retail supporting platform for wholesale channel, so as to accelerate product turnover of the distributors, as well as improve products efficiency and profitability of the whole LI-NING platform.

As at 30 June 2018, the number of conventional stores, flagship stores, factory outlets and discount stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 6,898 (LI-NING YOUNG took over 361 stores from distributors of the third party on 1 January 2018), representing a net increase of 463 POS as compared to 31 December 2017. The number of POS breakdown as at 30 June 2018 is as follows:

Number of LI-NING Brand POS

LI-NING Core Brand	**30 June 2018**	31 December 2017	**Change**
Franchised	**4,765**	4,721	**0.9%**
Directly-operated retail	**1,502**	1,541	**-2.5%**
LI-NING YOUNG	**631**	173	**264.7%**
Total	**6,898**	6,435	**7.2%**

Number of POS by geographical location

Regions	30 June 2018			31 December 2017			Change
	LI-NING Core Brand	LI-NING YOUNG	Total	LI-NING Core Brand	LI-NING YOUNG	Total	
Northern Region *(Note 1)*	**3,170**	**444**	**3,614**	3,110	110	3,220	**12.2%**
Southern Region *(Note 2)*	**3,097**	**187**	**3,284**	3,152	63	3,215	**2.1%**
Total	**6,267**	**631**	**6,898**	6,262	173	6,435	**7.2%**

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, Guangdong, Guangxi, Fujian, Hainan, Chongqing, Sichuan, Yunnan, Guizhou and Tibet.

Transformation of Product Operation Model

In the first half of 2018, the Company continued to push forward the transformation of its product operation model, improve product supply efficiency, strengthen the rapid replenishment of popular products, and respond more flexibly to market demand. The Company also rapidly apply various supply models on the new materials and technology platform to meet terminal sales requirements, respond more accurately to market changes, and seize more business opportunities.

We continued to deepen the single store order management, established a single store order model based on consumers' demand, and gradually established intelligent single store order mode and tool to cultivate order capability of the ordering personnel and utilize the systematic single store order tool to establish standard order management.

Strengthening Construction of Logistics Supporting Capacity

In the first half of 2018, the Company continued to focus on enhancing its wholesale, retail and omni-channel logistics supporting capabilities, optimising the warehousing and distribution network, as well as improving the operating capacity of the central warehouse and the response capability to the terminal requirements.

The Company continued to establish a "Precise + Swift" logistics supporting system, achieved direct delivery from the central warehouse to stores and rolling replenishment for stores with high store productivity and shortened the time of delivery of products to stores. We also support the pre-sale of key products and various product launching activities in stores, rapidly collect and deal with unsaleable products of the season, speed up the allocation and replenishment time according to the demand of stores, support high-speed and efficient circulation of products in different channels, and improve the inventory efficiency. The Company supported omni-channel business development with all warehouses equipped with the operation capacity for B2B and B2C models, and provided comprehensive courier service support for self-operated stores, in order to continuously enhance the service capability to consumers and provide a fast and convenient shopping experience.

Enhancing Retail Operation Capacity and Improving Operation Efficiency of Stores

In the first half of 2018, the Company continued to focus on enhancing its retail terminal operation capability and improving the operation efficiency of stores. The specific measures include:

– Improve the standard process of store operation services according to the store type and consumer experience of various business districts to serve more young and fashionable consumers, and provide online and offline integration training coverage through "LI-NING School" (寧學堂) training system, so as to enhance the customer service standard of store staff with "China LI-NING Service +" and improve product experience of its customers;

– For full category stores, the Company has refined the operation service standards, strengthened the service training for sports consultants and fashion consultants to provide more professional sports experience to its consumers. The Company also strengthened the interconnection between the brand and sports enthusiasts to improve customer loyalty through social interactions, such as running groups and basketball activities;

– Continuously improve the execution capability of store management and support the implementation of standard store operations through upgrading of the store management system.

Enhancing Visual Presentation and Store Image

During the first half of 2018, the Company developed different types of "Sports Casual Oriented Stores" in the high-level and low-level markets according to the consumption upgrading trend of various markets and the structural changes of the urban business districts, enhanced the brand image by utilizing China LI-NING's fashionable elements to further improve the matrix of the store image and meet the consumption demand of more young groups in sports fashion, so as to attract young customers with stronger consuming ability.

In respect of terminal store display, the Company focused on the professional characteristics of basketball, running and training products, such as sense of technology and functionality, to enhance the customers' understanding of its professional sports products. In the fashion zone at store, the terminal marketing of China LI-NING series products was conducted with extension of the theme at New York Fashion Week and Paris Fashion Week to enhance the shopping experience of sports fashion products. The Company optimised its store layout and changed the category display methods according to the environment of large stores and business districts to meet the consumption preferences of customers from different patterns such as shopping malls and commercial centers.

Enhancing Omni-channel Service Experience

During the first half of 2018, the Company continued to improve the online and offline integrated operation model, and continued to enhance the omni-channel coverage of directly-operated retail system and certain wholesale network. The consumer shopping orders responsivity, precise delivery and logistics delivery satisfaction were significantly improved. Meanwhile, the Company made more efficient use of the omni-channel platform, empowered the store's assortment and customer service, enhanced inventory utilization, and continued to enable consumers to experience LI-NING omni-channel services on all categories and channels at all time.

