



中國
李寧

2019
INTERIM
REPORT


LI-NING

LI NING COMPANY LIMITED
李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

VISION

Leading Sports Brand

MISSION

Let Sports Light Your
Passion

VALUES

- "Living for Dream"
- "Consumer Oriented"
- "WE Culture"
- "Breakthrough"





ABOUT LI NING GROUP

Li Ning Company Limited is one of the leading sports brand companies in China, mainly operating professional and leisure footwear, apparel, equipment and accessories under the LI-NING brand. Headquartered in Beijing, the Group has brand marketing, research and development, design, manufacturing, distribution and retail capabilities. It has established an extensive retail distribution network and supply chain management system in China.

In addition to its core LI-NING brand, the Group also manufactures, develops, markets, distributes, sells various sports products which are self-owned by or licensed to the Group, including Double Happiness (table tennis), AIGLE (outdoor sports), Danskin (fashionable fitness products for dance and yoga) and Kason (badminton), which are operated through joint venture/associate with third parties of the Group.

CONTENTS

Corporate Information	2
Five-year Financial Highlights	6
Management Discussion and Analysis	7
Condensed Consolidated Interim Financial Information	32
Other Information	75
Information for Investors	86
Glossary	87

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Mr. LI Qilin

Independent non-executive Directors

Mr. KOO Fook Sun, Louis

Ms. WANG Ya Fei

Dr. CHAN Chung Bun, Bunny, GBS, JP

Mr. SU Jing Shyh, Samuel

AUDIT COMMITTEE

Mr. KOO Fook Sun, Louis (*Committee Chairman*)

Ms. WANG Ya Fei

Dr. CHAN Chung Bun, Bunny, GBS, JP

REMUNERATION COMMITTEE

Ms. WANG Ya Fei (*Committee Chairperson*)

Mr. LI Qilin

Dr. CHAN Chung Bun, Bunny, GBS, JP

NOMINATION COMMITTEE

Mr. SU Jing Shyh, Samuel (*Committee Chairman*)

Mr. LI Ning

Dr. CHAN Chung Bun, Bunny, GBS, JP

AUTHORISED REPRESENTATIVES

Mr. LI Ning

Ms. WANG Ya Fei

COMPANY SECRETARY

Ms. TAI Kar Lei

REGISTERED OFFICE

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Cayman Islands

Corporate Information (Continued)

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

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law
LC Lawyers LLP

PRC law
TAHOTA Law Firm

PRINCIPAL BANKERS

Hong Kong
Hang Seng Bank Limited
China MinSheng Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited

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





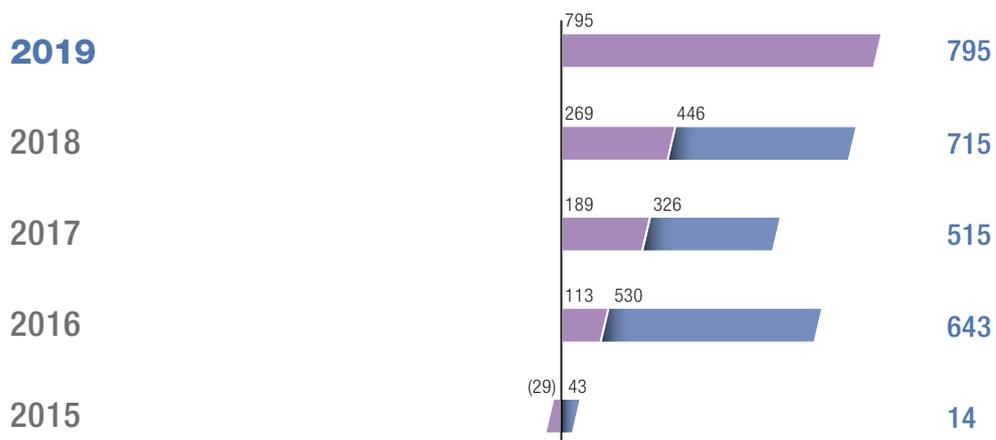
***SPORTS
MANSHIP***

Five-year Financial Highlights

Turnover



Profit attributable to equity holders



(All amounts in RMB millions)

First half year
 Second half year
 Full year

Management Discussion and Analysis

Financial Overview

The key operating and financial performance indicators of the Group for the six months ended 30 June 2019 are set out below:

	Unaudited		Change (%)
	2019	2018	
Income statement items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue	6,254,730	4,712,773	32.7
Gross profit	3,107,958	2,293,867	35.5
Operating profit	678,062	293,799	130.8
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 1)	1,352,637	527,482	156.4
Profit attributable to equity holders (Note 2)	794,999	268,569	196.0
Basic earnings per share (RMB cents) (Note 3)	32.88	11.10	196.2
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	49.7	48.7	
Operating profit margin (%)	10.8	6.2	
Effective tax rate (%)	18.9	18.0	
Margin of profit attributable to equity holders (%)	12.7	5.7	
Return on equity attributable to equity holders (%)	13.0	5.1	
Expenses to revenue ratios			
Staff costs (%)	11.6	11.5	
Advertising and marketing expenses (%)	8.9	10.5	
Research and product development expenses (%)	2.1	1.3	
Asset efficiency			
Average inventory turnover (days) (Note 4)	74	85	
Average trade receivables turnover (days) (Note 5)	24	42	
Average trade payables turnover (days) (Note 6)	66	82	

Management Discussion and Analysis (Continued)

	Unaudited 30 June 2019	Audited 31 December 2018
Asset ratios		
Debt-to-equity ratio (%) (Note 7)	68.4	50.0
Net asset value per share (RMB cents)	283.14	269.79

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)/income – 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 2019: RMB251,009,000.
 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.

Management Discussion and Analysis (Continued)

Revenue

The Group's revenue for the six months ended 30 June 2019 amounted to RMB6,254,730,000, representing an increase of 32.7% as compared to the corresponding period of 2018, with a significant year-on-year increment. By effectively integrating Chinese elements with our "Sports DNA", we have enhanced the recognition of the LI-NING brand significantly and recorded a higher increase in revenue from all channels, among which, (a) revenue generated by the franchised distributors recorded a mid-fortieth growth given stronger confidence on the LI-NING brand among franchised distributors, as well as the fact that the Group has transferred certain self-operated stores to the distributors and agreed that the distributors may set up large stores and casual stores with an aim to optimise its overall channel structure; (b) as affected by the transfer of certain stores to the distributors, the growth of sales revenue from direct operation has slowed down but still managed to maintain a growth rate of over 10%; and (c) the e-commerce channel grew rapidly and recorded a high-thirtieth growth with an increasing percentage to revenue owing to the rapid development in recent years. While securing strong revenue growth, the Company will continue to monitor the changes in inventory of its channels and maintain it at a reasonable and healthy level.

Revenue breakdown by product category

	Six months ended 30 June 2019		2018		Revenue Change (%)
	RMB'000	% of total revenue	RMB'000	% of total revenue	
Footwear	2,921,728	46.7	2,190,747	46.5	33.4
Apparel	3,060,044	48.9	2,299,615	48.8	33.1
Equipment and accessories	272,958	4.4	222,411	4.7	22.7
Total	6,254,730	100.0	4,712,773	100.0	32.7

Revenue breakdown (in %) by sales channel

	Six months ended 30 June		Change (%)
	2019 % of revenue	2018 % of revenue	
PRC market			
Sales to franchised distributors	48.6	44.4	4.2
Sales from direct operation	28.1	33.2	(5.1)
Sales from e-commerce channel	21.7	20.8	0.9
International markets	1.6	1.6	–
Total	100.0	100.0	

Management Discussion and Analysis (Continued)

Revenue breakdown by geographical location

	Note	Six months ended 30 June		Six months ended 30 June		Revenue change (%)
		2019	2018	2019	2018	
		RMB'000	% of revenue	RMB'000	% of revenue	
PRC market						
Northern region	2	3,191,126	51.0	2,570,602	54.5	24.1
Southern region	1, 3	2,175,937	34.8	1,521,131	32.3	43.0
South China region	1, 4	790,168	12.6	547,400	11.6	44.3
International markets		97,499	1.6	73,640	1.6	32.4
Total		6,254,730	100.0	4,712,773	100.0	32.7

Notes:

- In the second half of 2018, the Group restructured and adjusted its sales system and related organizational structure to re-classify the original Southern region into two sub-regions, namely Southern region and South China region. The purpose of this was to cater to the changes in consumers' demand and the business environment, thereby facilitating strategy optimization as well as innovation and modification of operation model in a more precise manner. Comparative figures have also been restated for consistent presentation purpose.
- The Northern region includes provinces, municipalities and autonomous regions covering Beijing, Tianjin, Shanxi, Shandong, Hebei, Inner Mongolia, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Gansu, Ningxia, Xinjiang and Qinghai.
- The Southern region includes provinces, municipalities and autonomous regions covering Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing, Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei and Anhui.
- The South China region includes provinces and autonomous region covering Guangdong, Guangxi, Fujian and Hainan.

Management Discussion and Analysis (Continued)

Cost of Sales and Gross Profit

For the six months ended 30 June 2019, the overall cost of sales of the Group amounted to RMB3,146,772,000 (2018: RMB2,418,906,000), and the overall gross profit margin was 49.7% (2018: 48.7%). During the period, the Group provided higher percentage of tag price on delivery to franchised distributors due to the increasing brand recognition, and there was better sales discount on both new and old products in self-operated channel. The aforesaid factors contributed to the increase of 1.0 percentage point in gross profit margin compared to the corresponding period last year.

Distribution Expenses

For the six months ended 30 June 2019, the Group's overall distribution expenses amounted to RMB2,023,392,000 (2018: RMB1,735,145,000), accounting for 32.3% (2018: 36.8%) of the Group's total revenue.

The percentage of distribution expenses to revenue dropped significantly by 4.5 percentage point during the period. While revenue grew significantly, the Group implemented reasonable control over its expenditures such as advertising and marketing expenses and miscellaneous daily expenses. However, distribution expenses increased as compared to the corresponding period of last year, which is mainly attributable to: (1) along with the development of the Group's business, both expenses that directly related to sales, such as logistics expenses, variable rentals, commission, wages and bonuses of marketing staff and license fees that are linked to part of the income of particular products have all increased in accordance with the growth in revenue; and (2) the Group's active implementation of innovational marketing model with a focus on user's experience to build up a trendy brand culture image while increased both relevant brand promotion fee and corresponding depreciation on the asset investment of points of sales during the period.

Administrative Expenses

For the six months ended 30 June 2019, the Group's overall administrative expenses amounted to RMB450,913,000 (2018: RMB297,106,000), accounting for 7.2% (2018: 6.3%) of the Group's total revenue with a year-on-year increase of 0.9 percentage point. Administrative expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes and other miscellaneous daily expenses.

The increase in administrative expenses is mainly attributable to the Group's dedication to enhancing product competitiveness and improving supply chain management. To this end, the Group has successively employed various experts in related field and provided incentives to personnel from key positions. Besides, the Group has made provision for the relevant goodwill impairment of RMB36,394,000 in aggregate resulting from the realignment of the Group's overall channel structure. Consequently, the Group's administrative expenses and its percentage to revenue increased year-on-year.

Management Discussion and Analysis (Continued)

Share of Profit of Investments Accounted for Using the Equity Method

For the six months ended 30 June 2019, the Group's share of profit of investments accounted for using the equity method amounted to RMB310,479,000 (2018: RMB32,128,000), among which, the Group shared the one-off gain of RMB269,925,000 in relation to the expropriation of a piece of land parcel held by Shanghai Double Happiness Co., Ltd. ("Double Happiness", the Group's associate) by the government during the period.

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

For the six months ended 30 June 2019, the Group's EBITDA amounted to RMB1,352,637,000 (2018: RMB527,482,000), representing a year-on-year increase of 156.4%. This was comprised of share of gain of RMB269,925,000 in relation to the expropriation of a piece of land parcel held by Double Happiness; the provision for goodwill impairment of RMB36,394,000 due to the realignment of the Group's overall channel structure; and the inclusion of part of the expenses in depreciation charge and interest expenses, which were originally included in lease expenses, of RMB172,413,000 under the influence of IFRS 16 Leases. Apart from the abovementioned factors, for the six months ended 30 June 2019, the Group's EBITDA amounted to RMB946,693,000, representing a year-on-year increase of 79.5%. This was mainly attributable to the increase in revenue and gross profit margin, control over expense ratio and growth in gains from investment in wealth management products.

Finance (Expenses)/Income

For the six months ended 30 June 2019, the Group's net finance expenses amounted to RMB8,239,000 (2018: finance income of RMB1,496,000). The increase in net finance expenses was mainly due to the recognition of interest on the lease liabilities of RMB19,833,000 according to the requirement of IFRS 16, which took effect from 1 January 2019, during the period. In addition, as evidenced by the sufficiency of capital, the Group was maintaining a more mature and stable control over the use of capital and recorded a significant growth in bank deposit interest income as compared to the corresponding period last year.

Income Tax Expense

For the six months ended 30 June 2019, the income tax expense of the Group amounted to RMB185,303,000 (2018: RMB58,854,000) and the effective tax rate was 18.9% (2018: 18.0%); while excluding the one-off profit and loss not related to operation, the effective tax rate was 24.8%.

