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## 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 2020**

#### **FINANCIAL HIGHLIGHTS**

- On a comparative basis (excluding the one-off profit and loss not related to operation for the corresponding period last year), the net profit attributable to equity holders increased by approximately 22% to RMB683 million, and the net profit margin raised from 9.0% to 11.1%;

Including the one-off profit and loss not related to operation for the corresponding period last year, reported net profit attributable to equity holders decreased by approximately 14% and the net profit margin dropped from 12.7% to 11.1%.

- Notwithstanding the impact of 2019 novel coronavirus disease (“COVID-19”) leading to a very challenging retail environment during most time of the period:
  - Revenue decreased slightly by approximately 1% to RMB6,181 million
  - Gross profit margin decreased by 0.2 percentage point
  - The operating leverage has been enhanced continuously, while the operating profit margin has been driven to 14.5% and increased by over 300 basis points
  - Achieve positive operating cash flow of RMB479 million
  - Continued improvement in working capital:
    - Gross average working capital improved (reduced) by 7% while revenue decreased by approximately 1%
    - Cash conversion cycle further improved (shortened) by 2 days (2019: 32 days/2020: 30 days)

#### **OPERATIONAL HIGHLIGHTS**

- Operation performance was negatively affected due to COVID-19 pandemic.
- The retail sell-through for the overall platform recorded low-teens decrease, including online and offline channels.
- Channel inventory recorded low-teens increase.
- Offline channel new product sell-through recorded mid-teens decrease due to the decline in the sales volume:
  - Average selling price (ASP) registered a low-single-digit increase notwithstanding a very promotional retail environment
  - Sell-out rate: 6-month declined over 6 percentage points, 3-month declined approximately 5 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 2020, together with comparative figures of 2019, as follows:

### INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
	<i>Note</i>	<b>30 June</b>	31 December
		<b>2020</b>	2019
		<b>RMB'000</b>	<b>RMB'000</b>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		957,026	1,038,588
Right-of-use assets		888,547	981,422
Investment properties		117,083	119,278
Land use rights		169,524	72,233
Intangible assets		202,610	193,261
Deferred income tax assets		530,418	431,715
Other assets		–	83
Investments accounted for using the equity method		1,090,412	1,056,866
Other receivables		116,479	114,712
		<u>4,072,099</u>	<u>4,008,158</u>
<b>Total non-current assets</b>			
<b>Current assets</b>			
Inventories	4	1,492,683	1,407,257
Other assets – current portion		495,563	443,406
Trade receivables	5	789,014	686,606
Other receivables – current portion		39,306	39,476
Restricted bank deposits		1,144	1,126
Financial assets at fair value through other comprehensive income		200,000	–
Cash and cash equivalents		5,560,606	5,961,445
		<u>8,578,316</u>	<u>8,539,316</u>
<b>Total current assets</b>			
		<u>12,650,415</u>	<u>12,547,474</u>
<b>Total assets</b>			

	<i>Note</i>	<b>Unaudited As at 30 June 2020 RMB'000</b>	<b>Audited As at 31 December 2019 RMB'000</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares		226,943	214,300
Share premium		3,935,412	3,547,682
Shares held for Restricted Share Award Scheme		(170,037)	(276,664)
Other reserves		806,065	1,153,645
Retained earnings		<u>2,788,126</u>	<u>2,482,676</u>
		<b>7,586,509</b>	7,121,639
<b>Non-controlling interests in equity</b>		<u>2,554</u>	<u>2,554</u>
<b>Total equity</b>		<u>7,589,063</u>	<u>7,124,193</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
License fees payable		29,040	24,581
Derivative financial instruments		19,752	25,806
Lease liabilities		508,488	557,451
Deferred income tax liabilities		37,870	45,002
Deferred income		<u>53,416</u>	<u>53,821</u>
<b>Total non-current liabilities</b>		<u>648,566</u>	706,661
<b>Current liabilities</b>			
Trade payables	6	1,342,850	1,348,206
Contract liabilities		224,638	293,926
Lease liabilities – current portion		350,309	336,870
Other payables and accruals		2,177,501	2,173,658
License fees payable – current portion		36,172	31,349
Current income tax liabilities		281,316	530,635
Derivative financial instruments – current portion		<u>–</u>	<u>1,976</u>
<b>Total current liabilities</b>		<u>4,412,786</u>	<u>4,716,620</u>
<b>Total liabilities</b>		<u>5,061,352</u>	<u>5,423,281</u>
<b>Total equity and liabilities</b>		<u><u>12,650,415</u></u>	<u><u>12,547,474</u></u>

## INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Note</i>	Unaudited	
		Six months ended 30 June	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
Revenue	3	6,180,935	6,254,730
Cost of sales	7	<u>(3,124,144)</u>	<u>(3,146,772)</u>
<b>Gross profit</b>		<b>3,056,791</b>	3,107,958
Distribution expenses	7	(1,948,689)	(2,023,392)
Administrative expenses	7	(346,276)	(450,913)
(Provision for)/reversal of impairment losses on financial assets – net		(24,420)	103
Other income and other gains – net	8	<u>160,502</u>	<u>44,306</u>
<b>Operating profit</b>		<b>897,908</b>	678,062
Finance income	9	19,394	18,202
Finance expenses	9	<u>(31,888)</u>	<u>(26,441)</u>
Finance expenses – net	9	(12,494)	(8,239)
Share of profit of investments accounted for using the equity method		<u>21,767</u>	<u>310,479</u>
<b>Profit before income tax</b>		<b>907,181</b>	980,302
Income tax expense	10	<u>(223,910)</u>	<u>(185,303)</u>
<b>Profit for the period</b>		<u><b>683,271</b></u>	<u>794,999</u>
<b>Attributable to:</b>			
Equity holders of the Company		683,271	794,999
Non-controlling interests		<u>–</u>	<u>–</u>
		<u><b>683,271</b></u>	<u>794,999</u>
 <b>Earnings per share attributable to equity holders of the Company for the period (expressed in RMB cents per share)</b>			
<b>Basic earnings per share</b>	11	<u>27.98</u>	<u>32.88</u>
<b>Diluted earnings per share</b>	11	<u>27.30</u>	<u>32.08</u>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
	<i><b>RMB'000</b></i>	<i><b>RMB'000</b></i>
<b>Profit for the period</b>	<b>683,271</b>	794,999
<b>Other comprehensive income:</b>		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>2,737</u>	<u>528</u>
<b>Total comprehensive income for the period</b>	<u><b>686,008</b></u>	<u>795,527</u>
<b>Attributable to:</b>		
Equity holders of the Company	<b>686,008</b>	795,527
Non-controlling interests	<u>-</u>	<u>-</u>
	<u><b>686,008</b></u>	<u>795,527</u>

## 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 13 August 2020.

This condensed consolidated interim financial information has not been audited.

### 2. Accounting policies

The accounting policies applied to the preparation of this condensed consolidated interim financial information are consistent with those applied in the annual financial statements for the year ended 31 December 2019, except for: (1) the estimation of income tax using the tax rate that would be applicable to expected total annual earnings; (2) the adoption of amendments to IFRSs which become effective for the current reporting period; and (3) the early adoption of amendment to IFRS 16 on COVID-19-Related Rent Concessions for the current reporting period.

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

The Group has applied the following amendments to standards which become applicable for the current reporting period.

Amendments to IAS 1 and IAS 8	<i>Definition of Material</i>
Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 7 and IFRS 9	<i>Interest Rate Benchmark Reform</i>

The Group also elected to adopt the following amendments early:

Amendment to IFRS 16	<i>COVID-19-Related Rent Concessions</i>
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Except for amendment to IFRS 16 on COVID-19-Related Rent Concessions, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards.

Amendment to IFRS 16 on COVID-19-Related Rent Concessions provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications.