E-Commerce

During the first half of 2018, the e-commerce of Li Ning Company further attained steady growth and enhancement in terms of revenue and profitability.

The e-commerce of Li Ning Company continued to improve the data analysis and forecast system, strengthened classification of different customer base, and newly opened such online stores as Tmall running flagship store and Tmall basketball flagship store for professional sports group.

Meanwhile, the e-commerce of Li Ning Company has invested more resources in content marketing and event marketing. The front-end operation covers packaging of live broadcast, interview video, product stories and traditional culture, such as New York Fashion Week event, Paris Fashion Week event marketing, Tmall Day with the theme of "China Fresh Youth" (中國新輕年), and deep exploration of stories and culture at spiritual level of certain core topical products and e-commerce specific offerings of the Group, such as "Essence" (悟道). For user experience, the WeChat applet platform was launched to facilitate the circulation of event marketing and rapid purchase by users.

Looking forward, the e-commerce of Li Ning Company will continue to improve the supporting capacity of the supply chain, while further exploring the front-end hot content, so as to achieve sustained and steady growth of the e-commerce business.

Supply Chain Management

During the first half of 2018, the Company continued to enhance the management of product quality with a focus on enhancing product workmanship and details and improving wearing comfortability to enhance wearing experience of products. In respect of cost management, the Company implemented stringent cost control measures and practiced the concept of cost management on all areas ranging from product design and development to various production stages, through which the procurement costs have been effectively controlled. As such, consumers are directly benefited with products of enhanced cost-effectiveness.

In response to the Company's change of operation mindset from wholesale to retail, the Company improved the responsiveness and elasticity of supply chain, and strengthened the rapid replenishment of existing stock of products/rapid development and production of popular products to meet consumer demand for the Company's popular products and explore business opportunities. Regarding supply chain development, the Company continued to tighten the requirements on labour, career health and environmental protection to ensure sustainable development.

NEW BUSINESS

LI-NING YOUNG

The year 2018 is the year for LI-NING YOUNG business to set up systems in respect of various aspects such as products, channel and marketing. The work of each project was conducted under continuous exploration and improvement. The main achievements for the first half of 2018 are as follows:

– For products, we further improved the product mix structure of shoes and apparel products and continued to improve product design. The fashion products initiated by New York Fashion Week were gradually included to the product line this year, enabling LI-NING YOUNG to become the leader of domestic kid's sports fashion footwear and apparel under the general fashionable trend of kidswear. In the meantime, we leveraged the traditional advantages and brand assets of LI-NING main brand as an important advantage of LI-NING YOUNG products, and the IP series products launched with Disney and Wade series products have been fully recognized in the market. For supply chain system, we continued to integrate and improve the kidswear supply chain system, and introduced exclusive kidswear finished product and material suppliers.

– For expansion of business channels, we continued to improve store management of grading system, store image upgrading and establishment of benchmark store projects. We have established such benchmark store projects as brand experience store in The River Mall in Shanghai in the first half of the year, and will launch more benchmark store projects in the second half of the year by entering and displaying at key shopping malls or shopping centers selected in various regions to stimulate and influence consumers' perception and recognition of LI-NING kidswear brand.

– For marketing, we invested more marketing resources to create more topics and stories for our products and brands, and continued to enhance our product premium. We invited well-known bloggers, star moms and world champions to experience new products and lead the sports kidswear fashion in China; built an official We Media matrix including WeChat, Weibo and Douyin (抖音) to release product and brand developments and strengthen interaction and viscosity with target audiences; cooperated with Disney to create popular products by using such Internationally renowned IPs as Mickey, Star Wars, Toy Story and Wreck-It Ralph, bringing high quality, more professional and fashionable product experience to Chinese teenagers. We lead the sports kidswear fashion in China through product experience and promotion of Star Baby (明星寶貝).

As of 30 June 2018, LI-NING YOUNG business covered 29 provinces with a total of 631 stores. The competition for domestic kidswear market is still intense. Looking forward, we will keep on the steady development with single store profitability as the key, continue to develop a retail business model with products satisfying consumer needs as the core, driven by retail profitability and maintaining sound development whilst creating values in terms of product experience, shopping experience and sports experience.

DANSKIN Brand

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

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

Danskin Brand is positioned as a high-end women fashion sports brand in China. It has opened 10 stores by the end of June 2018, all of which adopted directly-operated retail model. These stores are located in different regions in North, Central and South China, mainly in the first-tier cities, and stationed in local landmark department stores, shopping malls and etc., so as to widely reach different types of consumers. The Danskin Brand has explored product series and main categories applicable to the brand development, and has conducted a round of selection and matching of suppliers to ensure the professionalism and quality of its products.

For the second half of 2018, the brand will continue to further improve product mix and enhance shopping experience, and it is expected that its sales channel will expand to 15-20 stores by the end of 2018.