Management Discussion and Analysis (Continued)

Overall Profitability Indicators

During the period, the sales revenue and gross profit margin of the Group both improved with a lower expense ratio, while other income and other gains increased, together with a substantial growth in share of profit of investments accounted for using the equity method, thus the overall profitability indicators of the Group for the six months ended 30 June 2019 improved significantly. During the period, the Group's profit attributable to equity holders amounted to RMB794,999,000 (2018: RMB268,569,000) with a year-on-year increase of 196.0%; while excluding the one-off profit and loss not related to operation, the profit attributable to equity holders amounted to RMB561,468,000 with a year-on-year increase of 109.1%. The margin of profit attributable to equity holders was 12.7% (2018: 5.7%), while excluding the one-off profit and loss not related to operation, the margin of profit attributable to equity holders was 9.0%. Return on equity attributable to equity holders was 13.0% (2018: 5.1%), while excluding the one-off profit and loss not related to operation, the return on equity attributable to equity holders was 9.3%.

Provision for Inventories

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

As at 30 June 2019, the accumulated provision for inventories was RMB153,090,000 (31 December 2018: RMB124,639,000). During the period, the balance of the provision for inventories increased along with the increase in gross value of inventories, the growth rate of both of which, however, were lower than that of revenue. The Group will continue to monitor the changes in inventory ageing so as to improve the inventory ageing structure.

Provision for Doubtful Debts

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

As at 30 June 2019, the accumulated provision for doubtful debts was RMB288,295,000 (31 December 2018: RMB288,444,000), among which the accumulated provision for doubtful debts of trade receivables was RMB284,577,000 (31 December 2018: RMB284,393,000) and the accumulated provision for doubtful debts of other receivables was RMB3,718,000 (31 December 2018: RMB4,051,000). The trade receivables written off during the period as uncollectible amounted to RMB46,000 (2018: RMB95,225,000). There was a decrease in the gross value of trade receivables, while provision for doubtful debts basically remained flat compared with its opening balance.

Management Discussion and Analysis (Continued)

Liquidity and Financial Resource

The Group's net cash from operating activities for the six months ended 30 June 2019 amounted to RMB1,366,159,000 (2018: RMB660,199,000). As at 30 June 2019, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB4,724,804,000, representing a net increase of RMB1,053,262,000 as compared with the position as at 31 December 2018. The increase was due to the following items:

	Unaudited Six months ended 30 June 2019 RMB'000
Item	
Operating activities:	
Net cash from operating activities	1,366,159
Investing activities:	
Net capital expenditure	(235,748)
Interest received	44,692
Financing activities:	
Principal portion of lease payments	(136,561)
Net cash from other financing activities	13,125
Add: Exchange gains on cash and cash equivalents	1,595
Net increase in cash and cash equivalents	1,053,262

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

As at 30 June 2019, the Group's banking facilities amounted to RMB1,065,000,000, without outstanding borrowings.

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

Management Discussion and Analysis (Continued)

Foreign Exchange Risk

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

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

Pledge of Assets

As at 30 June 2019 and 31 December 2018, the Group had no pledged assets.

Contingent Liabilities

As at 30 June 2019, the Group had no significant contingent liabilities.

Business Review

In recent years, the sports market in China sustained its steady growth momentum along with the continuous economic growth in China, positive impact of national policies, strong support from government of all levels for the development of sports industry and increasing health awareness of consumers. Meanwhile, coupled with the ongoing urbanization development in China, as well as the continuous optimization of consumers' consumption structure and manner, sports consumption is gradually shifting towards a more diversified, professionalized and refined direction. In response to the increasingly segmented and mature consumption demand, we continued to focus on creating and enhancing LI-NING's experience value. At the same time, we enhanced and maintained ongoing interaction with consumers based on our digitalization strategy and provided them with differentiated consumer services and experience. We also accurately capitalized on hot topics to draw young consumer groups closer to our brand and enhance the recognition of brand image and brand value among consumers. During the period, key operational indicators have been optimized continuously, the Group's revenue maintained steady growth and profitability has been continuously improved.

Management Discussion and Analysis (Continued)

During the period, we continued to support and deepen LI-NING's experience value in full swing with products, channels and retail capability, and supply chain management as our main business focuses, and implemented the strategy of "Single Brand, Multi-categories, Diversified Channels" to enhance our brand competitiveness. As always, we highlighted the professional sports attributes of our products and upheld a stringent and professional attitude towards sports research as well as development and design of professional products so as to consistently offer better product experience for athletes and sports enthusiasts. On the other hand, enhanced innovation capacity and acute market insight enabled us to achieve breakthrough from traditional model and closely integrate professional sports with fashion trends and culture, hence providing more consumption choices and more accurate consumption experience for consumers. During the period, we continued to attract consumers and expanded our consumer groups through fashion weeks, "China LI-NING" and various cross-sector crossover collaborations, hence strengthening and enhancing both our brand and product competitiveness. Meanwhile, we continued to optimize our structure of channels by adopting a diversified development approach to unleash channel efficiency. Moreover, we continued to optimize the retail operation platform, aiming to improve the retail operation standards of stores and hence improve the retail efficiency. In terms of supply chain, we further established the supply chain management system centering on business needs while striving to enhance our own supply chain capabilities.

Latest trade fair orders and operational update

In terms of tag price, trade fair orders for LI-NING brand products (excluding LI-NING YOUNG and China LI-NING) from franchised distributors, which are for the first quarter of 2020, held in June 2019 registered a high-teens growth on a year-on-year basis.

For the second quarter ended 30 June 2019, in respect of LI-NING 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-teens growth on a year-on-year basis. In terms of channels, both retail (direct operation) and wholesale (franchised distributors) channels registered a low-teens growth, while the e-commerce virtual stores business registered a mid-thirties growth on a year-on-year basis.

For the second quarter ended 30 June 2019, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform increased by low-twenties on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a low-twenties growth, with retail increased by high-single-digit and wholesale increased by mid-twenties, while the e-commerce virtual stores business registered a high-twenties growth.

As at 30 June 2019, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 6,422, representing a net increase of 112 POS since the end of previous quarter and a net increase of 78 POS since the beginning of this year. Among the net increase of 78 POS, direct retail accounts for a net decrease of 127 POS, and wholesale accounts for a net increase of 205 POS.

As at 30 June 2019, the total number of LI-NING YOUNG POS in China amounted to 872, representing a net increase of 57 POS since the end of previous quarter and a net increase of 79 POS since the beginning of this year.

Management Discussion and Analysis (Continued)

Deepening the strategy of “Single Brand, Multi-categories, Diversified Channels” to enhance channel efficiency

Enhancing the feature of professional sports while capturing fashionable and cultural elements to increase product and brand competitiveness

During the period, in order to further strengthen the brand and product competitiveness, we continued to focus on our five core categories, namely basketball, running, training, badminton and sports casual. We set professionalism and functionalism as the foundation, and consolidated the brand's DNA of professional sports. Meanwhile, we carried on our exploration of products based on the differentiated features of various product categories and individual needs of consumers, and emphasized on the functional features and wearing experience, at the same time seeking fashionable and cultural elements which align with our brand value to vitalize the development of both products and brand in order to enhance our brand value.

For professional products, we continued to strengthen the knowledge and research of sports science during the period and invest in the exploration and application of new technologies and new materials. With the application of such knowledge to our product design, we offered more customized and professional products to consumers that cater to their differentiated demand for product functions under different categories. We also offered highly professional product experience to sports players, thereby enhancing LI-NING brand's competitiveness in mainstream mass sports in China.

- We continued to focus on star products for LI-NING professional basketball footwear and offered comfortable professional sports experience by upgrading the core IPs, such as “Power” (空襲) and “Speed” (閃擊) by improving products' appearance and applying LI-NING Cloud technology, which gained wide recognition from consumers. Riding on the effect of endorsements by CBA, we continued to apply new functional technology on LI-NING professional basketball sportswear, while professional basketball competition uniforms were frequently exposed throughout the CBA League. We launched hoodie under the “All-Star Fanpack” series and received positive responses from the market.
- Catering to the needs for jogging and fashion style in everyday life, we launched “Super Light 16th” (超輕十六代) running shoes under “Super Light” (超輕) series. The appearance design is inspired by Chinese ancient screen with simple color mix, which delivers a sense of simplicity and leisure. New material “FOAM EVA LITE” is applied to the midsole to provide a comfortable feeling and reduce energy loss. Adopting a double-layer structure in the heel, it offers a high breathability and at the same time providing support and protection for the heel. The shoe face adopts fly knit technology with an extensive use of yarns in the quarter lining, outer quarter and heel, which is lighter and more breathable.

Management Discussion and Analysis (Continued)

- In terms of training products category, we continued to focus on functional sports and promote the innovation of technological platforms. We categorised sport environments to improve product experience. Targeting the characteristics of outdoor sport, we have developed waterproof and windproof protective gears to enrich our key product offerings with more comprehensive functions. Icy printing and ice yarn materials are used based on the fabric characteristics and covered more functional products, thereby developing an all-rounded icy product series. Incorporating the technology of the “Super Light” (超輕) series, we launched running products with enhanced lightweight and comfortable experience, such as superlight windbreaker and superlight T-shirt. Targeting women fitness enthusiasts, we offered product packages, such as “Fitness Mickey” (健身米奇), to attract women consumers with an aim of enhancing our brand influence among women consumer groups.
- For badminton category, with constantly enhancing functional features and thoughtfully designed appearance, the reputation of our badminton products was further enhanced. In terms of sportswear, the competition uniform for Sudirman Cup gained wide recognition from consumers. Regarding badminton shoes, new high-end products, namely “RANGER 3.0”, “Shadow Pro3.0” (鋒影Pro3.0), “Sonic Boom 2.0” (音爆2.0) and “Ambush SE” (突襲SE), have delivered excellent performance in the market leveraging our sports resources and exposure in competitions. Meanwhile, we launched various products under the “Blast 9000” (風動9000) and “Energy 70” (能量70) series on “LI-NING Racket Technological Platform”. By virtue of the superior functions and designs, these new rackets attained high popularity among badminton enthusiasts once launched and maintained a strong sales momentum.

While conducting research and development proactively for professional products, we continued to explore the popular trend regarding culture and lifestyle in order to gain inspiration to satisfy individual dressing needs of consumers. During the period, we continued to cooperate with sports stars and developed star products with their endorsements by integrating their personal characteristics into our professional products, which received overwhelming response from fans and sports enthusiasts. We also paid close attention to the needs and trends amongst young consumers and launched more customized products for youngsters by accurately capturing the fashionable elements and conducting intensive research on trendsetters, aiming to enhance our brand influence among young consumers.

- As the high-end product series of LI-NING basketball, the WADE series focused on high quality, simple functions and fans culture. This product style has received high recognition from the general consumers. The “WOW-7” basketball shoes with new colour edition launched during the NBA All-Star Game also gained attention and positive feedbacks from basketball fans. To celebrate Wade’s retirement, we launched a commemorative edition of all-gold basketball shoes named “WOW-7 ONE LAST DANCE”, which achieved outstanding market performance far beyond our expectations.
- “BADFIVE” apparel products continued to focus on the pragmatism of street basketball in China. We provided a diversified street chic style for consumers through the creation of unique China street basketball apparel which incorporates Chinese culture, street fashion and basketball attitude. We continued to cooperate with “XLARGE” and “X-girl” and created newly co-branded series named “Deconstruction” (破舊立新) and “Girls Can Do Everything They Want” (少女幫派) after a season of innovation and incubation to demonstrate the culture and spirit of street fashion.
- Regarding running culture, we upgraded “Furious Rider ACE” (烈駿ACE) and “V8” based on the original design which are the derivative design of professional running shoes, and newly created “Furious Rider ACE1.5” (烈駿ACE1.5) and “Arc ACE” (弧ACE) series with a more fashionable appearance design to present Chinese culture in a modernized way. By gaining exposure at the Fashion Weeks, we built our product image of “Sports + Fashion” running culture.

Management Discussion and Analysis (Continued)

- For sports fashion footwear, we constantly launched hot products with particular market attractiveness. Riding on the exposure during the Fall/Winter 2019 New York Fashion Week, “Titan” (盤古) aroused much market attention with its uniqueness and pioneering approach to explore new horizon by combining fashionable elements and functional features. With the promotion and recommendation by KOL and mainstream Sneaker media, we successfully attracted young and fashionable consumer groups and explored the huge potential of women consumer groups.
- We continued to cooperate with Disney and launched various products under the “Mickey Family”, “Star War” and “Toy Story” series. We joined hands with domestic top e-sports club, “RNG” and “Newbee”, and launched cross-over apparel products with the concept of “Chinese Players” (中國選手), which is inspired by traditional professional competition uniform. The product integrated LI-NING’s professional sports features with retro style, bringing the interpretation of our design concept to a new level. We launched collaborative products with Los Angeles pop artist, David Flores, and injected the DNA of LI-NING brand into graffiti art pieces to demonstrate a strong visual effect.

Comprehensively optimizing marketing resource allocation with the focus on core categories

During the period, our strategy of comprehensively optimizing marketing resource allocation remained focused on the five major categories, including basketball, running, training, badminton and sports casual. We analyzed customized consumer demand and allocated marketing resource to different areas based on category features. Continuous exposure of our professional products leveraging on sports stars and professional events as well as promotional efforts in tandem with hot topics have boosted our product popularity. We drew attention of young consumers by making more efforts in sports fashion marketing and capturing fashion trend with our flexible and diversified digital marketing resources. Under the guidance of fashion opinion leaders, we have gained recognition from more mainstream consumers and enhanced brand image and value.