The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease

Amendment to IFRS 16 on COVID-19-Related Rent Concessions is mandatory for annual reporting periods beginning on or after 1 June 2020. The Group has elected to early adopt amendment to IFRS 16 on COVID-19-Related Rent Concessions retrospectively from 1 January 2020 as permitted by this amendment.

The Group has applied the practical expedient to all rent concessions that meet the above conditions in respect of lease arrangements for which lease liabilities are recognised. During the six months ended 30 June 2020, rent concessions totalling RMB21,724,000 have been recognised in profit or loss as negative variable lease payments with a corresponding adjustment to the lease liabilities. There is no impact on the opening balance of equity at 1 January 2020.

### 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 results and allocate resources. Management has determined the operating segments based on these reports.

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

Revenue breakdown by product category is as follows:

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
Footwear	2,924,956	2,921,728
Apparel	2,941,172	3,060,044
Equipment and accessories	314,807	272,958
<b>Total</b>	<b>6,180,935</b>	<b>6,254,730</b>

#### Geographical information of revenue

	Unaudited Six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
The PRC (including the Hong Kong Special Administrative Region and the Macau Special Administrative Region)	6,112,666	6,157,231
Other regions	68,269	97,499
<b>Total</b>	<b>6,180,935</b>	<b>6,254,730</b>

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 2020 and 2019, 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 2020 RMB'000	Audited 31 December 2019 RMB'000
Raw materials	8,441	7,087
Work in progress	9,451	5,930
Finished goods	<u>1,663,397</u>	<u>1,526,927</u>
	<b>1,681,289</b>	1,539,944
Less: provision for write-down of inventories to net realisable value	<u>(188,606)</u>	<u>(132,687)</u>
	<b><u>1,492,683</u></b>	<b><u>1,407,257</u></b>

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB3,026,834,000 for the six months ended 30 June 2020 (30 June 2019: RMB3,058,230,000). 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 2020 and 2019.

#### 5. Trade receivables

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
Accounts receivable	1,072,620	944,799
Less: allowance for impairment of trade receivables	<u>(283,606)</u>	<u>(258,193)</u>
	<b><u>789,014</u></b>	<b><u>686,606</u></b>

Customers are normally granted credit terms within 90 days. As at 30 June 2020 and 31 December 2019, ageing analysis of trade receivables based on invoice date are as follows:

	Unaudited 30 June 2020 RMB'000	Audited 31 December 2019 RMB'000
0 – 30 days	536,226	431,286
31 – 60 days	153,146	211,047
61 – 90 days	97,095	40,096
91 – 180 days	50,913	41,497
Over 180 days	<u>235,240</u>	<u>220,873</u>
	<b><u>1,072,620</u></b>	<b><u>944,799</u></b>

The movement in allowance for impairment of trade receivables is analysed as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
<b>Opening balance</b>	<b>258,193</b>	284,393
Provision for impairment allowance of trade receivables	<b>25,976</b>	230
Trade receivables written off during the period as uncollectible and exchange rate impact	<b>(563)</b>	(46)
	<hr/>	<hr/>
<b>Closing balance</b>	<b>283,606</b>	284,577
	<hr/> <hr/>	<hr/> <hr/>

## 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:

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
0 – 30 days	<b>918,620</b>	1,125,045
31 – 60 days	<b>390,296</b>	191,812
61 – 90 days	<b>26,430</b>	23,777
91 – 180 days	<b>1,978</b>	1,717
181 – 365 days	<b>830</b>	1,725
Over 365 days	<b>4,696</b>	4,130
	<hr/>	<hr/>
	<b>1,342,850</b>	1,348,206
	<hr/> <hr/>	<hr/> <hr/>

7. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories recognised as expenses included in cost of sales	3,026,834	3,058,230
Depreciation on property, plant and equipment ( <i>Note a</i> )	250,696	189,829
Amortisation of land use rights and intangible assets	19,706	21,687
Depreciation on right-of-use assets	217,560	152,580
Impairment of goodwill	–	36,394
Advertising and marketing expenses	555,709	557,055
Commission and trade fair related expenses	144,286	119,194
Staff costs, including directors' emoluments ( <i>Note a</i> )	622,981	725,224
Short-term lease rentals and variable lease payments not included in lease liabilities and rental related expenses	190,961	318,793
Research and product development expenses ( <i>Note a</i> )	139,007	132,711
Transportation and logistics expenses	225,563	214,063
Auditor's remuneration		
– Audit services	2,800	2,600
– Non-audit services	600	316
Management consulting expenses	30,775	44,577

*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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	92,384	22,312
License fees income	19,429	6,452
Interest income from wealth management products measured at fair value through profit or loss	48,460	29,553
Changes in fair value of derivative financial instruments at fair value through profit or loss	229	(14,011)
	<u>160,502</u>	<u>44,306</u>

9. Finance expenses – net

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
<b>Finance income</b>		
Interest income on bank balances and deposits	17,407	15,139
Net foreign currency exchange gain	<u>1,987</u>	<u>3,063</u>
	<u>19,394</u>	<u>18,202</u>
<b>Finance expenses</b>		
Amortisation of discount – license fees payable	(1,409)	(1,643)
Amortisation of discount – lease liabilities	(25,506)	(19,833)
Others	<u>(4,973)</u>	<u>(4,965)</u>
	<u>(31,888)</u>	<u>(26,441)</u>
<b>Finance expenses – net</b>	<u><u>(12,494)</u></u>	<u><u>(8,239)</u></u>

10. Income tax expense

	Unaudited Six months ended 30 June	
	2020 RMB'000	2019 RMB'000
Current income tax		
– Corporate income tax	329,745	261,153
– Withholding income tax on interest income from subsidiaries in the PRC	<u>–</u>	<u>593</u>
	<u>329,745</u>	<u>261,746</u>
Deferred income tax	<u>(105,835)</u>	<u>(76,443)</u>
Income tax expense	<u><u>223,910</u></u>	<u><u>185,303</u></u>

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 286,000 ordinary shares (30 June 2019: 44,813,000 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.

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u><b>683,271</b></u>	<u>794,999</u>
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share ( <i>in thousands</i> )	<u><b>2,441,780</b></u>	<u>2,417,682</u>
Basic earnings per share ( <i>RMB cents</i> )	<u><b>27.98</b></u>	<u>32.88</u>

### ***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 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 period) 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.

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2020</b>	<b>2019</b>
Profit attributable to equity holders of the Company, used to determine diluted earnings per share ( <i>RMB'000</i> )	<u><b>683,271</b></u>	<u>794,999</u>
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share ( <i>in thousands</i> )	<u><b>2,441,780</b></u>	<u>2,417,682</u>
Adjustment for the restricted shares ( <i>in thousands</i> )	<u><b>21,023</b></u>	<u>26,572</u>
Adjustment for the share option schemes ( <i>in thousands</i> )	<u><b>39,615</b></u>	<u>34,071</u>
Deemed weighted average number of shares for diluted earnings per share ( <i>in thousands</i> )	<u><b>2,502,418</b></u>	<u>2,478,325</u>
Diluted earnings per share ( <i>RMB cents</i> )	<u><b>27.30</b></u>	<u>32.08</u>

### ***Note:***

As at 30 June 2020, there were 3,156,000 share options that could potentially have a dilutive impact in the future but were antidilutive during the six months ended 30 June 2020. As at 30 June 2019, there were 1,607,000 share options that could potentially have dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2019.

## **12. Dividends**

On 12 June 2020, the shareholders of the Company approved to declare 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 final dividend was paid in June 2020.

On 14 June 2019, the shareholders of the Company approved to declare a final dividend of RMB8.78 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2018. The final dividend was paid in July 2019.

The Board did not propose interim dividend for the six months ended 30 June 2020 (30 June 2019: nil).

## DIVIDENDS

The Board resolved not to distribute any interim dividend for the six months ended 30 June 2020 (30 June 2019: nil).