HUMAN RESOURCES

During the first half of 2018, based on its strategic focus, the Company continued to improve the organisation, incentive and talent management system, provided support to strategic transformation of the Company and continued to strengthen the organisation capacity building.

– Regarding organisational optimisation, the Company refined and divided supply organisations to enhance the synergies between front-end business and supply chain. The Company also enhanced the operating efficiency of various product categories through their organisational segmentation.

– In terms of talent management, the Company continued to implement the retail and product talents development system, and allocated more human resources in design resources, product innovation, retail management and new business development.

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

– Regarding the brand-building of employer side, an official WeChat account "LI-NING Recruitment" was launched as a window to showcase the Company's results in this area through a series of events organised or participated in by it.

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

As at 30 June 2018, the Group had 2,256 employees in total (31 December 2017: 2,182 employees), including 2,074 employees at the Group's headquarters and retail subsidiaries (31 December 2017: 2,008 employees), and 182 employees at the Group's other subsidiaries (31 December 2017: 174 employees).

OUTLOOK

Looking forward, on the basis of our major tasks which were accomplished in the first half of 2018, we will continue to strengthen and improve the following core business focuses, strengthen LI-NING's experience value, and focus on enhancing efficiency in order to achieve healthy and sustainable profit growth for the Company in the future:

– In respect of products, we will continue to integrate professional sports with fashion, entertainment and leisure to enhance product competitiveness. Through our knowledge on sports, we will have more attempts in the professional fields such as applied technologies, materials and ergonomics. Meanwhile, application of innovative culture elements in our sporting goods is also very important. By integrating professional sports with fashion which is supported with sports resources, capitalizing on the hot trends, as well as creating and driving topics, we will create a more unique products experience value through enhancing the interactive experience with consumers by way of innovative approaches;

– In terms of channels, we will constantly improve the efficiency and image of LI-NING's channels. We will strengthen the attributes of our specialty stores and conduct effective reforms for the key stores by taking a retail-efficiency approach. Moreover, we will continue to close down or reform inefficient stores and open or revamp big stores with high efficiency;

– Continuous establishment and optimization of retail operation-supported platform will remain as one of our major tasks. We will aim for a more precise commodity planning and supply and continuously optimize the retail experience in store(s). The retail efficiency of our stores will be improved and enhanced with the support of data technology platform. We will uplift the operation standards of stores and strengthen the coverage of construction of end-user training system;

– We will continue to promote the development of digitalization strategy so as to further enhance the efficiency of both online and offline sales. In respect of different hot topics, we will enhance our brand's influence and product competitiveness among consumers by using flexible online and offline marketing approaches. We will also explore and consolidate sales opportunities through the interaction between influence of different channels;

– In respect of new business, we will continue to reasonably and prudently use resources to explore business opportunities and market potentials in order to foster new opportunities for the Company's profit growth in the long run.

With the impact of urban development and consumption upgrade, the consumption structure of consumers will be shifted to a more refined and mature dimension. This will be accompanied by challenges against the brand influence and brand value attribution of various brands. In order to accommodate the changing market environment and strengthening brand value, developing LI-NING brand value through experience will remain as the theme of the Company's long-term development so as to inject more vitality and creativity to the brand. In the future, we will continue to devote main resources into gaining sports knowledge, technological research and development and development of LI-NING brand experience, and proactively explore and broaden room for business development.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its shares during the six months ended 30 June 2018. Except for the purchase of shares by the trustee of the restricted share award scheme adopted by the Company (the "Restricted Share Award Schemes") pursuant to the trust deed and the rules of Restricted Share Award Schemes, neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period.

EVENTS AFTER THE REPORTING PERIOD

There are no material subsequent events undertaken by the Company or by the Group after 30 June 2018 and up to the date of this announcement.

CORPORATE GOVERNANCE

For the period from 1 January 2018 to 30 June 2018, the Company has complied with all the code provisions of the Corporate Governance Code (the "Code Provisions") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") with the exception of paragraph A.2.1 of the Code Provisions.

According to paragraph A.2.1 of the Code Provisions, the roles of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. As the Company has not yet identified a suitable candidate to be the chief executive officer ("CEO") during the six months ended 30 June 2018, Mr. Li Ning, the Executive Chairman and Interim CEO of the Company, assumed the role of chief executive officer of the Company. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles are currently undertaken by Mr. Li Ning. Notwithstanding the above, the Board is of the view that the assumption of the roles of Executive Chairman and Interim CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group's business strategies. The Board also believes that the current arrangement is in the interest of the Company and its shareholders as a whole.

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (the "Model Code") contained in Appendix 10 to the Listing Rules regarding securities transactions by its directors. Following specific enquiry by the Company, all the directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

The audit committee of the Company, consisting of three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed the auditing, risk management, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2018.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2018 in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

By order of the Board of
Li Ning Company Limited
Li Ning
Executive Chairman and
Interim Chief Executive Officer

Hong Kong, 10 August 2018

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning and Mr. Li Qilin. The independent non-executive directors of the Company are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Dr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel.

* *For identification purpose only*