- We continued to integrate resources from professional events, such as CBA, and players to maintain the continued exposure of LI-NING brand and products in top professional competitions in China. Meanwhile, LI-NING basketball expanded “3+1” street basketball league to 24 cities, covering young consumer groups aged between 17 and 28 so as to build a unique basketball culture that is of absolute street chic style and create opportunities for product experience. In terms of teenagers’ basketball training market, the “LI-NING Basketball College” project initiated “3+1” teenagers’ event, gathering young basketball enthusiasts aged below 10 and cooperating with nearly 200 basketball training institutes, thereby offering consumers professional brand and product experience.
- We have launched a series of successful marketing campaigns by utilizing the outstanding on-court performance of C.J. McCollum, our signed NBA star, and the professional basketball product series endorsed by him. Our events, including pop-up offering events in Portland, the U.S., and the promotional campaign of C.J.’s China tour themed “Rose Assassin” (玫瑰刺客), have been warmly supported by fans. To commemorate the special occasion of Wade’s retirement year, we continued to build the influence of Way of Wade series with a focus on Wade 7 basketball footwear and organized a comprehensive advertising campaign for “ONE LAST DANCE” products. Emotional resonance and topics on Wade’s retirement coupled with combination of online and offline fan activities ultimately led to a huge success of online and offline pre-sales.

Management Discussion and Analysis (Continued)

- In order to break the competition barrier for international brands for years and build a professional image of LI-NING running, we launched “LI-NING 䨻” (李寧䨻「bèng」) technology platform with lightweight and high resilience features. Through the product test and improvement of domestic and foreign marathon elite athletes during 11 marathon events in the first half of the year, athletes swept the top three of men’s event and top two of women’s event in Qingdao Marathon as well as men’s champion in Guiyang Marathon. The numerous achievements have gained not only accumulated endorsements but also huge attention from the media and runners. The technology exhibition under the theme of “Fast 䨻 to Win” (一䨻「bèng」即發·快者勝) at the world’s largest light show in Qingdao has successfully become the hot topic during the Qingdao Marathon event. Involving large numbers of runners, the product has enhanced the influence and recognition of LI-NING’s professional running products, thereby significantly refreshing the professional experience of runners in LI-NING running.
- We launched 45 “No Boundaries Fitness Challenge” competitions (無界體能挑戰賽) simultaneously in five first-tier cities across China via LI-NING CLUB membership platform. In order to enable the consumers to fully experience the professional performance of “No Boundaries” (無界) products through challenging the limits of physical fitness, we offered “No Boundaries” (無界) product experience opportunities for fitness enthusiasts in event sections such as “No Boundaries” shock-relieving challenge (「無界」緩震挑戰), “No Boundaries” stability challenge (「無界」穩定挑戰) and “No Boundaries” multi-functional challenge (「無界」多功能挑戰), thereby creating professional reputation of the products. As a result of the premium professional experience which attracted keen participation of fitness enthusiasts, in conjunction with the promotion of the media, both products and events received high attention from the society.
- In terms of badminton, to celebrate the tenth anniversary of cooperation with the national team, we initiated the annual theme of “LI-NING Badminton 10 Years, Dare to Dream” (羽十俱進·敢夢敢為). For products, we released rackets and footwears endorsed by badminton star athletes such as Chen Long (諶龍), Shi Yuqi (石宇奇), Zheng Siwei (鄭思維), Li Junhui (李俊慧) and Huang Yaqiong (黃雅瓊) as well as themed racquet bags for tenth anniversary, advertising popular products through high exposure on live streaming channels such as CCTV and ZHIBO.TV (中國體育). In the international events, under the theme of the tenth anniversary of LI-NING badminton, the brand-new image of “Champion’s Factory” (冠軍工廠) emerged in pop-up stores at the courts. The pop-up stores in the subsequent events will continue such image and enable consumer to gain a stronger impression.
- Through cross-over collaboration, we integrated the DNA of both brands in our products to draw attention from the fans groups of both products. We enhanced trendy and fashion brand attributes through joint events, thus achieving mutual benefit based on brand influence on both sides. The integrated footwear and apparel theme of “Old-fashioned Mickey” (復古米奇) under Disney cross-over series, coupled with the offline “321 Old-fashioned Sports Meeting” (321復古運動會) activities brought up back-to-old-fashioned trend. We organized special offline offering events with world-class trendy multi-category store CONCEPTS to strengthen brand tonality and initiate trendy events. To unleash the unique urban culture, we established regionally-featured pop-up stores under the themes of “Too Young To Stay” (少不入川) and “Chang An Young n Rich” (長安少年), with urban uniqueness clashing trendy culture. The highly regional products have won the preference of more young consumers.

Management Discussion and Analysis (Continued)

- Leveraging the influence of artists, we further deepened the marketing campaigns with entertainment elements, thereby transforming fans of these artists into fans of our brand, which will build up our fans economy and directly drive business growth. With the addition of artists having huge online fan base such as Evan Lin (林彥俊), Wang Yibo (王一博), Ayanga (阿雲嘎) and Cai Chengyu (蔡程昱) into the scope of our cooperative artists and by inviting popular artists to make appearance at 2019 Paris Fashion Week, the exposure of and discussion on our products have been significantly increased. To achieve circle marketing effects, we selected KOL resources which align with our product tonality on top-tier platforms such as Weibo, WeChat and TikTok (抖音) and vertical communities such as Xiaohongshu (小紅書) to release customized brand-related contents and form KOL matrix, thereby creating hot topics and draw attention from consumers to our brand and products. By selecting top-edged, reputable and influential fashion media in the industry to work with based on product positioning, we came up with in-depth authentic output to build brand-related product tonality so as to touch and expand target levels of consumers.

Strengthening diversified sales channels development

During the first half of 2019, the Company accelerated the promotion of diversified sales channels development. On the basis of developing conventional shopping streets, department stores and sports cities, we made breakthroughs in focusing on channels with shopping malls and outlets. During the period, the Company has achieved strategic cooperation with various large-scale domestic commercial property chain groups to open multi-category big stores with high productivity in shopping mall channel, while actively explore new channel types. In addition, we continued to close loss-making stores, upgrade and improve low-efficiency stores and optimize store structures. Furthermore, to continuously strengthen sales network coverage, optimize business structure and profitability, the Company is also actively seeking breakthroughs in regional markets in key provinces and low-tier markets.

During the period, with showings at New York and Paris Fashion Weeks again, LI-NING brand leads the national fashion trend by taking advantage of the product innovation and brand transformation. Catering to young customers who are more sensitive to high-end fashion trends, the Company made vigorous efforts in the establishment of China LI-NING store channel. "China LI-NING" has become one of the preferred target brands to introduce when various shopping malls are newly opened or restructured, hence significantly increasing brand channel competitiveness.

As at 30 June 2019, the number of conventional stores, flagship stores, China LI-NING stores, factory outlets and multi-brand stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 7,294, representing a net increase of 157 POS as compared to 31 December 2018. The number of distributors was 62 (including sales channels of China LI-NING stores), representing a net increase of 16 as compared to 31 December 2018. The number of POS breakdown as at 30 June 2019 is as follows:

Management Discussion and Analysis (Continued)

LI-NING Brand	30 June 2019	31 December 2018	Change
Franchised	5,043	4,838	4.2%
Directly-operated retail	1,379	1,506	-8.4%
LI-NING YOUNG	872	793	10.0%
Total	7,294	7,137	2.2%

Number of LI-NING Brand POS by geographical location

Regions	30 June 2019			31 December 2018			Change
	LI-NING Core Brand	LI-NING YOUNG	Total	LI-NING Core Brand	LI-NING YOUNG	Total	
Northern Region (Note 1)	3,332	614	3,946	3,269	549	3,818	3.4%
Southern Region (Note 2)	2,355	225	2,580	2,351	212	2,563	0.7%
Southern China Region (Note 3)	735	33	768	724	32	756	1.7%
Total	6,422	872	7,294	6,344	793	7,137	2.2%

Notes:

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

Enhancing product and retail capability and improving efficiency of sales channels

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

- Differentiated product planning according to regional characteristics. Differentiated product supply has been basically realized during the period. In the same season, we provided multiple choices of fabrics for products to accommodate the sales demand in regions of special climate in order to cater to the regional characteristics. Meanwhile, a department for quick response products has been established to cover the shortage of products offered based on consumers' demand.

Management Discussion and Analysis (Continued)

- Optimizing and upgrading the single store order project. During the period, on the basis of the single store order model, we have adjusted the manual selection model accordingly. Based on the research relating to consumer big data, in conjunction with the application of middle-end data platform, the Company conducted researches on systematic intelligent product assortment in an effort to gradually realize intelligent single store order.
- Formulating the retail operation standard for big stores with high productivity. In the first half of 2019, in order to accelerate the introduction of the strategy of big stores with high productivity across China, the Company set up designated project team for the operation of such stores, upgraded the retail operation platform, explored the retail operation standard for big stores with high productivity and optimized the operation and management process of stores. We tackled standardized product assortment properly at big stores with high productivity and managed to make such stores more professional and trendy through setting up module tools, thereby pushing forward the optimization and improvement of operating efficiency.
- Upgrading the visual image of stores. In response to the strategy of big stores with high productivity, the Company continued to optimize the visual image of stores. During the period, we diversified the display of various sporting and living scenarios by way of adding new types of props-racks. We promoted the professional and functional features of our running, basketball and training products by adopting high-tech promotion materials and campaigns, and managed to enhance the shopping experience regarding lifestyle products by showcasing with fashion matching, the theme of fashion weeks and trendy story-packs. Furthermore, we set up digital screens in the stores so as to optimize the display and product promotion via short videos and graphic works.
- Strengthening the cultivation of terminal retail talents. In order to reserve and cultivate retail talents for performance growth, the Company attached great importance to the establishment and refinement of LI-NING's terminal talent cultivation system, designing promotional path, mentoring process and contents, online and offline course system as well as performance training evaluation system for the terminal-level positions. 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 retail learning channels by setting up live streaming training channel on We-Media platform.

Management Discussion and Analysis (Continued)

Strengthening interaction to improve consumers' experience

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

- Pushing ahead with the establishment of digital stores and new retail business continuously. We set up independent visitors, heat map of customer flow, commodity touching assessment and other digital devices as well as back-end computing system at the terminal stores, giving us insights on consumers' portraits at stores, based on which we analyzed the behavior and demand of consumers as well as closely followed the performance on the individual product. 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.
- Extending efforts on marketing promotion and engagement with consumers. Leveraging on events such as "Way of Wade Tour China" (韋德中國行), "3+1" Basketball League (「3+1」籃球聯賽) and "Vanke Fun Run" (萬科歡樂跑), the Company interacted with consumers at the terminal stores, allowing consumers to get close access to the products, thereby increasing the number of new members and the traffic at stores. We launched the promotion and sales of products at the terminal stores through the electronic screen and graphic display at stores, online game interaction, cross-over brand cooperation and attractive gift development.
- Facilitating membership's expansion and marketing. Adhering to the operational value chain with membership as the core, the Company recorded significant increase in both number of members and their sales contribution. We strived to accelerate the integration of distribution membership system by integrating the online and offline into omni-channel membership system. The seamless connection of online and offline systems will complement each other with a view to providing a smooth experience for the members when completing the related services via the intelligent system in collaboration with the physical stores.

Strengthening Construction of Logistics Supporting Capacity

In the first half of 2019, the Company continued to focus on building and optimizing the logistics operation system of "Precise, Swift and Efficient", thus providing strong logistics support for its retail management.

- Accelerating the speed of all processes including forward and reverse logistics as well as deployment and turnover of goods by introducing quality resources and following the instruction of the goods management team, thereby achieving prompt response and flexible delivery. During the period, through the enhancement of operation efficiency and the great synergy from planning for upstream and downstream of the supply chain, we have realized direct delivery and rapid replenishment from the central warehouse to various stores across China, which is conducive to the implementation of efficient goods operational management and effective goods turnover of the Company.
- Strengthening the logistics support for operation of retail stores. During the period, the Company placed strong emphasis on formulating targeted logistics services and supporting plans for big stores with high productivity with a view to enhancing the logistics operation efficiency of such stores, demonstrating and utilizing their overall advantages and resources to improve both store and customer experience.

Management Discussion and Analysis (Continued)

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

Sustained e-commerce growth by product innovation and consumer experience upgrade

During the first half of 2019, the e-commerce of Li Ning Company continued to record steady growth in terms of revenue and profitability.

During the period, the e-commerce of Li Ning Company stepped up its efforts in product creativity and experience upgrade. In terms of product creativity, the e-commerce platform continued to focus on establishing the independent product line, the "Counterflow-溯" series, which comprises middle-to high-priced sports footwear and apparel featuring both street fashion and Chinese culture elements, and is committed to developing it into an independent product line with the richest cultural background and strongest storytelling capabilities in the industry. During the period, the product reputation of the "Counterflow-溯" series improved continuously with gradually enhanced consumer recognition. Meanwhile, the e-commerce of Li Ning Company played an active role in the Group's core strategic projects such as "China LI-NING", New York/Paris Fashion Week. With the combination of thematic marketing and simultaneous online sales, the contribution of e-commerce to our business has increased and the recognition among consumers has improved.