The proposed 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 was declared payable and approved by the shareholders at the annual general meeting of the Company on 12 June 2020.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the six months ended 30 June 2020 are set out below:

	Unaudited Six months ended 30 June		Change (%)
	2020	2019	
<b>Income statement items</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue (Note 1)	6,180,935	6,254,730	(1.2)
Gross profit	3,056,791	3,107,958	(1.6)
Operating profit	897,908	678,062	32.4
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 1)	1,407,637	1,352,637	4.1
Profit attributable to equity holders (Note 2)	683,271	794,999	(14.1)
Basic earnings per share (RMB cents) (Note 3)	27.98	32.88	(14.9)
<b>Key financial ratios</b>			
<b>Profitability ratios</b>			
Gross profit margin (%)	49.5	49.7	
Operating profit margin (%)	14.5	10.8	
Effective tax rate (%)	24.7	18.9	
Margin of profit attributable to equity holders (%)	11.1	12.7	
Return on equity attributable to equity holders (%)	9.3	13.0	
<b>Expenses to revenue ratios</b>			
Staff costs (%)	10.1	11.6	
Advertising and marketing expenses (%)	9.0	8.9	
Research and product development expenses (%)	2.2	2.1	
<b>Asset efficiency</b>			
Average inventory turnover (days) (Note 4)	84	74	
Average trade receivables turnover (days) (Note 5)	22	24	
Average trade payables turnover (days) (Note 6)	76	66	
	Unaudited 30 June 2020	Audited 31 December 2019	
<b>Asset ratios</b>			
Debt-to-equity ratio (%) (Note 7)	66.7	76.2	
Net asset value per share (RMB cents)	308.76	311.15	

*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 expenses – net, depreciation on property, plant and equipment, amortisation of land use rights and intangible assets and depreciation on right-of-use assets.
  2. Including profit attributable to equity holders for the period from 1 January to 31 March 2020: RMB278,642,000.
  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.
- \* *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 2020 amounted to RMB6,180,935,000, representing a decrease of 1.2% as compared to the corresponding period of 2019. In the first half of 2020, the COVID-19 pandemic posed high risks to the world. The Group's overall sales revenue also failed to meet the expected target as a result of this special public health emergency. In order to cope with the impact brought by the COVID-19 pandemic, the Group actively adopted costs and expenses control initiatives as well as enhanced efficiency to seize the subsequent sales rebound with the COVID-19 pandemic being kept well under control in the PRC and continue to develop products featuring our unique sports DNA and Chinese elements with a view to minimising the losses of revenue from all channels due to the COVID-19 pandemic, among which: (a) after comprehensive negotiations with franchised distributors, the Group reduced the amount of orders in some of the trade fair orders. With confidence in both market recovery and our brands, the revenue of franchised distributors recorded a small increase compared with the corresponding period last year; (b) as affected by the COVID-19 pandemic, sales of offline retail terminal stores suffered relatively significantly because majorities of the directly-operated stores were in metro and high-tier cities which were more severely impacted by drop in traffic, thus recording a decrease of approximately 24% in sales revenue from direct operation; and (c) the e-commerce channel significantly outperformed the offline channel. In recent years, the Company has strengthened the online interaction with consumers. During the outbreak of the COVID-19 pandemic, it has stepped up the efforts in transforming offline traffic to online channels, contributing to a growth in revenue of 23% from the e-commerce channel. The Company will continue to monitor the situation of the COVID-19 pandemic and adjust its strategies in a timely manner so as to better respond to the risks brought by the COVID-19 pandemic.

Revenue breakdown by product category

	Six months ended 30 June				Revenue Change (%)
	2020	% of total revenue	2019	% of total revenue	
	<i>RMB'000</i>		<i>RMB'000</i>		
Footwear	2,924,956	47.3	2,921,728	46.7	0.1
Apparel	2,941,172	47.6	3,060,044	48.9	(3.9)
Equipment and accessories	314,807	5.1	272,958	4.4	15.3
<b>Total</b>	<b>6,180,935</b>	<b>100.0</b>	<b>6,254,730</b>	<b>100.0</b>	<b>(1.2)</b>

Revenue breakdown (in %) by sales channel

	Six months ended 30 June			Change (%)
	2020	% of revenue	2019	
PRC market				
Sales to franchised distributors	50.3		48.6	1.7
Sales from direct operation	21.6		28.1	(6.5)
Sales from e-commerce channel	27.0		21.7	5.3
International markets	1.1		1.6	(0.5)
<b>Total</b>	<b>100.0</b>		<b>100.0</b>	

Revenue breakdown by geographical location

	Note	Six months ended 30 June				Revenue change (%)
		2020	% of revenue	2019	% of revenue	
		<i>RMB'000</i>		<i>RMB'000</i>		
PRC market						
Northern region	1	3,249,723	52.6	3,191,126	51.0	1.8
Southern region	2	2,134,725	34.5	2,175,937	34.8	(1.9)
South China region	3	728,218	11.8	790,168	12.6	(7.8)
International markets		68,269	1.1	97,499	1.6	(30.0)
<b>Total</b>		<b>6,180,935</b>	<b>100.0</b>	<b>6,254,730</b>	<b>100.0</b>	<b>(1.2)</b>

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, Xinjiang and Qinghai.
2. The Southern region includes provinces, municipalities and autonomous regions covering Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing, Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei and Anhui.
3. The South China region includes provinces, autonomous regions and special administrative region covering Guangdong, Guangxi, Fujian, Hainan and Macau.

### ***Cost of Sales and Gross Profit***

For the six months ended 30 June 2020, the overall cost of sales of the Group amounted to RMB3,124,144,000 (2019: RMB3,146,772,000), and the overall gross profit margin was 49.5% (2019: 49.7%). Affected by the COVID-19 pandemic during the period, the Group increased the discounts offered due to the very promotional retail environment. In addition, the inventory provision increased along with the increase in gross value of inventories. This negative impact was partially offset by increase in new product tag price markup, therefore resulting in a decrease of 0.2 percentage point in gross profit margin for the period as compared to the corresponding period last year.

### ***Distribution Expenses***

For the six months ended 30 June 2020, the Group's overall distribution expenses amounted to RMB1,948,689,000 (2019: RMB2,023,392,000), accounting for 31.5% (2019: 32.3%) of the Group's total revenue.

Despite the online channels achieved satisfactory performance in general during the outbreak of the COVID-19 pandemic and the related commissions and logistics expenses have increased accordingly, as well as the increase of depreciation charges in relation to assets of points of sale in recent years as a result of the Group's effort in building up trendy and efficient stores, the percentage of distribution expenses to revenue dropped by 0.8 percentage point during the period, which is mainly attributable to: (1) wages and bonuses of direct sales staff and license fees that are linked to part of the income of particular products have decreased in accordance with the decrease in revenue; and (2) variable rentals have decreased in accordance with the decline in sales revenue from retail terminal during the outbreak of the COVID-19 pandemic, while certain stores enjoyed rent concessions, which has effectively reduced the rental expenses. The overall distribution expenses for the period have decreased by RMB74,703,000 as compared to the corresponding period last year.

### ***Administrative Expenses***

For the six months ended 30 June 2020, the Group's overall administrative expenses amounted to RMB346,276,000 (2019: RMB450,913,000), accounting for 5.6% (2019: 7.2%) of the Group's total revenue with a year-on-year decrease of 1.6 percentage point. Administrative expenses mainly comprised staff costs, management consulting fees, office rental, depreciation and amortisation charges, technological development fees, taxes and other miscellaneous daily expenses.