In terms of experience upgrade, the e-commerce of Li Ning Company continued to invest in visual contents, marketing campaigns and store experience, using big data to set precise positioning for different products and user groups so as to grasp diversified consumption needs and comprehensively enhance users' store experience. Meanwhile, we have used trendy tools such as WeChat mini program and live streaming to attract more consumers, upgrade consuming experience and enhance user loyalty.

Looking forward, the e-commerce of Li Ning Company will continue to seek breakthroughs in product innovation and marketing experience and make great efforts to satisfy differentiated and specific market demands so as to further increase its influence among different consumers.

Continuous promotion of "Demand-driven" (因需而動) supply chain optimization

During the first half of 2019, in line with the Company's needs for business development, the Company continued to improve the responsiveness and elasticity of the supply chain with an emphasis on "Demand-driven" to optimize and consolidate supply chain resources in multiple levels and dimensions and establish a precise and swift business-oriented supply chain system, thereby fostering positive and dynamic supply chain management.

- During the period, on the basis of overall business layout and differentiated product needs as well as suppliers' own advantages, the Company has increased its investment in the rapid production and development of popular products. Meanwhile, the Company steadily pushed ahead with its automation projects to achieve automated, smart and standardized production and hence further improve its production efficiency.

Management Discussion and Analysis (Continued)

- The Company continued to intensify its efforts in product innovation and research and development to improve the professional features and sports performance of its products. It has also strengthened the management of product quality with a focus on enhancing product workmanship and details and improving wearing comfortability to enhance wearing experience. It established a quality management commune with suppliers to control risks in production stages.
- In respect of cost management, the Company implemented stringent cost control measures and practiced the concept of cost management on all areas ranging from product design and development to various production stages, through which the procurement costs have been effectively controlled, hence directly benefiting consumers by improving price-performance ratio of products. Meanwhile, it continued to tighten the requirements on labour, occupational health and environmental protection to ensure sustainable development.
- Meanwhile, 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 to improve layout of supply chain resources and network. During the period, the Company continued to devote efforts in establishing its own supply chain system. The footwear production plant that we leased in Nanning, Guangxi Province has been officially put into production, with the aims of instilling core industrial capabilities into LI-NING's system over time and strengthening its own supply chain management and application of research and development knowledge.

NEW BUSINESS

LI-NING YOUNG

During the first half of 2019, LI-NING YOUNG made continued progress and achievements by orderly carrying out product development, supply chain building, channel development and brand image establishment.

- We carried out product categorization and segmentation to achieve precision in product categorization and product structure. During the period, we promoted marketable products customized for local climate based on the regional climate characteristic and introduced professional products for sports training of high-tier children, striving to cater more consumption needs and increase business opportunities. Keeping abreast of fashion trend in the market, we launched cross-over products with Chimelong Resort and Disney, and continued to develop "China LI-NING" kidswear series product line to raise brand influence. Meanwhile, during the period, with continuously optimizing product technology and materials, we released new product technologies such as "High Thread Count and High Density Long-staple Cotton for Summer", "Single-way Moisture Diffusion" and "Beehive Shock-relieving" technology. For materials, we successively introduced special materials for children and trendy products to gradually increase product performance such as softness, wrinkle resistance and wear resistance to improve wearing experience, thereby building sound product reputation.
- We laid out quality supply chain resources and established supply chain system exclusively for kidswear business. During the period, by integrating production stages such as product development, design and cost, we prioritized the allocation of quality supply chain resources to core and popular products to ensure product quality, optimize production procedures and facilitate efficiency enhancement.

Management Discussion and Analysis (Continued)

- For channel building, we continued to expedite market expansion while optimizing and adjusting market layout. By analyzing entry strategies and advantages of markets and commercial zones with different channels and levels, we allocated channel polices and resources based on the differentiated development of regional markets and strategic customers, so as to realize channel building precision. Online channels continued to cooperate with maternity and childcare channel on e-commerce platforms and develop vertical e-commerce customers so as to enter professional online maternity and childcare platforms and try to create popular products via community e-commerce.
- For marketing, LI-NING YOUNG continued to optimize its own digital marketing matrix including Weibo, WeChat and TikTok (抖 音) official accounts. Meanwhile, leveraging various promotional channels such as KOL in maternity and childcare field, sportsman, celebrities and partners, we have delivered real-time information on brand news and new product launch and interacted with our consumers with a view to enhancing customer loyalty. Apart from online promotion, LI-NING YOUNG also organized opening ceremonies, festival discounts and membership activities in key stores nationwide. It has also strengthened its brand and product promotion through participation in events such as “Way of Wade Tour China” (韋德中國行), organizing fashion shows or fun sports day, launching cross-over marketing campaign in collaboration with large theme park in China and sponsoring youth sports competitions.

As of 30 June 2019, LI-NING YOUNG business covered 31 provinces with a total of 872 stores. Looking forward, we will continue to explore market demand and optimize product categorization with products as the core aspect, at the same time devoting consistent efforts in channels, retail operations, and supply chains to create a closed-loop ecosystem covering product planning to consumer purchase, aiming to drive business growth, enhance efficiency and hence reinforce the core values of our brand.

DANSKIN Brand

In October 2016, Li Ning Company announced the cooperation with Danskin, a professional dance sports brand in the United States, for the exclusive licensing right to operate the brand’s businesses in the Mainland China and Macao region. The brand focused on women sports products with attractive appearance. Meanwhile, it highlighted the professional sports attributes and offered products with better styles and designs targeting women consumer groups.

With the accumulation of experience in business development in 2018, Danskin brand focused the strategy for its principal business on mid- to high-end professional women yoga products and certain women fitness products in 2019. The channel development of the brand mainly focused in the first- and second-tier cities and adopted directly-operated retail model. It also continued to intensify its efforts in product design, research and development and upgrade, and optimization of supply chain with a view to exploring core products with relatively strong market competitiveness and enhancing store efficiency.

Looking forward, in addition to enhancing single store profitability, the brand will focus on digital marketing and put more efforts in online promotion and marketing to promote the brand and its core products through diversified advertising initiatives in social media, striving to promote the high value-added women sports products and yoga culture to more consumers.

Management Discussion and Analysis (Continued)

HUMAN RESOURCES

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

- Regarding organisational development, the Company established and improved the organisation of new product categories and new sales channels, strengthened our research and development and organisational capacity in respect of the supply chain, as well as continued to optimize the organisation of LI-NING YOUNG and e-commerce business.
- In terms of talent management, the Company actively explored and recruited talents to drive business transformation, nurtured employees' planning, design as well as research and development capacity and built up its talent pool, at the same time ensuring the efficiency of these talents.
- In terms of remuneration package, the Company continued to enhance market competitiveness of our key employees' remuneration and newly added various timely and short-term incentive measures so as to encourage employees to achieve excellent performance, and motivate core talents.
- Regarding corporate cultural system, we continued to optimize our welfare schemes and career development system. We also devoted great efforts in brand-building of employer with an aim to increasing our staff's sense of honor and professionalism.

In the future, focusing on the Group's strategic plan of "Single Brand, Multi-categories, Diversified Channels" and pursuing the goal of enhancing both operating efficiency and profitability, we will strengthen our organisational performance and the development of our talent team. We will effectively manage the investments in human resources, while continuing to strengthen our organisational capacity and enhance the overall performance of staff in order to give full support to the Company's strategic goal.

As at 30 June 2019, the Group had 3,495 employees in total (31 December 2018: 2,412 employees), in which 3,330 employees, including a net increase of 969 employees at the footwear production plant in Nanning, Guangxi Province, are at the Group's headquarter and retail subsidiaries (31 December 2018: 2,233 employees), and 165 employees are at other subsidiaries (31 December 2018: 179 employees). The Group's total staff costs (including directors' emoluments) amounted to approximately RMB725,224,000 for the six months ended 30 June 2019 (30 June 2018: RMB539,950,000).

Employee remunerations are determined according to the Group's operating results, job requirements, market salary level and ability of individuals. The Group regularly reviews its remuneration policy and additional benefit programs and makes necessary adjustments to bring them in line with the industry level. In addition to basic salaries, the Group has established performance appraisal plans to provide rewards according to the Group's results and employees' individual performance.

Management Discussion and Analysis (Continued)

OUTLOOK

Looking forward, on the basis of our major tasks which were accomplished in the first half of 2019, we will continue to promote the strategy of “Single Brand, Multi-categories, Diversified Channels”, strengthen and improve the following core business focuses, remain devoted to create LI-NING’s experience value, and focus on enhancing efficiency in order to achieve healthy and sustainable profit growth for the Company in the future:

- In respect of products, we will continue to innovate by integrating professional sports with pop culture, so as to attract more consumer groups and expand our brand influence. We will enhance the professional sports attributes with innovative technology by strengthening our research and development in relation to sports science. Meanwhile, we will focus on seeking fashionable elements which align with the DNA of our brand by exploring and analysing the pop culture with an aim to increasing the fashionable elements in our professional sports products and develop more star products. We will also precisely capitalize on current hot topics to create and lead the market trend, at the same time strengthening the interaction with consumers to enhance their recognition of and loyalty to our brand and increase our brand value;
- In terms of sales channels, we will continue to increase the efficiency and promote the diversified development of our sales channels, as well as implement the strategy of big stores with high productivity. Meanwhile, with a view to refining the structure of sales channels, we will continue to close down and reform loss-making and inefficient stores;
- Continuous establishment and optimization of retail operation platform and supply chain management system will remain as one of our major tasks. We will constantly optimize the retail experience in stores, promote standardization of store operation, improve store management ability and optimize consumption experience in stores. We will also continue to explore new retail businesses and improve the online and offline integrated operation mode. Meanwhile, we will carry on enhancing the capability in terms of our own supply chain management and research and development regarding application of technology and knowledge;
- We will continue to promote the development of digitalization strategy so as to further strengthen the comprehensive marketing layout. Capitalizing on the hot topics and trends in the market, we will further enhance the sales efficiency by flexibly conducting multichannel marketing campaigns both online and offline, with a view to seizing and procuring more business opportunities;
- In respect of new business, on the basis of continuing to focus on enhancing single store profitability, we will make reasonable and prudent use of resources to explore business opportunities and potential market, in order to foster new opportunities for the Company’s profit growth in the long run.

In recent years, the government has introduced various favorable policies to support the development of the sports industry. Meanwhile, under the consumption upgrade driven by national economic growth, the consumption concept of the general public has changed gradually with more and more consumers giving great consideration to product innovation and brand value. Along with the increasingly mature consumption concept, the consumption demand of people will become more refined and diverse, which will pose more challenges to our brand and product competitiveness in the market. In order to better adapt to the industry’s development and market trends, and demonstrate the unique characteristics and values of our brand amidst industry competition, we will continue to focus on our products with emphasis on their professional features. We will also devote great efforts in building our brand competitiveness and LI-NING’s experience value, thereby providing sufficient driving force to support the Company’s long-term development. In the future, we will continue to devote main resources into gaining sports knowledge, researching on technology, building LI-NING brand experience, as well as proactively explore and broaden room for business development.





STANDING OUT



Condensed Consolidated Interim Financial Information

Interim condensed consolidated balance sheet

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	8	843,195	830,085
Right-of-use assets	4	804,488	–
Land use rights	9	73,162	74,092
Intangible assets	10	181,482	233,921
Deferred income tax assets		326,447	239,047
Other assets	12	125,962	132,491
Investments accounted for using the equity method		1,038,978	728,499
Other receivables	14	100,672	102,916
Total non-current assets		3,494,386	2,341,051
Current assets			
Inventories	11	1,323,827	1,239,741
Other assets – current portion	12	544,315	508,536
Trade receivables	13	755,721	928,895
Other receivables – current portion	14	38,721	37,340
Restricted bank deposits		200	200
Cash and cash equivalents		4,724,804	3,671,542
Total current assets		7,387,588	6,386,254
Total assets		10,881,974	8,727,305

Condensed Consolidated Interim Financial Information (Continued)

Interim condensed consolidated balance sheet (Continued)

	Note	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	15	214,333	204,435
Share premium	15	3,517,389	3,249,389
Shares held for Restricted Share Award Scheme	15	(141,967)	(168,809)
Other reserves	16	1,072,573	1,314,569
Retained earnings	16	1,797,760	1,217,456
		6,460,088	5,817,040
Non-controlling interests in equity		2,550	2,550
Total equity		6,462,638	5,819,590
LIABILITIES			
Non-current liabilities			
License fees payable	19	26,624	27,565
Derivative financial instruments		28,285	14,274
Lease liabilities		439,266	–
Deferred income tax liabilities		45,686	34,730
Deferred income	20	53,278	53,675
Total non-current liabilities		593,139	130,244
Current liabilities			
Trade payables	17	1,212,257	1,133,314
Contract liabilities		155,791	97,979
Lease liabilities – current portion		278,197	–
Other payables and accruals	18	1,793,368	1,383,118
License fees payable – current portion	19	53,997	28,719
Current income tax liabilities		332,587	134,341
Total current liabilities		3,826,197	2,777,471
Total liabilities		4,419,336	2,907,715
Total equity and liabilities		10,881,974	8,727,305

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

Condensed Consolidated Interim Financial Information (Continued)

Interim condensed consolidated income statement

	Note	Unaudited Six months ended 30 June	
		2019 RMB'000	2018 RMB'000
Revenue	7	6,254,730	4,712,773
Cost of sales		(3,146,772)	(2,418,906)
Gross profit		3,107,958	2,293,867
Distribution expenses		(2,023,392)	(1,735,145)
Administrative expenses		(450,913)	(297,106)
Reversal of impairment losses on financial assets – net		103	1,062
Other income and other gains – net	22	44,306	31,121
Operating profit		678,062	293,799
Finance income	23	18,202	8,546
Finance expenses	23	(26,441)	(7,050)
Finance (expenses)/income – net		(8,239)	1,496
Share of profit of investments accounted for using the equity method	24	310,479	32,128
Profit before income tax		980,302	327,423
Income tax expense	25	(185,303)	(58,854)
Profit for the period		794,999	268,569
Attributable to:			
Equity holders of the Company		794,999	268,569
Non-controlling interests		–	–
		794,999	268,569
Earnings per share for profit attributable to equity holders of the Company for the period (expressed in RMB cents per share)			
Basic earnings per share	26	32.88	11.10
Diluted earnings per share	26	32.08	10.98

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

Condensed Consolidated Interim Financial Information (Continued)

Interim condensed consolidated statement of comprehensive income

	Note	Unaudited	
		Six months ended 30 June	
		2019	2018
		RMB'000	RMB'000
Profit for the period		794,999	268,569
Other comprehensive income/(loss):			
<i>Items that may be reclassified to profit or loss</i>			
Currency translation differences		528	(873)
Total comprehensive income for the period		795,527	267,696
Attributable to:			
Equity holders of the Company		795,527	267,696
Non-controlling interests		–	–
Total comprehensive income for the period		795,527	267,696

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

Condensed Consolidated Interim Financial Information (Continued)

Interim condensed consolidated statement of changes in equity

	Unaudited							
	Ordinary shares	Share premium	Shares held for		Retained earnings	Subtotal	Non-controlling interests in equity	Total equity
			Restricted Share					
			Award Scheme	Other reserves				
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
(Note 15)	(Note 15)	(Note 15)	(Note 16)	(Note 16)				
As at 1 January 2019	204,435	3,249,389	(168,809)	1,314,569	1,217,456	5,817,040	2,550	5,819,590
Total comprehensive income for the period	-	-	-	528	794,999	795,527	-	795,527
Transactions with owners:								
Net proceeds from share issuance pursuant to share option schemes	280	12,845	-	-	-	13,125	-	13,125
Value of services provided under share option schemes and Restricted Share Award Scheme	-	-	-	49,091	-	49,091	-	49,091
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	(7,853)	-	7,853	-	-	-	-
Shares vested under Restricted Share Award Scheme	-	-	26,842	(26,842)	-	-	-	-
Shares converted from convertible securities	9,618	263,008	-	(272,626)	-	-	-	-
Dividends (Note 27)	-	-	-	-	(214,695)	(214,695)	-	(214,695)
As at 30 June 2019	214,333	3,517,389	(141,967)	1,072,573	1,797,760	6,460,088	2,550	6,462,638

Condensed Consolidated Interim Financial Information (Continued)

Interim condensed consolidated statement of changes in equity (Continued)

	Unaudited							Total equity RMB'000
	Ordinary shares RMB'000 (Note 15)	Share premium RMB'000 (Note 15)	Shares held for		Retained earnings RMB'000 (Note 16)	Subtotal RMB'000	Non-controlling interests in equity RMB'000	
			Restricted Share	Award Scheme				
			RMB'000 (Note 15)	RMB'000 (Note 15)				
Other reserves RMB'000 (Note 16)								
As at 1 January 2018	203,347	3,189,792	(69,600)	1,086,613	660,895	5,071,047	2,550	5,073,597
Total comprehensive income for the period	-	-	-	(873)	268,569	267,696	-	267,696
Transactions with owners:								
Net proceeds from share issuance pursuant to share option schemes	616	27,057	-	-	-	27,673	-	27,673
Value of services provided under share option schemes and Restricted Share Award Scheme	-	-	-	47,206	-	47,206	-	47,206
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	4,664	-	(4,664)	-	-	-	-
Shares converted from convertible securities	-	6	-	(6)	-	-	-	-
Shares vested under Restricted Share Award Scheme	-	-	19,850	(19,850)	-	-	-	-
Shares purchased for Restricted Share Award Scheme	-	-	(6,317)	-	-	(6,317)	-	(6,317)
As at 30 June 2018	203,963	3,221,519	(56,067)	1,108,426	929,464	5,407,305	2,550	5,409,855

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

Condensed Consolidated Interim Financial Information (Continued)

Interim condensed consolidated statement of cash flows

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Cash flows from operating activities:		
Cash generated from operations	1,429,659	666,554
Income tax paid	(63,500)	(6,355)
Net cash generated from operating activities	1,366,159	660,199
Cash flows from investing activities:		
– purchases of property, plant and equipment	(224,667)	(174,724)
– purchases of intangible assets	(12,171)	(14,042)
– proceeds on disposal of property, plant and equipment	1,090	1,347
– interest received	44,692	20,004
– purchases of short-term deposits	–	(109,176)
– payments for financial assets at fair value through profit or loss	–	(250,000)
Net cash used in investing activities	(191,056)	(526,591)
Cash flows from financing activities:		
– proceeds from issuance of ordinary shares	13,125	27,673
– shares purchased for Restricted Share Award Scheme	–	(6,317)
– principal portion of lease payments	(136,561)	–
Net cash (used in)/from financing activities	(123,436)	21,356
Net increase in cash and cash equivalents	1,051,667	154,964
Cash and cash equivalents at beginning of period	3,671,542	2,529,222
Exchange gains on cash and cash equivalents	1,595	8,360
Cash and cash equivalents at end of period	4,724,804	2,692,546

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

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information

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 of Directors (the "Board") on 13 August 2019.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2019 has been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2018, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. Accounting policies

The accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 December 2018, as described in those annual financial statements except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2019.

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

A number of new or amended standards become applicable for the current reporting period, and the Group had to change its accounting policies as a result of adopting IFRS 16 *Leases*. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1 January 2019. This is disclosed in Note 4. The other standard did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

4. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019 in note 4(b) below.

(a) Adjustments recognised on adoption of IFRS 16

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

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

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

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019 RMB'000	1 January 2019 RMB'000
Properties	804,488	757,762

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

4. Changes in accounting policies (Continued)

(a) Adjustments recognised on adoption of IFRS 16 (Continued)

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

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

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

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

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

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

4. Changes in accounting policies (Continued)

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

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 1 to 6 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees, and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

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

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

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

4. Changes in accounting policies (Continued)

(b) The Group's leasing activities and how these are accounted for (Continued)

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

Extension and termination options

Extension and termination options are included in some property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

5. Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2018.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Financial risk management

6.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow/fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018.

There have been no changes in the risk management department since year end or in any risk management policies.

6.2 Liquidity risk

Compared to year end, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

6.3 Fair value estimation

(a) Fair value hierarchy

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2019 and 31 December 2018 on a recurring basis:

At 30 June 2019	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Derivative financial instruments	–	–	28,285	28,285
At 31 December 2018	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial liabilities				
Derivative financial instruments	–	–	14,274	14,274

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Financial risk management (Continued)

6.3 Fair value estimation (Continued)

(a) Fair value hierarchy (Continued)

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2019.

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

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

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

(b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Financial risk management (Continued)

6.3 Fair value estimation (Continued)

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

The following table presents the changes in level 3 instruments for the six months ended 30 June 2019:

	Wealth management products RMB'000	Derivative financial instruments RMB'000	Total RMB'000
Opening balance as at 31 December 2018	–	(14,274)	(14,274)
Additions	2,573,000	–	2,573,000
Settlements	(2,602,553)	–	(2,602,553)
Changes in fair value	29,553	(14,011)	15,542
Closing balance as at 30 June 2019	–	(28,285)	(28,285)
Changes in unrealised gains or losses for the period included in profit or loss for assets held at the end of the six months ended 30 June 2019	–	(14,011)	(14,011)

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

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

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

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

7. Segment information and revenue

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

The segment information presented by brand perspective has ceased since 1 January 2018 as the Group was principally engaged in a single line of business of sporting goods.

Revenue breakdown by product category is as follows:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Footwear	2,921,728	2,190,747
Apparel	3,060,044	2,299,615
Equipment and accessories	272,958	222,411
Total	6,254,730	4,712,773

Geographical information of revenue

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
The PRC (including the Hong Kong Special Administrative Region)	6,157,231	4,639,133
Other regions	97,499	73,640
Total	6,254,730	4,712,773

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 2019 and 2018, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

8. Property, plant and equipment

	Unaudited						
	Buildings	Leasehold improvement	Mould	Machinery	Office equipment and motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Six months ended 30 June 2019							
As at 1 January 2019	345,733	349,333	49,335	39,501	46,055	128	830,085
Additions	–	185,200	12,890	11,597	10,025	8,057	227,769
Transfers	254	–	–	–	–	(254)	–
Disposals	–	(23,089)	–	(651)	(1,090)	–	(24,830)
Depreciation charge	(7,877)	(151,882)	(17,659)	(5,395)	(7,016)	–	(189,829)
As at 30 June 2019	338,110	359,562	44,566	45,052	47,974	7,931	843,195
Six months ended 30 June 2018							
As at 1 January 2018	363,899	333,078	49,171	46,245	45,792	–	838,185
Additions	–	119,469	8,989	2,456	4,410	732	136,056
Disposals	(98)	(11,360)	(293)	(94)	(603)	–	(12,448)
Depreciation charge	(9,259)	(141,504)	(15,128)	(5,119)	(6,369)	–	(177,379)
As at 30 June 2018	354,542	299,683	42,739	43,488	43,230	732	784,414

Depreciation expenses of RMB21,484,000 (30 June 2018: RMB16,045,000) has been charged to cost of sales, RMB162,077,000 (30 June 2018: RMB151,342,000) to distribution expenses and RMB6,268,000 (30 June 2018: RMB9,992,000) to administrative expenses.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

9. Land use rights

	Unaudited RMB'000
Six months ended 30 June 2019	
As at 1 January 2019	74,092
Amortisation charge	(930)
<hr/>	
As at 30 June 2019	73,162
Six months ended 30 June 2018	
As at 1 January 2018	75,986
Amortisation charge	(951)
<hr/>	
As at 30 June 2018	75,035

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

Amortisation of RMB930,000 (30 June 2018: RMB951,000) has been charged to administrative expenses.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

10. Intangible assets

	Unaudited					
	Goodwill RMB'000	Trademarks RMB'000	Computer software RMB'000	License rights RMB'000	Customer relationships & Non- compe- te agreements RMB'000	Total RMB'000
Six months ended 30 June 2019						
As at 1 January 2019	139,474	11,072	49,501	32,518	1,356	233,921
Additions	-	820	3,892	-	-	4,712
Amortisation charge	-	(701)	(10,350)	(8,350)	(1,356)	(20,757)
Impairment charge (a)	(36,394)	-	-	-	-	(36,394)
As at 30 June 2019	103,080	11,191	43,043	24,168	-	181,482
Six months ended 30 June 2018						
As at 1 January 2018	139,474	12,351	47,823	50,094	8,205	257,947
Additions	-	-	2,444	-	-	2,444
Amortisation charge	-	(650)	(9,926)	(9,225)	(3,424)	(23,225)
As at 30 June 2018	139,474	11,701	40,341	40,869	4,781	237,166

Amortisation of RMB8,350,000 (30 June 2018: RMB9,225,000) has been charged to distribution expenses and RMB12,407,000 (30 June 2018: RMB14,000,000) to administrative expenses.

(a) Goodwill impairment

Due to the realignment of the Group's overall sales channel structure, Management has recalculated the recoverable amount of certain CGUs related to Li Ning brand as at 30 June 2019. An impairment loss of RMB36,394,000 was recognised for the period ended 30 June 2019.

The recoverable amount of these CGUs was determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by Management. The weighted average revenue growth rate used for the sixth year to the tenth year for Li Ning brand is 5% per annum. The growth rates applied do not exceed the long-term average growth rate for the business in which the CGU operate. The pre-tax discount rates used is 10.7% which reflect specific risks relating to Li Ning brand.

As there were no indicators for impairment of any of the other CGUs, management has not updated any of the other impairment calculations.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

11. Inventories

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Raw materials	9,931	1,112
Work in progress	7,068	3,101
Finished goods	1,459,918	1,360,167
	1,476,917	1,364,380
Less: provision for write-down of inventories to net realisable value	(153,090)	(124,639)
	1,323,827	1,239,741

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB3,058,230,000 for the six months ended 30 June 2019 (30 June 2018: RMB2,366,250,000).

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 2019 and 2018.