The decrease in administrative expenses is mainly attributable to: (1) considering the spillover impact of the COVID-19 pandemic on global public health, in order to minimise the pressure currently facing and will be faced by the Group in the future due to the COVID-19 pandemic, the Group has reduced the expenses in relation to bonuses of officers, consultation fee expenses, travel costs and other expenses through effective management during the period, thereby creating more rooms for adjustments to facilitate the Group's stable operation; and (2) the Group has made provision for the one-off goodwill impairment not related to operation of RMB36,394,000 in aggregate resulting from the realignment of the Group's overall channel structure during the corresponding period last year, while there was no such provision during the period. Consequently, the Group's administrative expenses and its percentage to revenue have decreased as compared to the corresponding period last year.

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

For the six months ended 30 June 2020, the Group's share of profit of investments accounted for using the equity method amounted to RMB21,767,000 (2019: RMB310,479,000). During the corresponding period last year, the Group shared the one-off gain of RMB269,925,000 in relation to the expropriation of a land parcel held by Shanghai Double Happiness Co., Ltd. ("Double Happiness", an associate of the Group).

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

For the six months ended 30 June 2020, the Group's EBITDA amounted to RMB1,407,637,000 (2019: RMB1,352,637,000), representing a year-on-year increase of 4.1%. During the corresponding period last year, the Group shared gain of RMB269,925,000 in relation to the expropriation of a piece of land parcel held by Double Happiness and made provision for goodwill impairment of RMB36,394,000 due to the realignment of the Group's overall channel structure. Apart from the aforementioned factors, for the six months ended 30 June 2020, the Group's EBITDA recorded a year-on-year increase of 25.8%. Despite the impact of the COVID-19 pandemic, the Group actively adopted the measures of controlling costs and expenses, coupled with the increased subsidies received from the government, therefore the Group has achieved relatively satisfactory results performance.

### ***Finance expenses***

For the six months ended 30 June 2020, the Group's net finance expenses amounted to RMB12,494,000 (2019: RMB8,239,000). The increase in net finance expenses was mainly due to the increase in the Group's interest expenses recognised on lease liabilities during the period as a result of the increase in the average number of stores capitalised according to the requirement under IFRS 16 as compared to the corresponding period last year.

### ***Income Tax Expense***

For the six months ended 30 June 2020, the income tax expense of the Group amounted to RMB223,910,000 (2019: RMB185,303,000) and the effective tax rate was 24.7% (2019: 18.9%). Currently, the Group's income tax expense is almost in line with the standard level.

### ***Overall Profitability Indicators***

Despite the decrease in both sales revenue and gross profit margin as affected by the COVID-19 pandemic during the period, after excluding the one-off profit and loss not related to operation for the corresponding period last year, the overall profitability indicators of the Group for the six months ended 30 June 2020 have still improved through its control over the expense ratio. During the period, the Group's profit attributable to equity holders amounted to RMB683,271,000 (2019: RMB794,999,000; and RMB561,468,000 after excluding the one-off profit and loss not related to operation), representing a year-on-year decrease of 14.1% (a year-on-year increase of 21.7% after excluding the one-off profit and loss not related to operation). The margin of profit attributable to equity holders was 11.1% (2019: 12.7%; and 9.0% after excluding the one-off profit and loss not related to operation). Return on equity attributable to equity holders was 9.3% (2019: 13.0%; and 9.3% after excluding the one-off profit and loss not related to operation).

### ***Provision for Inventories***

The Group's policy in respect of provision for inventories for the first half of 2020 was the same as that in 2019. 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 2020, the accumulated provision for inventories was RMB188,606,000 (31 December 2019: RMB132,687,000). During the period, due to the impact of the COVID-19 pandemic and the slowdown in the inventory turnover of old products, the balance of the provision for inventories increased along with the increase in gross value of inventories. In respect of inventory of new products, timely adjustments have been made by the Group to reduce the number of orders, at the same time destocking the existing inventories through discount promotions. 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 of doubtful debts for the first half of 2020 was the same as that in 2019. The provision of doubtful debts was recorded at an amount equal to the lifetime expected credit losses of the trade receivables that do not contain a significant financing component, and 12 months expected credit losses or lifetime expected credit losses of other receivables, depending on whether there has been a significant increase in credit risk since initial recognition.

As at 30 June 2020, the accumulated provision for doubtful debts was RMB291,386,000 (31 December 2019: RMB267,315,000), among which the accumulated provision for doubtful debts of trade receivables was RMB283,606,000 (31 December 2019: RMB258,193,000) and the accumulated provision for doubtful debts of other receivables was RMB7,780,000 (31 December 2019: RMB9,122,000). The trade receivables and other receivables written off during the period as uncollectible and the effect of exchange rate amounted to RMB349,000 (2019: RMB8,871,000). With the small increase of the revenue of franchised distributors, the gross value of trade receivables and provision for doubtful debts also increased slightly.

## *Liquidity and Financial Resource*

The Group's net cash from operating activities for the six months ended 30 June 2020 amounted to RMB478,986,000 (2019: RMB1,366,159,000). As at 30 June 2020, 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 RMB5,560,606,000, representing a net decrease of RMB400,839,000, as compared with the position as at 31 December 2019. Adding back fixed term deposits which were recorded in financial assets at fair value through other comprehensive income, cash balance amounted to RMB5,760,606,000. The decrease was due to the following items:

	<b>Unaudited Six months ended 30 June 2020 RMB'000</b>
<b>Item</b>	
<b>Operating activities:</b>	
Net cash generated from operating activities	478,986
<b>Investing activities:</b>	
Net cash used in investing activities	(479,179)
<b>Financing activities:</b>	
Net cash used in financing activities	(406,605)
Add: Exchange gains on cash and cash equivalents	<u>5,959</u>
<b>Net decrease in cash and cash equivalents</b>	<b><u>(400,839)</u></b>
Add: Fixed term deposits which were recorded in financial assets at fair value through other comprehensive income	200,000
<b>Net decrease in cash balance</b>	<b><u><u>(200,839)</u></u></b>

The Group's cash flow from operating activities decreased significantly year-on-year. Due to the impact of the COVID-19 pandemic, the operation of certain offline stores were suspended in the first quarter of 2020, which has resulted in stagnant retail sell-through. The Group will pay close attention to the security of capital and make reasonable capital utilisation plans in order to effectively respond to the negative impact brought by the COVID-19 pandemic.

As at 30 June 2020, the Group's banking facilities amounted to RMB1,269,700,000, 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 Renminbi may have had financial impact on the Group.

### *Pledge of Assets*

As at 30 June 2020 and 31 December 2019, the Group had no pledged assets.

### *Contingent Liabilities*

As at 30 June 2020, the Group had no significant contingent liabilities.

## **BUSINESS REVIEW**

Looking back into the first half of 2020, despite the pressure from the external environment, the national economy in China still showed relatively strong resilience and profound stability. Against this backdrop, the sports consumption market in China still saw a promising outlook with huge potential despite facing the pressure in the short run. Amidst the changing external environment, the sports industry continued to seek opportunities for resource utilization in a reasonable manner and promote quality improvement and upgrade of itself with the aid of big data and new technologies. Meanwhile, with the constantly improving household living standard in China, the concept of consumers' healthy living style was increasingly enhanced, thereby driving the robust development of the sports industry which has gradually become a key pillar of the national economy. Facing the increasing diversified consumer demands for sports consumptions, we further focused on enhancing LI-NING's experience value and strived to meet the individual needs of consumers through precise marketing strategies and constantly enhance consumer experience and satisfaction through all-round services and innovative and interactive means. Furthermore, leveraging the in-depth analysis of the fashion trend and the precise grasp of consumers' mindsets, we continued to enhance our brand core value, which has enhanced both our product and brand competitiveness. During the period, through effective internal and external control, the Group endeavored to alleviate the pressure from the COVID-19 pandemic and conducted comprehensive prevention measures in a timely manner. Despite the revenue and key operational indicators of the Group having been affected to a certain extent, the profitability of the Group remained resilience.