12. Other assets

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Prepayment for property purchases	125,833	125,833
Advances to suppliers	84,286	11,148
Prepaid rentals and other deposits	80,175	180,321
Prepayment for advertising expenses	38,372	36,640
Other assets in relation to refunds	293,689	262,644
Others	47,922	24,441
	670,277	641,027
Less: non-current portion	(125,962)	(132,491)
Current portion	544,315	508,536

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

13. Trade receivables

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Accounts receivable	1,040,298	1,213,288
Less: allowance for impairment of trade receivables	(284,577)	(284,393)
	755,721	928,895

Customers are normally granted credit terms within 90 days. As at 30 June 2019 and 31 December 2018, ageing analysis of trade receivables based on invoice date are as follows:

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
0 – 30 days	351,421	551,193
31 – 60 days	159,248	247,090
61 – 90 days	123,394	99,029
91 – 180 days	122,117	87,835
Over 180 days	284,118	228,141
	1,040,298	1,213,288

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

	Unaudited Six months ended 30 June 2019 RMB'000	2018 RMB'000
Opening balance	284,393	401,845
Provision for/(reversal of) impairment allowance of trade receivables	230	(1,062)
Trade receivables written off during the period as uncollectible	(46)	(3,103)
Closing balance	284,577	397,680

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

14. Other receivables

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Deposits	113,752	114,387
Loans to a joint venture (Note a)	6,543	6,309
Staff advances and other payments for employees	682	1,153
License fees receivable	–	771
Others	22,134	21,687
Less: loss allowance for other receivables	(3,718)	(4,051)
	139,393	140,256
Less: non-current portion	(100,672)	(102,916)
Current portion	38,721	37,340

Other receivables are measured at amortised cost and do not contain impaired assets. Non-current portion mainly comprises rental deposits.

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of other receivables mentioned above. The Group does not hold any collateral as security.

- (a) As at 30 June 2019, loan of HK\$7,500,000 to Li-Ning Aigle Ventures was unsecured, interest free, and with no fixed maturity date.

15. Ordinary shares, share premium and shares held for Restricted Share Award Scheme

	Number of shares (Thousands)	Approximate amount HK\$'000
Authorised at HK\$0.10 each		
As at 30 June 2019 and 31 December 2018	10,000,000	1,000,000

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

15. Ordinary shares, share premium and shares held for Restricted Share Award Scheme (Continued)

Issued and fully paid

	Unaudited				
	Number of share of HK\$0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
As at 1 January 2019	2,162,481	204,435	3,249,389	(168,809)	3,285,015
Net proceeds from shares issued pursuant to share option schemes (Note a)	3,225	280	12,845	–	13,125
Shares converted from convertible securities (Note 16)	112,125	9,618	263,008	–	272,626
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(7,853)	–	(7,853)
Shares vested under Restricted Share Award Scheme	4,697	–	–	26,842	26,842
As at 30 June 2019	2,282,528	214,333	3,517,389	(141,967)	3,589,755
As at 1 January 2018	2,162,159	203,347	3,189,792	(69,600)	3,323,539
Net proceeds from shares issued pursuant to share option schemes (Note a)	7,563	616	27,057	–	27,673
Shares converted from convertible securities (Note 16)	3	–	6	–	6
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	4,664	–	4,664
Shares vested under Restricted Share Award Scheme	4,792	–	–	19,850	19,850
Shares purchased for Restricted Share Award Scheme	(911)	–	–	(6,317)	(6,317)
As at 30 June 2018	2,173,606	203,963	3,221,519	(56,067)	3,369,415

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

15. Ordinary shares, share premium and shares held for Restricted Share Award Scheme (Continued)

Issued and fully paid (Continued)

- (a) During the six months ended 30 June 2019, certain directors and employees of the Group exercised their options pursuant to the Company's 2004 and 2014 Share Option Scheme. Hence the Company issued 3,225,000 shares (2018: 7,563,000 shares) to them at weighted-average exercise price of HK\$4.69 (2018: HK\$4.49) per share (Note 28).

16. Reserves

	Unaudited							
	Capital reserves RMB'000	Statutory reserve funds RMB'000	Share-based compensation reserve RMB'000	Convertible securities reserve RMB'000	Currency translation difference RMB'000	Subtotal RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2019	141,470	466,264	147,303	557,426	2,106	1,314,569	1,217,456	2,532,025
Profit for the period	-	-	-	-	-	-	794,999	794,999
Value of services provided under share option schemes and Restricted Share Award Scheme	-	-	49,091	-	-	49,091	-	49,091
Share options lapsed	1,485	-	(1,485)	-	-	-	-	-
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	-	7,853	-	-	7,853	-	7,853
Shares converted from convertible securities (Note)	-	-	-	(272,626)	-	(272,626)	-	(272,626)
Shares vested under Restricted Share Award Scheme	-	-	(26,842)	-	-	(26,842)	-	(26,842)
Translation difference of foreign currency financial statements	-	-	-	-	528	528	-	528
Dividends (Note 27)	-	-	-	-	-	-	(214,695)	(214,695)
As at 30 June 2019	142,955	466,264	175,920	284,800	2,634	1,072,573	1,797,760	2,870,333

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

16. Reserves (Continued)

	Unaudited							
	Capital reserves	Statutory reserve funds	Share-based compensation reserve	Convertible securities reserve	Currency translation difference	Subtotal	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2018	140,926	310,450	77,006	557,445	786	1,086,613	660,895	1,747,508
Profit for the period	-	-	-	-	-	-	268,569	268,569
Value of services provided under share option schemes and Restricted Share Award Scheme	-	-	47,206	-	-	47,206	-	47,206
Share options lapsed	544	-	(544)	-	-	-	-	-
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	-	-	(4,664)	-	-	(4,664)	-	(4,664)
Shares converted from convertible securities (Note)	-	-	-	(6)	-	(6)	-	(6)
Shares vested under Restricted Share Award Scheme	-	-	(19,850)	-	-	(19,850)	-	(19,850)
Translation difference of foreign currency financial statements	-	-	-	-	(873)	(873)	-	(873)
As at 30 June 2018	141,470	310,450	99,154	557,439	(87)	1,108,426	929,464	2,037,890

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

16. Reserves (Continued)

Note:

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

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

- (d) As at 30 June 2019, CS with carrying value of HK\$1,776,856,000 (equivalent to approximately RMB1,450,119,000) had been converted into ordinary shares of the Company, amongst which carrying value of HK\$317,819,000 (equivalent to approximate RMB272,626,000) were converted into 112,125,000 ordinary shares of the Company during the six months ended 30 June 2019 (Note 15).

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

17. Trade payables

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
0 – 30 days	892,232	758,434
31 – 60 days	278,895	310,259
61 – 90 days	32,398	57,309
91 – 180 days	3,307	1,947
181 – 365 days	1,277	1,857
Over 365 days	4,148	3,508
	1,212,257	1,133,314

18. Other payables and accruals

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Refunds liabilities	571,447	501,141
Accrued sales and marketing expenses	399,977	371,034
Dividends payables (Note 27)	214,695	–
Wages and welfare payables	184,864	160,480
Payable for property, plant and equipment	70,889	24,575
Other tax payables	65,585	89,003
Others	285,911	236,885
	1,793,368	1,383,118

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

19. License fees payable

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

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

	Unaudited RMB'000	
Six months ended 30 June 2019		
As at 1 January 2019		56,284
Additions		33,676
Payment of license fees		(10,987)
Amortisation of discount (Note 23)		1,643
Adjustment for exchange difference		5
As at 30 June 2019		80,621
Six months ended 30 June 2018		
As at 1 January 2018		72,595
Additions		20,013
Payment of license fees		(11,598)
Amortisation of discount (Note 23)		2,160
Adjustment for exchange difference		389
As at 30 June 2018		83,559
	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Analysis of license fees payable:		
Non-current		
– the second to fifth year	18,294	16,919
– more than five years	8,330	10,646
Current	53,997	28,719
	80,621	56,284

The license fees payable is mainly denominated in RMB and US\$.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

19. License fees payable (Continued)

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

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Less than 1 year	54,382	29,187
Between 1 and 5 years	25,000	23,000
Over 5 years	14,500	19,000
	93,882	71,187

20. Deferred income

	Unaudited		Total RMB'000
	Government grants RMB'000	Customer loyalty programme RMB'000	
Six months ended 30 June 2019			
As at 1 January 2019	53,675	–	53,675
Addition	250	–	250
Credited to income statement	(647)	–	(647)
As at 30 June 2019	53,278	–	53,278
Six months ended 30 June 2018			
As at 1 January 2018	53,266	3,566	56,832
Reclassified to contract liabilities	–	(3,566)	(3,566)
Addition	100	–	100
Credited to income statement	(647)	–	(647)
As at 30 June 2018	52,719	–	52,719

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

21. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Cost of inventories recognised as expenses included in cost of sales	3,058,230	2,366,250
Depreciation on property, plant and equipment (Note a)	189,829	177,379
Amortisation of land use rights and intangible assets	21,687	24,176
Depreciation of right-of-use assets	152,580	–
Impairment of goodwill	36,394	–
Advertising and marketing expenses	557,055	492,733
Commission and trade fair related expenses	119,194	75,494
Staff costs, including directors' emoluments (Note a)	725,224	539,950
Expenses relating to short-term lease and variable lease payments not included in lease liabilities and rental related expenses (30 June 2018: Operating lease rentals and related expenses in respect of land and buildings)	318,793	443,861
Research and product development expenses (Note a)	132,711	61,632
Transportation and logistics expenses	214,063	175,672
Auditor's remuneration	2,916	2,707
– Audit services	2,600	2,500
– Non-audit services	316	207
Management consulting expenses	44,577	23,612
Travelling and entertainment expenses	32,336	23,995

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.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

22. Other income and other gains – net

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Government grants	22,312	15,088
License fees income	6,452	7,896
Interest income from wealth management products measured at fair value through profit or loss	29,553	16,293
Fair value losses on derivative financial instruments at fair value through profit or loss	(14,011)	(8,156)
	44,306	31,121

23. Finance income and expenses

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Finance income		
– Interest income on bank balances and deposits	15,139	4,560
– Net foreign currency exchange gain	3,063	3,986
	18,202	8,546
Finance expenses		
– Amortisation of discount – license fees payable (Note 19)	(1,643)	(2,160)
– Amortisation of discount – lease liabilities	(19,833)	–
– Others	(4,965)	(4,890)
	(26,441)	(7,050)
Finance (expenses)/income – net	(8,239)	1,496

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

24. Share of profit of investments accounted for using the equity method

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Associates (a)	298,627	27,207
Joint ventures	11,852	4,921
	310,479	32,128

- (a) The share of profit from associates included an one-off non-operating income which was attributable to disposal of land use right and properties of Shanghai Double Happiness Co., Ltd..

25. Income tax expense

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Current income tax		
– Corporate income tax	261,153	69,561
– Withholding income tax on interest income from subsidiaries in PRC	593	482
	261,746	70,043
Deferred income tax	(76,443)	(11,189)
Income tax expense	185,303	58,854

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

26. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue less shares held for Restricted Share Award Scheme during the 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 had effectively resulted in 44,813,000 ordinary shares (30 June 2018: 57,689,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share.

	Unaudited Six months ended 30 June	
	2019 RMB'000	2018 RMB'000
Profit attributable to equity holders of the Company	794,999	268,569
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (in thousands)	2,417,682	2,418,896
Basic earnings per share (RMB cents)	32.88	11.10

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

26. Earnings per share (Continued)

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential shares. The Company's dilutive potential shares comprise shares to be issued under 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.

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	794,999	268,569
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (in thousands)	2,417,682	2,418,896
Adjustment for the restricted shares (in thousands)	26,572	14,345
Adjustment for the share options schemes (in thousands)	34,071	12,926
Deemed weighted average number of ordinary shares for diluted earnings per share (in thousands)	2,478,325	2,446,167
Diluted earnings per share (RMB cents)	32.08	10.98

As at 30 June 2019, there were 1,607,000 share options that could potentially have a dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2019. As at 30 June 2018, there were 52,932,000 share options that could potentially have a dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2018.

27. Dividends

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 2019 and 2018.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-based compensation

(a) 2004 Share Option Scheme

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

	Unaudited Six months ended 30 June			
	2019		2018	
	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)
As at 1 January	6.031	3,753	5.316	10,682
Exercised	5.368	(876)	4.584	(2,544)
Lapsed	6.350	(52)	–	–
As at 30 June	6.231	2,825	5.544	8,138
Exercisable as at 30 June	6.231	2,825	5.535	7,762

Share options outstanding under this scheme as at 30 June 2019 and 31 December 2018 have the following expiry date and exercise price:

Expiry date	Unaudited 30 June 2019		Audited 31 December 2018	
	Exercise price (per share) HK\$	Share options (Thousands)	Exercise price (per share) HK\$	Share options (Thousands)
	30 September 2019	6.350	2,148	6.350
31 December 2019	4.600	138	4.600	581
31 December 2020	6.350	484	6.350	919
31 December 2020	4.630	55	4.630	105
		2,825		3,753

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-based compensation (Continued)

(b) 2014 Share Option Scheme

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

	Unaudited			
	Six months ended 30 June			
	2019		2018	
	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)
As at 1 January	5.682	71,978	5.554	77,482
Granted	13.211	1,607	9.090	390
Exercised	4.440	(2,349)	4.440	(5,019)
Lapsed	4.440	(900)	6.120	(884)
As at 30 June	5.911	70,336	5.644	71,969
Exercisable as at 30 June	4.208	14,767	4.314	18,037

Share options outstanding under this scheme as at 30 June 2019 and 31 December 2018 have the following expiry date and exercise price:

Expiry date	Unaudited		Audited	
	30 June 2019		31 December 2018	
	Exercise price (per share) HK\$	Share options (Thousands)	Exercise price (per share) HK\$	Share options (Thousands)
31 December 2020	4.440	11,767	4.440	15,016
07 June 2026	3.300	3,000	3.300	3,000
31 December 2022	6.120	52,542	6.120	52,542
31 December 2023	9.090	390	9.090	390
31 December 2023	7.070	1,030	7.070	1,030
16 May 2029	13.160	1,200	–	–
31 December 2024	13.360	407	–	–
		70,336		71,978

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-based compensation (Continued)

(b) 2014 Share Option Scheme (Continued)

The fair value of the options granted under the 2014 Share Option Scheme during the six months ended 30 June 2019 determined by using Black-Scholes valuation model was RMB7,194,000 (30 June 2018: RMB1,139,000).

Significant inputs into the model were as follows:

	Unaudited Six months ended 30 June 2019
The 2014 Share Option Scheme	
Weighted average share price (HK\$)	13.05
Weighted average exercise price (HK\$)	13.21
Expected volatility	49.46%
Expected option life (years)	5.45
Weighted average annual risk free interest rate	1.60%
Expected dividend yield	1.70%

The expected volatility at date of grant is estimated based on the daily trading prices of the Company's shares since its date of listing (28 June 2004).

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-based compensation (Continued)

(c) 2006 Restricted Share Award Scheme

Movements in the number of Restricted Shares granted and related fair value are as follows:

	Unaudited			
	Six months ended 30 June			
	2019		2018	
	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)
As at 1 January	3.200	4,644	3.200	9,471
Vested	3.200	(4,622)	3.200	(4,717)
Lapsed	3.200	(22)	3.200	(37)
As at 30 June	3.200	–	3.200	4,717

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Share-based compensation (Continued)

(d) 2016 Restricted Share Award Scheme

Movements in the number of Restricted Shares granted and related fair value are as follows:

	Unaudited			
	Six months ended 30 June			
	2019		2018	
	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)
As at 1 January	6.140	26,827	6.018	25,990
Granted	12.489	326	8.800	205
Vested	4.660	(75)	4.660	(75)
Lapsed	6.353	(209)	6.002	(337)
As at 30 June	5.891	26,869	6.044	25,783

29. Events after the reporting period

On 25 July 2019, the Group signed a subscription agreement for a private equity fund. According to the agreement, the Group's capital commitment was US\$61,000,000.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

30. Related-party transactions

Besides as disclosed elsewhere in this condensed consolidated interim financial information, the Group has the following related-party transactions during the period:

(a) *Sales of goods to:*

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Subsidiaries of Viva China Holdings Limited ("Viva China"), being controlled by a substantial shareholder of the Company	1,858	1,147
Li-Ning (Beijing) Sports Culture Co., Ltd. ("Li-Ning Sports Culture") (a joint venture of the Group)	85	–
	1,943	1,147

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

30. Related-party transactions (Continued)

(b) Purchases of goods from:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Hubei Dongneng Sports Goods Co., Ltd. ("Hubei Dong Neng") (an associate of the Group starting from September 2018)	128,805	–
Subsidiary of Li-Ning Aigle Ventures Company Limited ("Li Ning Aigle Ventures"), being controlled by a joint venture of the Group	1,820	1,612
Subsidiaries of Viva China	–	5
	130,625	1,617

(c) Sales of services to:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Subsidiaries of Viva China	1,150	721
Subsidiary of Li-Ning Aigle Ventures	344	415
Li-Ning Sports Culture (a joint venture of the Group)	53	–
Tianjin Kuan Mao Mi Children's Products Company Limited ("Tianjin Kuan Mao Mi"), being an associate of the Group	–	4,953
	1,547	6,089

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

30. Related-party transactions (Continued)

(d) Purchases of services from:

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Subsidiaries of Viva China	113,410	141,094
Double Happiness (an associate of the Group)	3,668	3,129
Elite Holiday (Beijing) Sports Development Co., Ltd., has significant influence by a substantial shareholder of the Company	1,415	1,132
	118,493	145,355

In the opinion of the directors, these transactions were entered into at terms as agreed with the related parties in the ordinary course of business.

(e) Key management compensation

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

	Unaudited	
	Six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
Employee share schemes for value of services provided	26,038	24,476
Salaries and other benefits	12,303	6,348
Contribution to retirement benefit scheme	227	238
	38,568	31,062

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

30. Related-party transactions (Continued)

(f) *Period-end/year-end balances*

	Unaudited 30 June 2019 RMB'000	Audited 31 December 2018 RMB'000
Receivables from related parties:		
Subsidiaries of Viva China	1,567	701
Li-Ning Sports Culture (a joint venture of the Group)	152	–
	<hr/> 1,719	<hr/> 701
Prepayments to related parties:		
Subsidiaries of Viva China	3,349	–
Payables to related parties:		
Hubei Dong Neng (an associate of the Group)	16,939	30,113

Other Information

INTERIM DIVIDEND

The Board does not recommend to declare an interim dividend in respect of the six months ended 30 June 2019 (30 June 2018: Nil).

The proposed final dividend of RMB8.78 cents per Shares issued or to be issued upon conversion of the CS for the year ended 31 December 2018 was declared payable and approved by the Shareholders at the annual general meeting of the Company on 14 June 2019.

LONG-TERM INCENTIVE SCHEMES

Share Option Scheme

The options granted under the 2004 Share Option Scheme which remained outstanding immediately prior to its termination on 30 May 2014 shall continue to be valid and exercisable in accordance with their terms of grant and the rules of the 2004 Share Option Scheme. The outstanding options granted under the 2004 Share Option Scheme as at 30 June 2019 entitled the holders to subscribe for 2,824,453 Shares. Details of movements of the options granted under the 2004 Share Option Scheme for the six months ended 30 June 2019 are as follows:

Grantees	Date of grant	Exercise price per Share HK\$	Adjusted exercise price per Share upon the 2015 Open Offer HK\$ (Note 1)	Number of Shares							As at Vesting Period 30/06/2019	Exercise Period
				As at 01/01/2019	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period				
Employees of the Group												
In aggregate	13/08/2013	5.07	4.60	457,577	-	320,072 (Note 2(a))	-	-	137,505	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019	
In aggregate	17/01/2014	7.00	6.35	882,449	-	383,279 (Note 2(b))	52,479	-	446,691	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020	
In aggregate	04/04/2014	5.10	4.63	104,566	-	50,000 (Note 2(c))	-	-	54,566	05/04/2015 – 05/04/2019	05/04/2015 – 31/12/2020	
Other participants												
In aggregate	13/08/2013	5.07	4.60	122,914	-	122,500 (Note 2(d))	-	-	414	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019	
In aggregate	17/01/2014	7.00	6.35	2,148,402	-	-	-	-	2,148,402	17/01/2014 – 01/09/2016	17/01/2014 – 30/09/2019	
In aggregate	17/01/2014	7.00	6.35	36,875	-	-	-	-	36,875	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020	
				3,752,783	-	875,851	52,479	-	2,824,453			

Notes:

- As a result of the 2015 Open Offer, the exercise prices were adjusted in accordance with the 2004 Share Option Scheme on 2 February 2015. Please refer to the announcement of the Company dated 30 January 2015 for details.
- (a) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$11.15.

Other Information (Continued)

- (b) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$12.92.
- (c) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$17.88.
- (d) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$14.98.

Details of movements of the options granted under the 2014 Share Option Scheme for the six months ended 30 June 2019 are as follows:

Grantees	Date of grant	Exercise price per Share HK\$	As at 01/01/2019	Number of Shares				As at 30/06/2019	Vesting Period	Exercise Period
				Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period			
Independent non-executive Directors										
Koo Fook Sun, Louis	17/05/2019	13.16	-	300,000 (Note 1)	-	-	-	300,000	17/05/2020 – 17/05/2022	17/05/2020 – 16/05/2029
Wang Ya Fei	17/05/2019	13.16	-	300,000 (Note 1)	-	-	-	300,000	17/05/2020 – 17/05/2022	17/05/2020 – 16/05/2029
Chan Chung Bun, Bunny	17/05/2019	13.16	-	300,000 (Note 1)	-	-	-	300,000	17/05/2020 – 17/05/2022	17/05/2020 – 16/05/2029
Su Jing Shyh, Samuel	17/05/2019	13.16	-	300,000 (Note 1)	-	-	-	300,000	17/05/2020 – 17/05/2022	17/05/2020 – 16/05/2029
Employees of the Group										
In aggregate	01/04/2015	4.44	14,216,333	-	2,349,333 (Note 3)	900,000	-	10,967,000	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
In aggregate	08/06/2016	3.30	3,000,000	-	-	-	-	3,000,000	08/06/2017 – 08/06/2019	08/06/2017 – 07/06/2026
In aggregate	20/12/2017	6.12	52,541,900	-	-	-	-	52,541,900	01/09/2019 – 01/09/2021	01/09/2019 – 31/12/2022
In aggregate	30/05/2018	9.09	390,400	-	-	-	-	390,400	01/09/2019 – 01/09/2021	01/09/2019 – 31/12/2023
In aggregate	13/09/2018	7.07	1,030,000	-	-	-	-	1,030,000	01/09/2019 – 01/09/2021	01/09/2019 – 31/12/2023
In aggregate	15/04/2019	13.36	-	407,400 (Note 2)	-	-	-	407,400	01/09/2020 – 01/09/2021	01/09/2020 – 31/12/2024
Other participants										
In aggregate	01/04/2015	4.44	800,000	-	-	-	-	800,000	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
			71,978,633	1,607,400	2,349,333	900,000	-	70,336,700		

Other Information (Continued)

Notes:

1. The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 17 May 2019 is HK\$13.44 per Share.
2. The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 15 April 2019 is HK\$13.42 per Share.
3. The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK\$13.12.

Details of valuation of the share options granted during the six months ended 30 June 2019 under the 2004 Share Option Scheme and 2014 Share Option Scheme are set out in note 28 to the condensed consolidated interim financial information. The fair values are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

Restricted Share Award Scheme

The Restricted Shares granted under the 2006 Restricted Share Award Scheme which remained outstanding immediately prior to its expiry on 14 July 2016 shall continue to be valid and vest in accordance with their terms of grant and the rules of the 2006 Restricted Share Award Scheme. As at 30 June 2019, the Company has no unvested Restricted Shares granted under the 2006 Restricted Share Award Scheme. Details of movements of the Restricted Shares granted under the 2006 Restricted Share Award Scheme for the six months ended 30 June 2019 are as follows:

Date of grant	Fair value per Restricted Share HK\$ (Note)	Number of Restricted Shares					As at 30/06/2019	Vesting period
		As at 01/01/2019	Granted during the period	Vested during the period	Lapsed during the period			
17/06/2016	3.20	4,643,660	–	4,621,560	22,100	–	01/04/2017 – 01/04/2019	
		4,643,660	–	4,621,560	22,100	–		

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

Other Information (Continued)

Details of movements of the Restricted Shares granted under the 2016 Restricted Share Award Scheme for the six months ended 30 June 2019 are as follows:

Date of grant	Fair value per Restricted Share HK\$ (Note)	Number of Restricted Shares					
		As at 01/01/2019	Granted during the period	Vested during the period	Lapsed during the period	As at 30/06/2019	Vesting period
15/08/2016	4.66	75,168	–	75,168	–	–	01/04/2017 – 01/04/2019
06/09/2017	5.74	6,031,600	–	–	167,000	5,864,600	06/09/2019 – 06/09/2021
23/11/2017	6.18	114,800	–	–	–	114,800	06/09/2019 – 06/09/2021
20/12/2017	6.12	19,085,500	–	–	–	19,085,500	01/09/2019 – 01/09/2021
29/05/2018	8.80	204,800	–	–	41,800	163,000	01/09/2019 – 01/09/2021
04/07/2018	8.21	1,076,000	–	–	–	1,076,000	01/09/2019 – 01/09/2021
12/09/2018	6.69	239,600	–	–	–	239,600	01/09/2019 – 01/09/2021
02/04/2019	12.48	–	252,900	–	–	252,900	01/09/2020 – 01/09/2022
14/05/2019	12.52	–	73,300	–	–	73,300	15/06/2020 – 15/06/2022
		<u>26,827,468</u>	<u>326,200</u>	<u>75,168</u>	<u>208,800</u>	<u>26,869,700</u>	

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

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

Other Information (Continued)

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

As at 30 June 2019, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares	Total (Long Position)	Approximate % of total issued Shares*
Li Ning	Personal interest & Interests of controlled corporations	272,979,248	145,666,771	418,646,019 (Note 1)	18.15%
Li Qilin	Personal interest & Beneficiary of two discretionary trusts	263,404,872	138,872,671	402,277,543 (Note 2)	17.44%
Koo Fook Sun, Louis	Personal interest	–	300,000 (Note 3)	300,000	0.01%
Wang Ya Fei	Personal interest	491,888	300,000 (Note 3)	791,888	0.03%
Chan Chung Bun, Bunny	Personal interest	613,130	300,000 (Note 3)	913,130	0.04%
Su Jing Shyh, Samuel	Personal interest	–	300,000 (Note 3)	300,000	0.01%

* The percentage has been calculated based on 2,306,751,565 Shares in issue as at 30 June 2019.