During the period, we enhanced and optimized LI-NING's experience value comprehensively by focusing our efforts on products, channels and retail capability, and supply chain optimization and upgrade, and steadily promoting the core strategy of "Single Brand, Multi-categories, Diversified Channels". In terms of products, we continued to emphasize on the product's professional and functional features and scale up the efforts on research and development so as to continuously upgrade product functions; meanwhile, we constantly shaped our sports products with new styles and new appearances through insightful interpretation of the fashion culture. We believe that products integrating excellent functions and unique styles can convey our brand value and offer consumer experience with higher quality more effectively. In terms of sales channels, we continued to optimize our channels and accelerate the reform of retail operation models; at the same time, we deployed the omni-channel strategy by exploring new retail in facilitation for further unleashing channel efficiency. In terms of supply chain, we continued to integrate supplier resources, established our own supply chain system and propelled the transformation of the supply chain system from passive production to proactive production by strengthening supply chain management centering on business needs and enhancing the responsiveness and elasticity of the supply chain.

### *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 fourth quarter of 2020, held in April 2020 registered a mid-single-digit growth on a year-on-year basis, the above trade fair orders data may be subject to adjustment depending on the financial impact on the distributors due to the COVID-19 pandemic.

In response to the rapid changes in retail environment, the Group continues to strengthen the flexibility and elasticity of supply chain, shorten the production cycle, and improve production efficiency, thereby increasing the contribution of replenishment orders in the Group's total sales, which will gradually reduce the direct correlation between trade fair results and actual reported results. In addition, due to the impact of the COVID-19 pandemic, the current retail environment is still unstable, and trade fair orders data is relatively volatile. In view of the above reasons, the Group will cease to report trade fair orders data starting from 2021 orders.

For the second quarter ended 30 June 2020, 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 last year, the same-store-sales for the overall platform registered a mid-single-digit decrease on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a high-teens decrease; wholesale (franchised distributors) channel registered a low-teens decrease; while the e-commerce virtual stores business registered a mid-twenties growth on a year-on-year basis.

For the second quarter ended 30 June 2020, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform decreased by mid-single-digit on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a low-teens decrease with retail channel decreased by low-teens and wholesale channel decreased by high-single-digit, while the e-commerce virtual stores business registered a high-twenties growth.

As at 30 June 2020, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 5,973, representing a net decrease of 252 POS since the end of the previous quarter and a net decrease of 476 POS since the beginning of this year. Among the net decrease of 476 POS, direct retail accounts for a net decrease of 53 POS, and wholesale accounts for a net decrease of 423 POS.

As at 30 June 2020, the total number of LI-NING YOUNG POS in China amounted to 1,010, representing a net decrease of 16 POS since the end of previous quarter and a net decrease of 91 POS since the beginning of this year.

## **Continuing to upgrade product and channel efficiency with “Single Brand, Multi-categories, Diversified Channels” as the core strategy**

### ***Enhancing core competitiveness of products and the brand by capitalizing on professional and fashionable elements***

During the period, 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 professional product experience. Moreover, we scaled up the fashionable and cultural elements of our products, with a view to unleashing product value and deepening the competitive edges of our brand.

For professional products, with a strong focus on professional elements, we continued to strengthen the knowledge and research of sports science and consistently invested and dedicated our efforts in the exploration and application of new technologies and new materials. Emphasising on the complementary effect of our products and technology, we offered highly professional product experience for consumers, thereby enhancing LI-NING brand’s core competitiveness in the field of professional sports.

- The professional products of the running category are empowered by technology, while focusing on both running experience and product performance. Aiming to establish the matrix for world-class professional running shoes, we pushed forward the application of the self-developed “LI-NING 䨎” (李寧䨎) technology platform with lightweight and high resilience features, which created a revolutionary professional product experience. As for products, we focused on our core professional product lines, including “Boom” (飛電), “Pegasus” (天馬), “Furious Rider” (烈駿), “Wind Chaser LT” (追風LT) and “Rouge Rabbit” (赤兔), and continued to diversify our business layout in the field of professional running shoes to reinforce the professional image of LI-NING running among consumers.
- In terms of professional basketball products, we continued to develop the line-up of four core star IPs, namely “Sonic” (音速), “Yushuai” (馭帥), “Power” (空襲) and “Speed” (閃擊). Featuring enhanced features for competition use, the “Sonic VIII” (音速VIII) has been worn by many CBA players in highly intense competitions and its performance has been widely recognized by the professional players. For the “Yushuai XIII” (馭帥XIII) series, we applied the superior shock-relieving material of the “LI-NING 䨎” (李寧䨎) technology and launched limited colour editions, with a view to establishing the professional status and high-end image of our professional basketball products. Maintaining the focus on functions of apparels, we offered comprehensive basketball gear for both competition and training purposes. We also strived to continuously enhance players’ performance on the court by resolving actual demands, including sports comfort and protection, with technological functions.
- As for products of training category, we continued to focus on professional products and pursue innovation in terms of function technology. Enriching our product matrix, we continued to launch waterproof and windproof protective gears, while incorporating element of youth culture into our product style to create a more vibrant functional product. We refined sports segment by offering professional tights line with varying level of support for activities ranging from integrated fitness training to dancing and yoga, thus fulfilling the increasingly refined demand of consumers. We created an all-round product experience covering aspects from professional sports to healthy lifestyle, which placed emphasis on female fitness. To continue the communication with female consumers, we launched various products with moving storytelling targeting female consumers, such as “Pink Ribbon” (粉紅絲帶).

- We continued to push forward the evolution of the star series under the badminton category. In respect of rackets, the newly launched “Tectonic” (蓄力突襲) technology platform features an elastic frame structure, which not only increased the elasticity of the racket, but also reduced the vibration of racket face, thereby further stabilizing the strikes of players and sharpening their attacks. “Ambush 7” (突襲7) and “Ambush 7D” (突襲7D) are the first products to adopt the brand new technology platform and immediately garnered wide recognition from consumers since their release. In terms of footwear and apparel, we released a new generation of star IP series “Halberd” (戰戟), which employed the “LI-NING 韞” (李寧韞) technology to offer remarkable kick-off ability, enabling wearers to gather momentum for kick-off and hence improving their overall sports performance.

In respect of sports fashion, we continued to create 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. We continued our cooperation with sports stars and fashion icons to expand brand influence. We also gained insight of the cultural and fashion trend, and explored the unique charisma of traditional culture, thereby developing a diversified sports culture system to consolidate and enhance our brand influence among young consumer groups.

- As the high-end product series of LI-NING basketball, the WADE series underwent gradual transformation and signed with NBA player D’Angelo Russell upon Wade’s retirement, signifying the heritage between veterans and rising stars. During the period, we launched “Way of Wade 8” (韋德之道8) and “Way of Wade ∞” (韋德之道∞), which are the best products under the WADE series and testimony to the series’ ceaseless pursuit and quest for higher goals. As the pillar of the WADE series, the “All City 8” (全城-VIII) also became the competition shoes of Russell, the newly signed player. In addition, leveraging on the good sales performance and market reputation of this product, we tapped into the huge market potential of teenager and female consumers.
- 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 “BADFIVE” series continued to focus on the style of street basketball in China and launched “Changsha City” (惟楚有材), a limited edition for Changsha under the city series, by delving into the features of local culture with consistent effort. We redefined street basketball gear through the new release of “BADFIVE” products. With the unconventional use of adorable Disney characters, these products embodied a brand-new street style, which, coupled with the Chinese tie dye print design, gained popularity among young consumers.
- For running culture, we strengthened the development of fashionable jogging and cultural 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, while creating differentiated and customized products. We promoted the “Super Light 17th” (超輕17) classic series under the theme of “Let’s Go Light” (一起輕狂) to reinforce the transformation from function-driven product to public fashion product. In respect of running shoes with cultural elements, we continued to present professional running shoes in a fashionable way. The unique “Sports + Fashion” image of LI-NING running shoes has also been enhanced through continuous exposure of the star series, such as “Furious Rider ACE” (烈駿ACE) and “Arc ACE” (弧ACE), in fashion weeks.

- As for sports casual products, we continued to focus on promotions in different fashion sectors to convey cultural stories of the young generation via our products. Inspired by traditional Chinese festivals, we launched the new year series product titled “Fortune Comes Everyday” (日進斗金) to celebrate the Chinese New Year in a trendy context. Meanwhile, we launched the “Wave BOOT•Duanwu” (惟吾BOOT•端午) series which incorporated traditions of the Dragon Boat Festival such as dragon boat races and rice dumplings into its design, which has attracted attention of many shoes fans. With a view to capturing the female market with a younger and more fashionable image, we launched the cherry blossom edition products under “Titan” (盤古) series and China LI-NING series, all of which were highly praised by the market. Furthermore, we have broadened our international vision by launching “Titan-atmos” (盤古-atmos), the first crossover product with “atmos”, an international top fashion chain store, which was inspired by and delicately represented the cultures of Beijing and Tokyo, two ancient cities.

### *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. 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. Besides, we drew attention of young consumer groups by continuously enriching our marketing resources with entertainment elements allocated to the sports casual category and making deployment for 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, leveraging the CBA All-Star League as platform, we closely integrated the marketing resources of our brand with the basketball marketing ecosystem to drive product sales through cross-sector campaigns. During the outbreak of the COVID-19 pandemic, we launched an interactive activity based on the basketball shoes culture under the theme of “Expressing yourselves by playing basketball” (拿球說話). Complemented by themed video promotions, the activity has created synergistic marketing effect in multiple channels and maintained hot discussions about our brand, which has in turn facilitated the launch of new products under the “Sonic” (音速) series. Moreover, we have also adopted “All-Star” themed product packaging that is in line with the national fashion trends, which has enriched the storyline of and sensation brought by our professional products. Furthermore, we have launched various products under the basketball city series based on the city where C.J. McCollum, our signed NBA star, is currently playing, which highlighted the American basketball style and instilled fashionable elements into our professional products.
- As for basketball culture, we signed with D’Angelo Russell, a NBA All-Star point guard, for the WADE series. As a fashion icon from NBA, Russell will bring enormous sports fashion creativity to the Way of Wade series. Highlighted by Wade’s retirement jersey, we launched the themed activity of “To Young DWade: Make Your Own Way” with a view to impressing the new generation consumers with Wade’s attitude. We have also developed the “BADFIVE LAB” (反伍實驗室) as an innovative platform of “BADFIVE” series with an aim to sharing the most creative, attitude-laden and “unconventional” street culture with the consumers. In addition, we launched a special sales activity for “Changsha City” (惟楚有材), a limited edition product under the city series, in collaboration with “Wenheyou” (文和友), a renowned restaurant brand in Changsha, which has attracted a lot of local fashion icons to visit and hence boosted the sales of the products under this series.

- In terms of running and training, in response to the launch of “Super Light 17th” (超輕17), we put in an all-out effort in the promotions on Bilibili, Xiaohongshu (小紅書), Weibo, WeChat and other media platforms. Through exposures with running shoes bloggers and KOLs from various fields including fashion, entertainment, sports and photography, we have demonstrated some of the many possibilities of “Super Light 17th” (超輕17) and gained good impression and attention from more young consumers. Leveraging the launch of the new version of “No Boundaries II” (無界II), we held online cross-sector live streaming with celebrities and evaluated the influence and functional attributes of KOLs from vertical industries, enabling more fitness professionals to learn more about LI-NING training and “No Boundaries” (無界) series.
- In terms of badminton, in response to the call of the government, we launched the “Home Training for Physical Fitness, Benefiting both the Country and the Public” (居家訓練，強身健體，利國利民) activity during the outbreak of the COVID-19 pandemic leveraging various contracted collaborative resources. The champion team comprising Fu Haifeng (傅海峰), Xu Chen (徐晨), Zhao Yunlei (趙芸蕾), Zhang Ning (張寧), Wang Xin (汪鑫), Bao Chunlai (鮑春來), Chen Jin (陳金) was formed, and both the brand reputation and recognition of LI-NING badminton have been enhanced via short videos and live streaming on its Douyin (抖音) platform. Leveraging official We-Media platforms and the badminton stringer mini program, we adopted “Waiting for You” (等你) series as our theme to expand the fan base and increase brand exposure targeting the core badminton consumer groups, striving to transform the traffic to offline channels.
- We continued to keep abreast of fashion trends and hot social issues for our sports casual products, and carried out cross-sector collaboration with multiple themes and dimensions. We launched various products under “Master Mickey” (武林米笈), the Disney crossover series, adding some “worldly-wise” flavor to the cute character of Mickey Mouse. During the outbreak of the COVID-19 pandemic, we launched the “Ready” (時刻準備著) themed series to express greeting and a positive lifestyle with our products. Leveraging the resources advantages from signing with Hua Chenyu (華晨宇), we launched products replicating the fashion style of him that integrates modern aesthetic visions with classic aesthetic from the old times, bringing up great hope among the millennial generation towards the future. We also carried out cross-sector collaboration with “QQ Dance” (QQ炫舞), a classic game of Tencent, to explore the “New Retro-Futurism” (新復古未來主義). We joined hands with Xingtong (星瞳), the virtual idol of the game, to break dimensional walls and explore the unlimited possibilities arising from the integration of music, dance and sports casual.
- As for marketing campaigns with entertainment, we devoted more resources to the collaboration with variety shows and the marketing of online entertainment content during the first half of the year. Through the collaboration with artists and variety shows, we placed embedded advertisements in shows to ensure exposure of our products, at the same time reaching the fans base of the artists by taking advantage of the influence of the artists, thereby transforming the fans of these artists into fans of our brand and hence further building up our fans economy. We have selectively commenced in-depth collaboration with artists that match with our brand character to ensure multi-dimension exposure of our products from catalogues, personal fashions, variety shows and marketing events. We have also increased product exposure by directly exploring the relevant resources of Hunan Satellite TV. During the outbreak of the COVID-19 pandemic, we invited artists such as Ayanga (阿雲嘎), Cai Chengyu (蔡程昱) and Zhou Qi (周奇) to share their personal playlists and filmed a number of videos with them, which were used as major content for online promotion to arouse discussion.

*Continuing to focus on multi-channel development to optimize the structure of channels*

During the first half of 2020, by continuing its focus on multi-channel strategy, the Company strengthened collaborations with quality retailers so as to propel the enhancement of the efficiency of retail channels and improve the quality of market coverage. The Company accelerated the promotion of diversified 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 as well as adjusting its channel expansion plan on a dynamic basis with a view to ensuring true efficiency and profitability of newly-opened stores. During the period, in the midst of the COVID-19 pandemic and based on the channel optimization strategy, the Company continued to actively accelerate the closure of loss-making and low-efficiency stores to optimize structure of channels and improve channel efficiency. During the COVID-19 pandemic, the Company maintained close communication with various large nationwide chain commercial real-estate groups under strategic partnership so as to develop an optimal rent waiver policy and optimize rental cost, at the same time strengthening the negotiation with quality business entities to plan the layout of big stores with high efficiency, with an aim to lay a foundation for channel recovery after the COVID-19 pandemic.

As at 30 June 2020, 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 6,983, representing a net decrease of 567 POS as compared to 31 December 2019. The number of distributors was 62 (including sales channels of China LI-NING stores), representing a net decrease of 1 as compared to 31 December 2019. The number of POS breakdown as at 30 June 2020 is as follows:

<b>LI-NING Brand</b>	<b>30 June 2020</b>	<b>31 December 2019</b>	<b>Change</b>
Franchised	<b>4,734</b>	5,157	<b>-8.2%</b>
Directly-operated retail	<b>1,239</b>	1,292	<b>-4.1%</b>
LI-NING YOUNG	<b>1,010</b>	1,101	<b>-8.3%</b>
<b>Total</b>	<b><u>6,983</u></b>	<b><u>7,550</u></b>	<b>-7.5%</b>

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

Regions	<b>30 June 2020</b>			<b>31 December 2019</b>			<b>Change</b>
	<b>LI-NING Core Brand</b>	<b>LI-NING YOUNG</b>	<b>Total</b>	<b>LI-NING Core Brand</b>	<b>LI-NING YOUNG</b>	<b>Total</b>	
Northern Region (Note 1)	<b>3,056</b>	<b>563</b>	<b>3,619</b>	3,226	727	3,953	<b>-8.4%</b>
Southern Region (Note 2)	<b>2,247</b>	<b>411</b>	<b>2,658</b>	2,448	336	2,784	<b>-4.5%</b>
Southern China Region (Note 3)	<b>670</b>	<b>36</b>	<b>706</b>	775	38	813	<b>-13.2%</b>
<b>Total</b>	<b><u>5,973</u></b>	<b><u>1,010</u></b>	<b><u>6,983</u></b>	<b><u>6,449</u></b>	<b><u>1,101</u></b>	<b><u>7,550</u></b>	<b>-7.5%</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 region covering Guangdong, Guangxi, Fujian, Hainan and Macao.

## *Enhancing product and retail capability to facilitate the improvement of operation efficiency*

During the first half of 2020, the Company continued to focus on the transformation of its product operation model and the improvement of its retail operation capability with a view to further promoting the enhancement of sales channels efficiency.

- 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.
- 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, which shall lead to the increase of the total sales volume of popular products.
- The Company continued to refine the function of LI-NING's retail operation platform in order to realize a closed-loop tracking of the retail operation and execution of stores, which effectively facilitated the store operation and efficiency enhancement. We have explored the retail operation standard for big stores with high efficiency and accelerated the formulation and introduction of the strategy of big stores with high efficiency across China, at the same time optimizing the store operation standards and adjusting the product assortment and structure with a view to establishing an assortment and operation management model that embodies the sporty and trendy image of LI-NING brand.
- Establishing a new visual image for the stores. In response to the strategy of big stores with high efficiency, the Company continued to upgrade the visual image of stores by way of upgrading the types of props in stores and creating more spaces designed with specific geographical elements so as to enhance consumers' recognition. We promoted the core technology and functional experience of professional products by adopting high-tech materials and campaigns, and managed to enhance the shopping experience regarding fashionable 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 highlight our brand tonality.
- 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 self-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.

### *Improving consumers' experience by exploring the omni-channel business*

During the first half of 2020, 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' experience.

- Continuously enhancing interactions with consumers at stores. The Company interacted with consumers by way of store activities, pop-up stores and sales of limited-edition products, which has increased the number of new members and attracted the traffic to the 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 Douyin (抖音), the introduction of interactive games, cross-over cooperation, and attractive gifts.
- Continuously pushing forward the establishment of digital stores and exploring new retail model. 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 of 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.
- The Company has devoted greater effort in the planning of membership and omni-channel while accelerating the integration of e-commerce business. During the COVID-19 pandemic, we have initiated a promotional campaign of "Scan-to-Buy" by scanning QR codes at offline stores with an aim to drive customer traffic to the online platform leveraging our customer base of offline stores, hence expanding business coverage and exploring business opportunities. We have formulated the omni-channel business model with the combination of online live streaming and offline delivery of product with rational and prudent use of live streaming resources, at the same time continuing to improve the operation strategies to maintain brand competitiveness and profitability. In respect of membership, we have introduced refined operation strategies with a focus on customer segmentation, and enhanced consumption experience and members' engagement with the application of "Scan-to-Buy" of omni-channel.

### ***Strengthening construction of logistics supporting capacity***

In the first half of 2020, the Company has developed logistics system in response to the major strategic direction and business features of the Group, thus providing differentiated, refined and efficient logistics service support in line with the requirement of relevant business sectors for its principal business and each business division through the comprehensive application of logistic network resources and platform.

- Affected by the COVID-19 pandemic and coupled with the changes in the logistics market environment, the Company promptly deployed resources and logistics network and responded to the crisis in a timely and effective manner, at the same time striving for dominant storage and ancillary resources for the Group by actively exploring opportunities to support various service requirements arising from the special business environment, thereby enhancing both internal and external logistics service capabilities.
- During the period, the limitation of offline consumption has further promoted the rapid growth of OTO business. With the application of the logistics system, the Company has swiftly adjusted resources and management system to align with the new retail development actively. Warehouses are equipped with operation capacity for B2B and B2C models, which enabled a flexible and quick handling of the demand of orders. We continued to improve the online and offline integrated logistics service model and increased the coverage of the omni-channel, thereby enhancing channel inventory utilization whilst better catering to consumers' demand, and thus created benefits for the Company.
- Meanwhile, we continued to focus on building and optimizing the precise, swift and efficient logistics operation system. The Company fully followed the instructions of the goods management team in all processes including forward and reverse logistics as well as deployment and turnover of goods, thereby achieving prompt response, flexible delivery and rapid turnover of goods. In addition, the Company strengthened the logistics support for operation of retail stores and formulated targeted logistics services and supporting plans in collaboration with front-line retail operation teams. In respect of logistics management, the Company focused on achieving digitalized management and analysis so as to develop highly efficient data processing and decision making capabilities.

### ***Strengthening the profitability of e-commerce business through enhancing product advantages***

During the first half of 2020, given the impact of the COVID-19 pandemic on offline consumption, the e-commerce sector faced increasingly intense competition. Under such heavy pressure, the e-commerce of Li Ning Company still managed to maintain relatively strong resilience and high profitability, which has contributed positively to the Company's results.

During the period, we continued to develop the “COUNTERFLOW BY LI-NING” series on the e-commerce platform, an independent sports casual product line with a focus on cultural elements. Deep-rooted in traditional arts and culture, the series joined hands with Dunhuang Museum to thoroughly explore the beauty of the Silk Road and the scenery in Northern China beyond the Great Wall in the long course of history. Products were launched under the “Dunhuang • Exploration” (敦煌•拓) series to replicate the glorious national culture of ancient China.

Meanwhile, in line with the Group's allocation of major marketing resources, we have fostered diversified marketing layout on the e-commerce platform by making full use of the spokesperson for sports casual products – Hua Chenyu (華晨宇), through which we have tapped into various fan bases and further increased the traffic of online consumption. We have also analyzed the changes of current market trends to focus our investments in specific product categories, price ranges and targeted consumer groups, which has effectively enhanced the online sales performance of products such as sports apparel, and increased female consumers' interests in and interactions with our e-commerce platform.

Looking forward, the e-commerce of Li Ning Company will remain committed to facilitating the upgrade of product competitiveness and consumption experience and will pursue further breakthroughs in aspects such as private domain traffic, operation of product contents and online marketing campaigns. Leveraging the online and offline synergies, the e-commerce of Li Ning Company will continue to explore the omni-channel business and enhance its capability and timeliness of risk-handling so as to provide new momentum for the business growth of the Group on a continuous basis.

### ***Strengthen cost and efficiency management to optimize the “Demand-driven” (因需而動) supply chain system***

During the first half of 2020, in order to align with the Company's development needs under its core strategies, we continued to intensify our efforts in resource consolidation along the footwear and apparel supply chain and further enhanced the flexibility and fast response capability of the supply chain system with a view to facilitating the realization of the “Demand-driven” (因需而動) dynamic business model and establishment of a precise, flexible and efficient supply chain management system.

- During the period, 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 regulate the production and quality management process and improve the working standards, so that it can 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 and remained 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.

## NEW BUSINESS

### *LI-NING YOUNG*

During the first half of 2020, based on the vision and the strategy of the Group, LI-NING YOUNG further refined the position and planning of kidswear products, as well as streamlined and integrated product structure. Focusing on the clothing needs of daily life and sports occasions for kids aged 3-6 and children aged 7-12, we have laid a solid foundation for the long-term development of kidswear business by leveraging the advantages of LI-NING brand.

- We integrated and sorted the existing product lines with an aim to establish a product structure with a definite hierarchy and clear positioning. Based on the clothing needs of daily life for children of different age groups in the daily lives, the Group offered quality kidswear products oriented with sports fashion and focusing on categories and products for sports lifestyle and cultural lifestyle as well as taking into account the features and clothing needs for children of different age groups.
- We continued to deploy and optimize the supply chain resources and 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, strengthen the responsiveness and elasticity of the supply chain system and facilitate efficiency enhancement.
- We accelerated channel reform and optimization and further deployed the shopping mall and clearance channels to establish a diversified channel system, and adjusted the strategy for channel development based on the market demand at different levels. In line with the Company's omni-channel strategy, we actively expanded new retail channels and explored new sales channels and business opportunities in response to the changing external environment. With an effort to enrich consumer experience, we developed and designed brand-new kidswear store image with a view to creating a shopping atmosphere combining sports with fashionable styles.
- We continued to optimize the digital marketing matrix and developed a marketing resource system exclusively for LI-NING YOUNG. We also timely promote information on brand updates and newly-marketed brands by leveraging existing promotion channels such as KOLs, top-notch athletes, celebrities and working partners, with a view to capitalizing on the effect of social group fission to gain access to more consumers, maintain interaction with consumers and enhance user stickiness so as to expand the influence of LI-NING YOUNG.

As of 30 June 2020, LI-NING YOUNG business covered 29 provinces, municipalities and autonomous regions with a total of 1,010 stores. We will continue to reinforce the foundation of kidswear business and devote great efforts to explore market demands and carry out product categorization with products as the focus. Consistent efforts will be devoted in channel expansion, retail operations and supply chain resources. Looking forward, we believe that, as both product and brand competitiveness of kidswear business continue to grow, this business segment has promising potential in terms of driving the overall growth of the Group.

## HUMAN RESOURCES

In the first half of 2020, based on the vision and long-term strategic goals of the Company, the human resources department continued to optimize the organisation, incentives, talent management and corporate cultural system.

- Regarding organisational development, the Company adjusted the sales and supply chain system, consolidated its organisation structure and strengthened the sales headquarters as well as retail functions, so as to boost the efficiency of sales and retail operation. Independent research and development platform was established to propel product innovation.
- In terms of talent management, the Company continuously upgraded its capability of managing the talent supply chain, while actively exploring and recruiting talents to drive business transformation. The Company also enhanced its retail talent cultivation system so as to nurture teams of talent and build teams comprising hand-picked elites.
- In terms of performance management, the Company incorporated objectives such as organisational reform, talent development and team cooperation into its business evaluation system, with a view to pushing forward the reform and development of its organisational capacity.
- Regarding culture and staff relationship, the Company improved its culture management system with continuous efforts, 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. Meanwhile, the Company created a trustworthy, self-disciplinary, open, transparent and fair corporate environment.

Looking ahead, the Company will endeavour to explore and consolidate the market in Mainland China, in a bid to become the most favourite sports brand of Chinese consumers. Pursuing its medium- and long-term goals, the Company will optimize its organisational efficiency and accelerate the development of talent teams by stepping up its effort in nurturing retail talents and formulating new evaluation and incentive mechanisms. The Company will effectively manage the investments in human resources, while continuing to strengthen our organisational capacity and employee competencies, which underpin the business growth of the Company.

As at 30 June 2020, the Group had 3,744 employees (31 December 2019: 3,783 employees), among which 3,573 employees were at the Group's headquarters and retail subsidiaries (31 December 2019: 3,610 employees), and 171 employees were at other subsidiaries (31 December 2019: 173 employees).

## OUTLOOK

2020 marks the 30th anniversary of the establishment of LI-NING brand. Adhering to the strategic direction of “Single Brand, Multi-categories, Diversified Channels”, we will strengthen the performance of the core business and optimize LI-NING’s experience value in full swing to further enhance our competitiveness of both products and the brand, hence achieving a stable and sustainable growth of the Company’s business:

- In respect of products, we will insist on focusing on product functions and technological innovation, and continue to enhance our capability of analyzing fashion trends and markets, striving to reach target consumers precisely, enhance consumers’ product experience and deepen our brand influence;
- In respect of channel development, we will continue to focus on the efficiency of our sales channels and the expansion of big stores with high efficiency, as well as reinforcing the synergistic coordination of the omni-channel by consolidating layout of sales channels and clarifying the characteristics of different channels, with a view to maximizing the efficiency of our sales channels;
- In respect of retail operation and supply chain, we will continue to enhance the standards of store operation on the basis of both product and consumption experience and improve store management ability, as well as strengthen 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 continue to improve our diversified marketing approaches to expand the consumer coverage. With the combination of the latest trends and topics, we will make full use of marketing resources so as to increase the popularity of our brand, enhance customer loyalty and enhance consumers’ recognition of the brand;
- 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 market potential, in order to foster new opportunities for the Company’s profit growth in the long run.

With the economic development and steady improvement of national living standards, sports will become one of the key drivers for national consumption. Benefitting from the increasing health awareness of the general public, the sports industry will certainly witness rapid growth and constantly embrace changes in tandem with its development. In recent years, the sports market is gradually shifting towards a more diversified, refined and commercialized direction. Amid the changes of the objective environment, the innate sports DNA of our brand have empowered us with the faith to conquer challenges and the determination to achieve breakthroughs. During the thirty years of development with an in-depth focus on the professional sports sector, we always adhere to the principle of focusing on products with an emphasis on the professional attributes and keep abreast of the fashion trend so as to reach more young consumers, continuously improve product performance and brand image and hence enhance LI-NING’s experience value. Looking forward, we will continue to achieve steady growth of our results by enhancing our business capability. We will also devote main resources into gaining sports knowledge, placing emphasis on technological research and development as well as pop culture analysis with a view to bringing our business to another new height.

During the first half of 2020, the outbreak of COVID-19 has affected people's livelihood and market order. Against such backdrop, the operating condition and financial performance of the Group were under pressure to a certain extent. Leveraging our own resources and advantages, we confronted these challenges by promptly adjusting our strategies and making swift responses in a bid to minimize the impact of the COVID-19 pandemic and get readily prepared for market rebound. We believe that this COVID-19 pandemic is a challenge which will not only accelerate industry consolidation, but also propel the enterprise to achieve continuous breakthroughs and carry out reforms and upgrades. With increasing concerns about physical exercise and awareness of healthy lifestyle, we remain fully confident about the Group's development in the future.

## **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 2020. Except for the purchase of shares by the trustee of the restricted share award scheme adopted by the Company (the "Restricted Share Award Scheme") pursuant to the trust deed and the rules of the Restricted Share Award Scheme, 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**

The Group does not have any significant event requiring disclosure under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") that has taken place subsequent to 30 June 2020 and up to the date of this announcement.

## **CORPORATE GOVERNANCE**

For the period from 1 January 2020 to 30 June 2020, the Company has complied with all the code provisions of the Corporate Governance Code ("Code Provisions") contained in Appendix 14 to 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. 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 18 March 2015 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 six months ended 30 June 2020. Notwithstanding the above, the Board is of the view that given that Mr. Li Ning has been interim CEO of the Company for about five 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.

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" ("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 2020.

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 2020.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2020 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  
**Li Ning Company Limited**  
**Li Ning**  
*Executive Chairman and  
Joint Chief Executive Officer*

Hong Kong, 13 August 2020

*As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Kosaka Takeshi 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.*