Other Information (Continued)

Notes:

1. Mr. Li Ning ("Mr. Li") is interested in 272,979,248 Shares, among which 9,574,376 Shares are held as personal interest, and he is deemed to be interested in 263,404,872 Shares held by Viva China Holdings Ltd ("Viva China BVI"). Moreover, Mr. Li is deemed to be interested in 145,666,771 underlying Shares, among which (i) 7,870,100 Shares are unvested Restricted Shares granted by the Company, and (ii) the convertible securities in the total amount of HK\$431,197,868 which is convertible into 137,796,671 Shares, is held by Viva China BVI. Details are as follows:
 - (a) Viva China BVI, a wholly-owned subsidiary of Viva China Holdings Limited ("Viva China"), is interested in 263,404,872 Shares and 137,796,671 underlying Shares, which comprise of (i) convertible securities in the total amount of HK\$398,156,304 which is convertible into 125,088,377 Shares at the conversion price of HK\$3.183 each, and (ii) convertible securities in the total amount of HK\$33,041,564.40 which is convertible into 12,708,294 Shares at the conversion price of HK\$2.60 each. As at 30 June 2019, Viva China is owned as to approximately 18.95% by Victory Mind Assets Limited ("Victory Mind"), approximately 24.06% by Lead Ahead Limited ("Lead Ahead") and approximately 22.56% by Dragon City Management (PTC) Limited ("Dragon City") respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li and 40% by his brother, Mr. Li Chun, a substantial shareholder of the Company, respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor). As a result, by virtue of the SFO, Mr. Li is deemed to be interested in the 263,404,872 Shares and the 137,796,671 underlying Shares held by Viva China. Mr. Li is also an executive director, the chairman and chief executive officer of Viva China.
 - (b) Mr. Li is interested in 7,870,100 unvested Restricted Shares under the 2016 Restricted Share Award Scheme.
2. Mr. Li Qilin is interested in 1,076,000 unvested Restricted Shares under the 2016 Restricted Share Award Scheme. Moreover, Mr. Li Qilin is deemed to be interested in 263,404,872 Shares and the 137,796,671 underlying Shares held by Viva China by virtue of the SFO. He is the nephew of Mr. Li Ning and the son of Mr. Li Chun, a substantial shareholder of the Company. He is also an executive director of Viva China.
3. The underlying Shares are the share options granted by the Company to the respective Directors under the 2014 Share Option Scheme at an exercise price of HK\$13.16 each.

Save as disclosed above, so far as was known to any Director, as at 30 June 2019, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares, underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Other Information (Continued)

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

As at 30 June 2019, the register of substantial shareholders kept under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions which representing 5% or more of the Company's issued share capital:

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares	Approximate % of total issued Shares*	
				Total	(Long Position)
Li Ning	Personal interest & Interests of controlled corporations	272,979,248	145,666,771	418,646,019 (Note 1)	18.15%
Li Qilin	Personal interest & Beneficiary of two discretionary trusts	263,404,872	138,872,671	402,277,543 (Note 2)	17.44%
Li Chun	Interest of controlled corporations	263,404,872	137,796,671	401,201,543 (Note 3)	17.39%
Viva China Holdings Limited	Interest of controlled corporation	263,404,872	137,796,671	401,201,543 (Note 1(a))	17.39%
BlackRock, Inc.	Interest of controlled corporation	193,369,896	–	193,369,896	8.38%
Ministry of Finance of the People's Republic of China	Interest of controlled corporations	–	137,796,671	137,796,671 (Note 4)	5.97%

* The percentage has been calculated based on 2,306,751,565 Shares in issue as at 30 June 2019.

Notes:

- Mr. Li Ning is interested in 272,979,248 Shares, among which 9,574,376 Shares are held as personal interest, and he is deemed to be interested in 263,404,872 Shares held by Viva China BVI. Moreover, Mr. Li is deemed to be interested in 145,666,771 underlying Shares, among which (i) 7,870,100 Shares are unvested Restricted Shares granted by the Company, and (ii) the convertible securities in the total amount of HK\$431,197,868 which is convertible into 137,796,671 Shares, is held by Viva China BVI. Details are as follows:
 - Viva China BVI, a wholly-owned subsidiary of Viva China, is interested in 263,404,872 Shares and 137,796,671 underlying Shares, which comprise of (i) convertible securities in the total amount of HK\$398,156,304 which is convertible into 125,088,377 Shares at the conversion price of HK\$3.183 each, and (ii) convertible securities in the total amount of HK\$33,041,564.40 which is convertible into 12,708,294 Shares at the conversion price of HK\$2.60 each. As at 30 June 2019, Viva China is owned as to approximately 18.95% by Victory Mind, approximately 24.06% by Lead Ahead and approximately 22.56% by Dragon City respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li and 40% by his brother, Mr. Li Chun respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor). As a result, by virtue of the

Other Information (Continued)

SFO, Mr. Li is deemed to be interested in the 263,404,872 Shares and the 137,796,671 underlying Shares held by Viva China. Mr. Li is also an executive director, the chairman and chief executive officer of Viva China.

- (b) Mr. Li is interested in 7,870,100 unvested Restricted Shares under the 2016 Restricted Share Award Scheme.
- Mr. Li Qilin is interested in 1,076,000 unvested Restricted Shares under the 2016 Restricted Share Award Scheme. Moreover, Mr. Li Qilin is deemed to be interested in 263,404,872 Shares and the 137,796,671 underlying Shares held by Viva China by virtue of the SFO. He is the nephew of Mr. Li Ning and the son of Mr. Li Chun, a substantial shareholder of the Company. He is also an executive director of Viva China.
 - As disclosed in Note 1(a) above, Mr. Li Chun is deemed to be interested in 263,404,872 Shares and the 137,796,671 underlying Shares held by Viva China. He is the brother of Mr. Li Ning and the father of Mr. Li Qilin.
 - According to the corporate substantial shareholder notice filed to the Stock Exchange by Ministry of Finance of the People's Republic of China ("MOF"), MOF is deemed to be interested in such long position of unlisted and physically settled derivative interest in 137,796,671 underlying Shares held by Lake Tai Investment Holdings Limited which is in turn wholly-owned by Huarong (HK) International Holdings Limited. China Huarong International Holdings Limited is owned as to 88.10% and 11.90% by Huarong Real Estate Co., Ltd. ("Huarong Real Estate") and Huarong Zhiyuan Investment & Management Co., Ltd. ("Huarong Zhiyuan") respectively. Both Huarong Real Estate and Huarong Zhiyuan are wholly-owned by China Huarong Asset Management Co., Ltd. which is in turn owned as to 77.49% by MOF.

Save as disclosed above, as at 30 June 2019, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

CONVERTIBLE SECURITIES

The Company issued convertible securities (the "2013 Convertible Securities") with an aggregate principal amount of HK\$1,847,838,349 which is convertible into a total of 527,953,814 Shares on 22 April 2013. Please refer to the announcement of the Company dated 18 April 2013 for details.

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

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

Other Information (Continued)

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

During the six months ended 30 June 2019, the 2013 Convertible Securities in an aggregate principal amount of approximately HK\$298,842.32 had been converted into 93,887 Shares, and the 2015 Convertible Securities in an aggregate principal amount of approximately HK\$291,280,267.20 had been converted into 112,030,872 Shares. As at 30 June 2019, the outstanding 2013 Convertible Securities amounted to approximately HK\$402,448,495.19 and the outstanding 2015 Convertible Securities amounted to HK\$33,041,764.60 which are convertible into a total of 126,436,850 Shares and 12,708,371 Shares respectively.

Assuming all outstanding convertibles securities were converted into shares as at 30 June 2019, set out below is the shareholding structure of the Company before and after such conversion:

Name of substantial shareholder (Note 1)	No. of Shares before conversion of outstanding convertible securities		No. of Shares convertible under the convertible securities	No. of Shares after including shares convertible under the outstanding convertible securities	
		% of holdings			% of holdings
Li Ning	272,979,248	11.83%	137,796,671	410,775,919	16.79%
	(Note 2)				
Public	2,033,772,317	88.17%	1,348,550	2,035,120,867	83.21%
Total	2,306,751,565	100.00%	139,145,221	2,445,896,786	100.00%

Notes:

- The substantial shareholder has the same meaning ascribed to it under the Listing Rules.
- Mr. Li Ning is interested in 272,979,248 Shares, among which:
 - 9,574,376 Shares are held as personal interest; and
 - 263,404,872 Shares are held by Viva China Holdings Limited.

Other Information (Continued)

Mr. Li Qilin, the nephew of Mr. Li Ning and the son of Mr. Li Chun, is deemed to be interested in the 263,404,872 Shares held by Viva China Holdings Limited. Please refer to Notes 1(a) and 2 in the section headed “Substantial Shareholders’ Interests and Short Positions in Shares and Underlying Shares” of this Report for details of his deemed interest.

Mr. Li Chun, the brother of Mr. Li Ning and the father of Mr. Li Qilin, is deemed to be interested in the 263,404,872 Shares held by Viva China Holdings Limited. Please refer to Notes 1(a) and 3 in the section headed “Substantial Shareholders’ Interests and Short Positions in Shares and Underlying Shares” of this Report for details of his deemed interest.

As the Company has no contractual obligation to settle the CS in cash, it is at the Company’s own discretion to determine whether or not to redeem all or part of the principal amount of the CS. The CS holders have substantially the same economic interest as the equity holders (other than voting rights) and the CS are already included in the basic earning per share calculation. For details, please refer to note 26 to the condensed consolidated interim financial information.

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

CHANGES IN DIRECTORS’ INFORMATION

1. The annual remuneration of Mr. Li Qilin was increased to RMB1,200,000 with effect from 1 January 2019.
2. Mr. Su Jing Shyh, Samuel served as an independent non-executive director of BeiGene Ltd., a company listed on both The Nasdaq Global Select Market and the Main Board of the Hong Kong Stock Exchange, with effect from 2018.
3. Mr. Koo Fook Sun, Louis served as a managing director of Able Capital Partners Limited, a corporate finance advisory firm, with effect from April 2019.
4. Dr. Chan Chung Bun, Bunny served as an independent non-executive director of Glorious Sun Enterprises Limited, a company listed on the Main Board of the Hong Kong Stock Exchange, with effect from June 2019.

Save as disclosed above, there has been no other change in information on the Directors since the date of the annual report of the Company for the year ended 31 December 2018, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 2019. Neither the Company nor any of its subsidiaries purchased or sold any Shares during the period.

Other Information (Continued)

CORPORATE GOVERNANCE

For the period from 1 January 2019 to 30 June 2019, 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. As the Company has not yet identified a suitable candidate to be the chief executive officer (“CEO”) during the six months ended 30 June 2019, Mr. Li Ning, the Executive Chairman and Interim CEO of the Company, assumed the role of chief executive officer of the Company during the period. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles are currently undertaken by Mr. Li Ning. Notwithstanding the above, the Board is of the view that the assumption of the roles of Executive Chairman and Interim CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group’s business strategies. The Board also believes that the current arrangement is in the interest of the Company and its Shareholders as a whole.

The Company has adopted the Model Code regarding securities transactions by the Directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

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 2019.

The Company’s external auditor, PricewaterhouseCoopers, has performed a review of the Group’s interim financial information for the six months ended 30 June 2019 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
Executive Chairman and Interim CEO

Hong Kong, 13 August 2019

Information for Investors

SHARE INFORMATION

Listing: Main Board of the Hong Kong Stock Exchange on 28 June 2004

Stock code: 2331

Board lot: 500 Shares

No. of issued Shares as at 30 June 2019: 2,306,751,565 Shares

Market capitalization as at 30 June 2019: approximately HK\$42,490,363,827

INTERIM DIVIDEND FOR 2019

Nil

FINANCIAL CALENDAR

Announcement of 2019 interim results: 13 August 2019

Announcement of 2019 annual results: March 2020

CORPORATE WEBSITES

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

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

CONTACT FOR INVESTOR RELATIONS

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Glossary

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

“2004 Share Option Scheme”	the share option scheme adopted by the Company on 5 June 2004, amended on 15 May 2009 and 11 October 2012 and terminated on 30 May 2014
“2006 Restricted Share Award Scheme”	the restricted share award scheme adopted by the Company on 14 July 2006, as amended on 30 April 2009 and 4 July 2012 and expired on 14 July 2016
“2013 Open Offer”	the open offer of convertible securities issued by the Company as set out in the listing document of the Company dated 27 March 2013
“2014 Share Option Scheme”	the share option scheme adopted by the Company on 30 May 2014
“2015 Open Offer”	the open offer of offer securities issued by the Company as set out in the listing document of the Company dated 9 January 2015
“2016 Restricted Share Award Scheme”	the restricted share award scheme adopted by the Company on 14 July 2016
“Articles of Association”	the articles of association of the Company
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company” or “Li Ning Company”	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
“CS”	convertible securities issued under 2013 Open Offer or 2015 Open Offer
“CS Holder(s)”	holder(s) of CS
“Director(s)”	the director(s) of the Company
“Group” or “Li Ning Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

Glossary (Continued)

“Listing Rules”	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules
“PRC” or “China”	the People’s Republic of China
“Restricted Shares Award Schemes”	2006 Restricted Share Award Scheme and 2016 Restricted Share Award Scheme
“Restricted Shares”	shares granted under the Restricted Share Award Schemes which are subject to restrictions and limitations
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange” or “Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent.