LI NING COMPANY LIMITED
李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2013 AND THE OUTLOOK FOR THE FULL YEAR OF 2013

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- The Group recorded revenue of RMB2,906 million, which represents a decrease of 24.6% year over year, partly due to near-term focus on sell-in reductions, clearing inventory as well as store rationalization
- EBITDA for the six months ended 30 June 2013 was RMB58 million; loss attributable to equity holders for the six months ended 30 June 2013 was RMB184 million
- Operating cash flows improved and capital structure rationalized in 1H 2013
- The first phase of the Transformation Plan has achieved favourable results in (i) Improving the financial health of distributors through sell-in reductions and channel inventory clearance; (ii) Rationalizing store network and (iii) Enhancing performance of new products

2013 FULL YEAR OUTLOOK

- Based on the success of the initial phase of the Transformation Plan, the Group will continue to implement its strategic plan to create an industry-leading platform with a sports marketing-driven retail-oriented business model
- In 2H of 2013, the Group expects to begin seeing returns from the investments made in 2012 and 1H 2013 to lift its financial performance, and anticipates cashflow to continue to improve
- Macro-economic conditions and changing sportswear industry dynamics still pose uncertainties for the pace of growth from the Group's implementation of the Transformation Plan

INTERIM RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company" or "Li Ning Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group" or "Li Ning Group") for the six months ended 30 June 2013, together with comparative figures, as follows:

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2013** *RMB'000*	Audited As at 31 December 2012 *RMB'000* (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment		**801,148**	857,044
Land use rights		**358,263**	362,763
Intangible assets		**398,470**	423,382
Deferred income tax assets		**359,137**	362,067
Available-for-sale financial assets		**46,930**	46,930
Investment in associates and a joint venture		**11,076**	12,254
Other receivables and prepayments		**54,400**	49,608
Total non-current assets		**2,029,424**	2,114,048
Current assets			
Inventories	*4*	**841,358**	901,368
Trade receivables	*5*	**1,340,837**	1,479,560
Other receivables and prepayments – current portion		**354,415**	233,211
Current income tax recoverable		**35,138**	36,393
Restricted bank deposits		**33,480**	13,688
Cash and cash equivalents		**1,617,508**	1,241,304
Total current assets		**4,222,736**	3,905,524
Total assets		**6,252,160**	6,019,572

	Note	Unaudited As at 30 June 2013 *RMB'000*	Audited As at 31 December 2012 *RMB'000* (Restated)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**135,382**	111,622
Share premium		**1,101,736**	315,972
Shares held for Restricted Share Award Scheme		**(41,185)**	(41,185)
Other reserves		**1,130,212**	489,485
Retained profits		**553,466**	737,703
		2,879,611	1,613,597
Non-controlling interests in equity		**220,038**	198,644
Total equity		**3,099,649**	1,812,241
LIABILITIES			
Non-current liabilities			
License fees payable		**137,734**	152,518
Convertible bonds		**631,637**	651,632
Deferred income tax liabilities		**79,192**	79,318
Deferred income		**59,089**	59,736
Total non-current liabilities		**907,652**	943,204
Current liabilities			
Trade payables	*6*	**632,052**	958,020
Other payables and accruals		**702,035**	735,305
License fees payable – current portion		**105,267**	111,145
Borrowings		**793,005**	1,447,157
Convertible bonds – interest payable		**12,500**	12,500
Total current liabilities		**2,244,859**	3,264,127
Total liabilities		**3,152,511**	4,207,331
Total equity and liabilities		**6,252,160**	6,019,572
Net current assets		**1,977,877**	641,397
Total assets less current liabilities		**4,007,301**	2,755,445

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000 (Restated)
Revenue	3	**2,905,908**	3,855,403
Cost of sales	7	**(1,639,454)**	(2,189,418)
Gross profit		**1,266,454**	1,665,985
Distribution costs	7	**(1,209,512)**	(1,144,381)
Administrative expenses	7	**(157,425)**	(466,759)
Other income and other gains – net	8	**61,867**	125,011
Operating (loss)/profit		**(38,616)**	179,856
Finance income	9	**3,625**	3,497
Finance costs	9	**(94,003)**	(90,718)
Finance costs – net	9	**(90,378)**	(87,221)
Share of loss of associates and a joint venture		**(178)**	(223)
(Loss)/profit before income tax		**(129,172)**	92,412
Income tax expense	10	**(32,948)**	(30,621)
(Loss)/profit for the period		**(162,120)**	61,791
Attributable to:			
Equity holders of the Company		**(184,237)**	44,294
Non-controlling interests		**22,117**	17,497
		(162,120)	61,791
(Losses)/earnings per share for (loss)/profit attributable to equity holders of the Company (RMB cents)			
– basic	11	**(15.19)**	3.86
– diluted	11	**(15.19)**	3.85
Dividends	12	**–**	–

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
(Loss)/profit for the period	**(162,120)**	61,791
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Currency translation differences	**453**	(539)
Total comprehensive (loss)/income for the period	**(161,667)**	61,252
Attributable to:		
Equity holders of the Company	**(183,784)**	43,755
Non-controlling interests	**22,117**	17,497
	(161,667)	61,252

NOTES:

1. General information

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

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

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

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board of Directors (the "Board") on 9 August 2013.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation and significant accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2013 has been prepared in accordance with International Accounting Standard ("IAS'') 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 2012, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in those annual financial statements.

a) Change in accounting policy

- IAS 1 (Amendment), 'Presentation of financial statements'. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The Group has included the disclosures for items that may be reclassified to profit or loss in the interim condensed consolidated statement of comprehensive income.

- IFRS 11, 'Joint arrangements'. Under IFRS 11, investments in joint arrangements are classified either as joint operations or joint ventures, depending on the contractual rights and obligations each investor has rather than the legal structure of the joint arrangement. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

  Before the adoption of IFRS 11, the Group's interest in its jointly controlled entity, Li-Ning Aigle Ventures Company Limited ("Li-Ning Aigle Ventures"), was accounted for by proportional consolidation. Under IFRS 11, the jointly controlled entity has been assessed to be a joint venture.

  The Group has applied the new policy for its interest in the joint venture in accordance with IFRS 11. The Group accounted for its investment in Li-Ning Aigle Ventures using equity method of accounting at the beginning of the earliest period presented (1 January 2012), as proportional consolidation is no longer allowed. The Group concluded the adoption of IFRS 11 did not have a significant impact on the Group.

The tables below show the effect on balance sheet and income statement. There was no effect on the statement of comprehensive income and (losses)/earnings per share and the effect on the statement of cash flows was immaterial.

Impact on balance sheet

Decrease	**31 December 2012**	**1 January 2012**
	RMB'000	*RMB'000*
Total assets	12,438	10,081
Total liabilities	12,438	10,081
Net assets	–	–

Impact on income statement

Decrease	**Year ended 31 December 2012**	**Six months ended 30 June 2012**
	RMB'000	*RMB'000*
Revenue	62,470	24,694
Expenses	62,470	24,694
(Loss)/profit for the year/period	–	–

b) During the period, the Company has issued convertible securities with net proceeds of HK$1,798,838,000 (net of the transaction costs of HK$49,000,000), which is equivalent to approximately RMB1,441,484,000. The accounting policy adopted by the Group on convertible securities is as follows:

Convertible securities with no contractual obligation to be settled in cash are classified as equity upon initial recognition. Respective distributions if and when declared are treated as equity dividends.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

3. Revenue and segment information

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

Management considers the business from a brand perspective. Management has determined not to review the performance of Lotto brand separately since 1 January 2013, as a result, the Group has three reportable segments as follows, LI-NING brand, Double Happiness brand and all other brands segments. The comparative figures for the six months ended 30 June 2012 has been restated to conform to the current period presentation. Management assesses the performance of the operating segments based on operating profit. Segment information provided to management for decision-making is measured in a manner consistent with that in this financial information.

Revenue consists of sales from LI-NING brand, Double Happiness brand and all other brands, which are RMB2,458,286,000, RMB377,150,000 and RMB70,472,000 for the six months ended 30 June 2013 and RMB3,432,658,000, RMB305,520,000 and RMB117,225,000 for the six months ended 30 June 2012 respectively.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to management is measured in a manner consistent with that in the interim condensed consolidated income statement.

The segment information provided to the management for the reportable segments for the six months ended 30 June 2013 and 2012 is as follows:

	Unaudited			
	LI-NING brand *RMB'000*	**Double Happiness brand** *RMB'000*	**All other brands** *RMB'000*	**Total** *RMB'000*
Six months ended 30 June 2013				
Total revenue	**2,458,286**	**377,621**	**95,188**	**2,931,095**
Inter-segment revenue	**–**	**(471)**	**(24,716)**	**(25,187)**
Revenue from external customers	**2,458,286**	**377,150**	**70,472**	**2,905,908**
Operating (loss)/profit	**(112,048)**	**70,371**	**3,061**	**(38,616)**
Distribution costs and administrative expenses	**1,254,008**	**85,056**	**27,873**	**1,366,937**
Depreciation and amortisation	**84,021**	**8,785**	**3,637**	**96,443**
Six months ended 30 June 2012 (Restated)				
Total revenue	3,432,658	308,405	149,543	3,890,606
Inter-segment revenue	–	(2,885)	(32,318)	(35,203)
Revenue from external customers	3,432,658	305,520	117,225	3,855,403
Operating profit/(loss)	237,809	55,780	(113,733)	179,856
Distribution costs and administrative expenses	1,330,818	66,651	213,671	1,611,140
Depreciation and amortisation	111,898	8,736	4,175	124,809

A reconciliation of operating (loss)/profit to (loss)/profit before income tax is provided as follows:

	Unaudited **Six months ended 30 June**	
	2013 *RMB'000*	2012 *RMB'000* (Restated)
Operating (loss)/profit	**(38,616)**	179,856
Finance income	**3,625**	3,497
Finance costs	**(94,003)**	(90,718)
Share of loss of associates and a joint venture	**(178)**	(223)
(Loss)/profit before income tax	**(129,172)**	92,412

Geographical information of revenue

	Unaudited **Six months ended 30 June**	
	2013 *RMB'000*	2012 *RMB'000* (Restated)
The PRC (including the Hong Kong Special Administrative Region)	**2,821,661**	3,751,622
Other regions	**84,247**	103,781
Total	**2,905,908**	3,855,403

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 2013 and 2012, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Inventories

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000* (Restated)
Raw materials	**33,385**	34,699
Work in progress	**37,182**	34,135
Finished goods	**1,231,652**	1,418,530
	1,302,219	1,487,364
Less: provision for write-down of inventories to net realisable value	**(460,861)**	(585,996)
	841,358	901,368

As at 31 December 2012, the Group made a provision of RMB585,996,000 to write down the inventories to their net realisable value. In view of that the actual inventory clearance during the six months ended 30 June 2013 was better than the forecast, the provision required to write down the inventories to their net realisable value decreased to RMB460,861,000 as at 30 June 2013. Accordingly, the net impact to the interim condensed consolidated income statement for the six months ended 30 June 2013 is a credit of RMB125,135,000. 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 2013 and the comparative figure for the six months ended 30 June 2012 has been reclassified as cost of sales to conform to the current period presentation.

5. Trade receivables

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000* (Restated)
Accounts receivable	**2,142,327**	2,399,258
Notes receivable	**20,612**	17,837
	2,162,939	2,417,095
Less: provision for impairment of trade receivables	**(822,102)**	(937,535)
	1,340,837	1,479,560

Ageing analysis of trade receivables at the respective balance sheet dates is as follows:

	Unaudited 30 June 2013 *RMB'000*	Audited 31 December 2012 *RMB'000* (Restated)
0 – 30 days	**504,541**	327,513
31 – 60 days	**164,320**	296,705
61 – 90 days	**214,832**	334,420
91 – 180 days	**557,229**	762,544
Over 181 days	**722,017**	695,913
	2,162,939	2,417,095

Customers are normally granted credit terms within 90 days. As at 30 June 2013, trade receivables of RMB1,279,246,000 (31 December 2012: RMB1,458,457,000) were past due. The Company's estimation of provision for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significantly judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, ageing of receivable balances, and latest communication with individual customers. The Group had launched a series of plans to communicate with individual customers and manage the credit risk of the customers during the year ended 31 December 2012. Management will closely monitor and continue to pursue collection of those receivables and a portion of the receivables is expected to be recovered. A provision of RMB822,102,000 has been made as at 30 June 2013 (31 December 2012: RMB937,535,000).

The impairment was first assessed against individually significant balances, and the remaining balances were grouped for collective assessment according to their ageing groups and historical default rates as these customers were of similar credit risk.

Movement in provision for impairment of trade receivables is analysed as follows:

	Unaudited Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
As at 1 January	**937,535**	11,400
(Reversal of provision)/provision for impairment of trade receivables	**(106,868)**	49,823
Receivables written off during the period as uncollectible	**(8,565)**	–
As at 30 June	**822,102**	61,223

The creation and release of provision for impaired trade receivables have been included in administrative expenses in the interim condensed consolidated income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the balance sheet date is the carrying value of each class of trade receivables mentioned above.

6. Trade payables

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

	Unaudited 30 June 2013	Audited 31 December 2012
	RMB'000	*RMB'000* (Restated)
0 – 30 days	**395,146**	392,849
31 – 60 days	**183,091**	326,447
61 – 90 days	**27,722**	155,841
91 – 180 days	**9,999**	72,867
181 – 365 days	**7,930**	1,368
Over 365 days	**8,164**	8,648
	632,052	958,020

7. Expenses by nature

	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000 (Restated)
Cost of inventories recognised as expenses included in cost of sales	**1,686,986**	2,041,735
Depreciation on property, plant and equipment *(Note a)*	**62,462**	76,754
Amortisation of land use rights and intangible assets	**33,981**	48,055
Advertising and marketing expenses	**599,132**	497,959
Staff costs, including directors' emoluments	**315,924**	367,544
Operating lease rentals in respect of land and buildings	**275,899**	290,519
Research and product development expenses *(Note a)*	**67,128**	92,197
Transportation and logistics expenses	**130,350**	91,906
(Reversal of provision)/provision for impairment of trade receivables	**(106,868)**	49,823
(Reversal of provision)/provision for write-down of inventories to net realisable value	**(125,135)**	35,332
Impairment of intangible assets	**–**	127,838
Auditor's remuneration	**2,000**	2,205
Management consulting expenses	**41,688**	25,618
Travelling and entertainment expenses	**21,389**	38,283

Note:

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

8. Other income and other gains-net

	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000
Government grants	**23,191**	54,971
License fees income	**5,047**	1,738
Gain on modification of convertible bonds	**33,629**	–
Gain on derecognition of intangible assets and license fees payable relating to revision of the license agreement of Lotto brand	**–**	68,302
	61,867	125,011

9. Finance income and costs

	Unaudited Six months ended 30 June 2013 RMB'000	2012 RMB'000 (Restated)
Finance income		
Interest income on bank balances and deposits	**3,625**	3,497
Finance costs		
Amortisation of discount – license fees payable	**(10,784)**	(9,072)
Interest expense on bank borrowings	**(31,219)**	(46,874)
Interest expense on convertible bonds	**(28,635)**	(21,289)
Net foreign currency exchange loss	**(14,741)**	(2,243)
Others	**(8,624)**	(11,240)
	(94,003)	(90,718)
Finance costs – net	**(90,378)**	(87,221)

10. Income taxes

	Unaudited Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
		(Restated)
Current income tax		
– Hong Kong profits tax	**1,630**	3,728
– PRC corporate income tax	**28,514**	77,732
	30,144	81,460
Deferred income tax	**2,804**	(50,839)
	32,948	30,621

11. (Losses)/earnings per share

Basic

Basic (losses)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme during the period. Such weighted average number of ordinary shares outstanding shall be adjusted for events such as bonus issue and stock dividend. In April 2013, the Company has completed the issuance of the convertible securities. The below market subscription price has effectively resulted in 79,288,000 ordinary shares (30 June 2012: 93,509,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and therefore such impact has been taken into account in calculating the weighted average number of ordinary shares for the purpose of basic (losses)/earnings per share calculation. Such shares issued for nil consideration have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2012.

	Unaudited Six months ended 30 June	
	2013	2012
	RMB'000	*RMB'000*
(Loss)/profit attributable to equity holders of the Company	**(184,237)**	44,294
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,133,761**	1,052,523
Adjustment for bonus element arising from the issuance of convertible securities *(in thousands)*	**79,288**	93,509
Deemed weighted average number of ordinary shares for basic (losses)/earnings per share *(in thousands)*	**1,213,049**	1,146,032
Basic (losses)/earnings per share *(RMB cents)*	**(15.19)**	3.86

Diluted

Diluted (losses)/earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all dilutive potential ordinary shares. The Company's dilutive potential ordinary shares comprise shares to be issued under convertible bonds, convertible securities (excluding the bonus element as discussed above), share option schemes and shares held for Restricted Share Award Scheme. In relation to 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	
	2013	2012
	RMB'000	*RMB'000*
(Loss)/profit attributable to equity holders of the Company, used to determine diluted (losses)/earnings per share	**(184,237)**	44,294
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,133,761**	1,052,523
Adjustment for bonus element arising from the issuance of convertible securities *(in thousands)*	**79,288**	93,509
Adjustment for share options, awarded shares, convertible bonds and convertible securities *(in thousands) (Note a)*	**–**	3,273
Deemed weighted average number of ordinary shares for diluted (losses)/earnings per share *(in thousands)*	**1,213,049**	1,149,305
Diluted (losses)/earnings per share *(RMB cents)*	**(15.19)**	3.85

Note:

(a) For the six months ended 30 June 2013, the effect of all dilutive potential ordinary shares outstanding was anti-dilutive. As at 30 June 2013, there were 37 million share options, 2 million restricted shares, 205 million ordinary shares assuming conversion of convertible bonds and 189 million ordinary shares assuming conversion of convertible securities that could potentially have a dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2013 (30 June 2012: 19 million, 3 million, 119 million and nil respectively).

12. Dividends

On 22 August 2012, the Board resolved not to declare interim dividend for the six months ended 30 June 2012. On 9 August 2013, the Board resolved not to declare interim dividend for the six months ended 30 June 2013.

INTERIM DIVIDENDS

The Company recorded a loss for the first half of 2013. The Board resolved not to distribute any interim dividend for the six months ended 30 June 2013 (2012: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The first half of the financial year was a time of transition for Li Ning Company as the early results of the Transformation Plan began to show real progress, while the Company continues to operate in a challenging environment.

China's economic growth slowed slightly with GDP growth of 7.6% in the first half of 2013, down from 7.75% in the second half of 2012. Domestic consumption showed a decline in its contribution to China's economic growth, indicating continuing challenges for the government's effort on recalibrating China's economy on a more sustainable growth path. In addition to the increasingly challenging macro-economic and retail environment in China, the sportswear industry continued to be overcrowded with intensified competition, and the focus for retailers is still on clearing inventory and improving profitability.

Against this backdrop, Li Ning Company's management continued to adhere to our three strategic pillars – core market (China), core brand (LI-NING) and sports culture (national teams and core sports), and push forward the ongoing Transformation Plan, which has shown very encouraging results on multiple fronts. The first phase of the Transformation Plan focused on (i) improving channel financial health, including channel inventory clearance and reduction of sell-in to ease cash flow pressures for channel partners; (ii) resizing the business, including rationalization of the store network; (iii) enhancing the performance of new products; and (iv) improving cash flows and rationalizing capital structure. In the first half of this year, Li Ning Company also successfully raised HK$1,848 million to support the overall Transformation Plan rollout and optimize the Company's capital structure.

The priority of management in the first half of 2013 was continued focus on improving operational performance. While the Company recorded a loss attributable to equity holders of RMB184.2 million in this period, the implementation of the Transformation Plan has started to revitalize our entire "eco-system", as we work closely with channel partners to improve their profitability, though this will take time to be fully reflected in Li Ning Company's financial results.

During the six months ended 30 June 2013, Li Ning Company moved forward in each area of focus: 1) The Company's overall management execution capability was further enhanced with key senior executive hires and improvements in management systems and processes; 2) Consolidated leadership position in national teams and core sports, improved brand positioning and marketing strategies through key sponsorships such as Dwyane Wade, and fully leveraged digital marketing; 3) The implementation of the Channel Revival Plan is well on track, resulting in a healthier sales network mix, reduced channel inventory and improved distributor profitability; 4) Product and merchandising continued to be optimized with our enhanced product creation capabilities and innovative merchandising model, resulting in higher sell-out rates and better retail pricing for new products; 5) The Company has effectively controlled costs, with new investments being offset by effective cost reduction; and 6) In building a retail-oriented business model, the Company has also initiated pilot projects to improve retail management, with improved performance at participating distributors and stores.

FINANCIAL REVIEW

The Group started to implement a series of transformation initiatives in 2012, including the launch of the Channel Revival Plan in December 2012. In the first half of 2013, the Transformation Plan progressed smoothly and on track. Although the market environment lacks immediate signs of recovery during this period, the Group's Transformation Plan has made notable accomplishments on operational fronts and has completed its first phase. However, due to the Group's strategic focus in the first half continued to be revitalizing the Group's eco-system, the Transformation Plan has yet to impact the financial performance significantly. Thus, the Group still faced pressure against its business and financial performance indicators during the first half of 2013. The key operating and financial performance indicators of the Group for the six months ended 30 June 2013 are set out below:

	Unaudited		
	Six months ended 30 June		**Change**
	2013	2012 Restated	*(%)*
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**2,905,908**	3,855,403	**(24.6)**
Gross profit *(Note 1)*	**1,266,454**	1,665,985	**(24.0)**
Operating (loss)/profit	**(38,616)**	179,856	**(121.5)**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 2)*	**57,649**	304,442	**(81.1)**
(Loss)/profit attributable to equity holders *(Note 3)*	**(184,237)**	44,294	**(515.9)**
Basic (losses)/earnings per share *(RMB cents) (Note 4)*	**(15.19)**	3.86	**(493.5)**
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	**43.6**	43.2	
Operating (loss)/profit margin (%)	**(1.3)**	4.7	
Effective tax rate (%)	**(25.5)**	33.1	
Margin of (loss)/profit attributable to equity holders (%)	**(6.3)**	1.1	
Return on equity holders' equity (%)	**(8.2)**	1.2	
Expenses to revenue ratios			
Staff costs (%)	**10.9**	9.5	
Advertising and marketing expenses (%)	**20.6**	12.9	
Research and product development expenses (%)	**2.3**	2.4	
Asset efficiency			
Average inventory turnover (days) *(Note 5)*	**96**	93	
Average trade receivables turnover (days) *(Note 6)*	**88**	109	
Average trade payables turnover (days) *(Note 7)*	**91**	111	

	Unaudited **30 June** **2013**	Audited 31 December 2012 Restated
Asset ratios		
Debt-to-equity ratio (%) *(Note 8)*	**109.5**	260.7
Interest-bearing debt-to-equity ratio (%) *(Note 9)*	**49.9**	130.8
Net asset value per share *(RMB cents)*	**229.29**	172.03

Notes:

1. 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 2013 and the comparative figure for the six months ended 30 June 2012 has been reclassified as cost of sales to conform to the current period presentation.

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

3. Including loss attributable to equity holders for the period from 1 January to 31 March 2013: RMB117,038,000.

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

5. 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 number of days in the period.

6. 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 number of days in the period.

7. 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 number of days in the period.

8. The calculation of debt-to-equity ratio is based on total liabilities divided by equity attributable to equity holders of the Company at the end of the period.

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

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

Revenue

The Group's revenue for the six months ended 30 June 2013 amounted to RMB2,905,908,000, representing a decrease of 24.6% as compared to the corresponding period last year.

Revenue breakdown by brand and product category

	Six months ended 30 June				
	2013		2012		**Revenue**
		% of total		% of total	**change**
	RMB'000	**revenue**	*RMB'000*	revenue	*(%)*
LI-NING brand					
Footwear	**1,238,670**	**42.6**	1,601,602	41.5	**(22.7)**
Apparel	**1,047,451**	**36.0**	1,612,335	41.8	**(35.0)**
Equipment/accessories	**172,165**	**6.0**	218,721	5.6	**(21.3)**
Total	**2,458,286**	**84.6**	3,432,658	88.9	**(28.4)**
Double Happiness brand					
Total	**377,150**	**13.0**	305,520	7.9	**23.4**
Other brands*					
Total	**70,472**	**2.4**	117,225	3.2	**(39.9)**
Overall Total	**2,905,908**	**100.0**	3,855,403	100.0	**(24.6)**

* *Including Lotto, Kason and Z-DO*

The Group's core brand, LI-NING brand, recorded revenue of RMB2,458,286,000, which accounted for 84.6% of the Group's total revenue, representing a decrease of 28.4% as compared to the corresponding period last year. In response to the challenging market and industry environment and to avoid placing further pressure on inventory at the retail end, the Group launched the Transformation Plan during the second half of 2012 including the Channel Revival Plan announced in December 2012. The Group proactively communicated with its distributors and won their support to carry on a number of transformation initiatives, including clearing stale inventory and enhancing the performance of new products, reducing sell-in, rationalizing sales network and improving channel efficiency. The Channel Revival Plan was well on track during the first half of 2013, with some of the distributors already starting to see healthier cashflow and improved profitability.

As such, the Group recorded a decrease in sales revenue compared to the same period last year due to a number of proactive initiatives. Namely, orders at the trade fair were reduced to be aligned with the Group's 'prescriptive order + quick replenishment + fast response' merchandising model, ultimately aiming to achieve shorter replenishment cycle of the new products that better meet the newest market demand. In a continuous effort to clear obsoletely inventory, bigger discounts were given to these stale products to provide shelf space for new products with higher prices and better margins. The impact of these short-term initiatives was inevitable to have put pressure on the Group's revenue during this period of time. However, the management believes that the accelerating clearance of channel inventory, improvements in distribution channels and enhancement of the profitability at the retail end under the Channel Revival Plan have yielded visible and favourable results, which is laying a foundation for future development and benefiting the Group's future financial performance.

Among the various brands under the Group, revenue of Double Happiness brand maintained a steady growth rate of 23.4%. As for other brands, save for Kason brand which posted stable revenue, Lotto brand was in the process of operational downsizing while Z-DO brand posted a material year-on-year drop in revenue as the business entered the last stage of stock clearance since the complete discontinuation of its operations.

Revenue breakdown of LI-NING brand (in %) by sales channel

	Six months ended 30 June		
	2013	2012	
	% of revenue of LI-NING brand	% of revenue of LI-NING brand	**Change** *(%)*
LI-NING brand			
PRC market			
Sales to franchised distributors	**66.7**	77.0	**(10.3)**
Sales from direct operation	**31.3**	20.8	**10.5**
International markets	**2.0**	2.2	**(0.2)**
Total	**100.0**	100.0	

As the management was more focused on sales at the retail end and clearance of inventory within the sales channels, the weighting of revenue generated from sales to franchised distributors among total revenue recorded a significant decline during the period.

Revenue breakdown of LI-NING brand by geographical location

		Six months ended 30 June				
		2013		2012		
			% of revenue of LI-NING brand		% of revenue of LI-NING brand	**Revenue change**
	Note	***RMB'000***		*RMB'000*		*(%)*
LI-NING brand						
PRC market						
Eastern region	*1*	**750,830**	**30.5**	997,015	29.1	(24.7)
Northern region	*2*	**1,136,065**	**46.2**	1,662,405	48.4	(31.7)
Southern region	*3*	**522,549**	**21.3**	696,094	20.3	(24.9)
International markets		**48,842**	**2.0**	77,144	2.2	(36.7)
Total		**2,458,286**	**100.0**	3,432,658	100.0	(28.4)

Notes:

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Jiangxi, Hunan, Hubei, Anhui and Shandong.

2. Northern region includes Beijing, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Gansu, Ningxia, Qinghai, Shaanxi, Xinjiang, Jilin and Heilongjiang.

3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Yunnan, Sichuan, Chongqing, Tibet and Guizhou.

4. During the period, the Group adjusted the organisation structure and geographical delineation of the sales regions for LI-NING brand (see notes 1, 2 and 3 above for details). As a result, the sales revenue for the six months ended 30 June 2012 is restated according to the adjusted geographical delineation.

During the period, the Group made certain adjustments to the organisation structure and geographical delineation of the sales regions, in order to boost sales organisational efficiency and retail operating capacity under a retail-oriented business model which has begun to shape up. The Group started to manage its retail and wholesale businesses separately with more specific and professional management tailored to each of these business segments. The Group believes this will enhance regional retail performance and customer management capability that will ultimately help it achieve its transformation goals.

Cost of Sales and Gross Profit

For the six months ended 30 June 2013, overall cost of sales of the Group amounted to RMB1,639,454,000 (2012: RMB2,189,418,000), and overall gross profit margin was 43.6% (2012: 43.2%). In this period, new products performed significantly better comparing with the same period of last year, with a certain upsurge in gross profit margin. Meanwhile, the Group increased the efforts in clearance of obsolete inventory to mitigate the pressure on channel inventory. So that, the Group wrote back some of the previous provision on inventory. All of these help lifted the overall gross profit margin slightly.

Cost of sales of LI-NING brand amounted to RMB1,373,243,000 (2012: RMB1,920,710,000), and gross profit margin was 44.1% (2012: 44.0%). In this period, a higher gross profit margin of new products was a factor for the increase in the overall gross profit margin. Moreover, provision for inventory was partially reversed with the better clearance of obsolete inventory. Meanwhile, the increasingly intensified competition in the industry led to a further drop in profit margin at the retail end. To respond to the challenging industry environment, the Group provided more discounts on delivery. As a result of the foregoing, LI-NING brand's gross profit margin in the first half of 2013 remained the same level as that in the same period last year.

Cost of sales of Double Happiness brand amounted to RMB226,673,000 (2012: RMB183,119,000), and gross profit margin was maintained relatively stable at 39.9% compared with 40.1% in the same period of 2012.

Distribution Costs

For the six months ended 30 June 2013, the Group's overall distribution costs amounted to RMB1,209,512,000 (2012: RMB1,144,381,000), accounting for 41.6% (2012: 29.7%) of the Group's total revenue.

Distribution costs of LI-NING brand amounted to RMB1,135,988,000 (2012: RMB1,042,602,000), accounting for 46.2% (2012: 30.4%) of LI-NING brand's revenue. The overall growth in distribution costs was attributable to the increased strategic investments in basketball and other major categories to boost the Group's brand competitiveness, including the sponsorships of the Chinese Basketball Association (CBA) and the National Basketball Association (NBA) star Dwyane Wade. Meanwhile, the Group stepped up control over other distribution costs, such as streamlining other advertising and marketing expenses, salaries and benefits of sales staff and miscellaneous expenses. Meanwhile, store subsidies declined substantially as the Group strived to enhance retail sales capabilities and reduced the number of new store openings.

Distribution costs of Double Happiness brand amounted to RMB55,930,000 (2012: RMB40,604,000), accounting for 14.8% of Double Happiness brand's revenue. This was 1.5 percentage points higher than the 13.3% recorded in the same period of 2012, mainly as a result of higher expenses in sponsoring World Table Tennis Championships and other events as well as higher warehouse rental and transportation costs in line with the rising revenue.

Administrative Expenses

For the six months ended 30 June 2013, the Group's overall administrative expenses amounted to RMB157,425,000 (2012: RMB466,759,000), accounting for 5.4% (2012: 12.1%) of the Group's total revenue. The significant decline in overall administrative expenses during the period was attributable to the full provision for asset impairment in Lotto license during the corresponding period (current period: nil), as well as certain reversals of the impairment provision for trade receivables along with the improvements in collection of receivables during the period.

Administrative expenses of LI-NING brand amounted to RMB118,020,000 (2012: RMB288,216,000), accounting for 4.8% of LI-NING brand's revenue. This was 3.6 percentage points below the 8.4% for the same period of 2012. These expenses mainly comprised of staff costs, management consulting expenses, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses. Given the decline in LI-NING brand's revenue, the Group managed to effectively control and reduce miscellaneous expenses and labour costs. Meanwhile, certain provisions for bad debts were reversed during the period to reflect the improved recovery of receivables, as certain distributors showed improvements in repayment of receivables on the back of the optimised inventory mix and improved channel profitability as a result of the Company's Revival Plan.

Administrative expenses of Double Happiness brand amounted to RMB29,126,000 (2012: RMB26,047,000), accounting for 7.7% of Double Happiness brand's revenue. This was 0.8 percentage point below the 8.5% for the same period of 2012. These expenses comprised mainly of staff costs, depreciation and amortisation charges and other miscellaneous expenses. While the sales revenue of Double Happiness brand registered stable growth, the daily administrative expenses of the brand remained steady or slightly higher.

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

For the six months ended 30 June 2013, the Group's EBITDA amounted to RMB57,649,000 (2012: RMB304,442,000), representing a year-on-year decrease of 81.1%. The decline in EBITDA was mainly attributable to the substantial decreases in sales revenue and gross profit as a result of proactive delivery reduction of the Group during the period; decrease in gross profit was only partially offset by the decreases in miscellaneous expenses, labour costs and store subsidies.

EBITDA of LI-NING brand recorded a loss of RMB28,205,000 (2012: an earning of RMB346,167,000). This was mainly attributable to the decreased revenue and gross profit as well as the significant investment in key basketball programmes.

EBITDA of Double Happiness brand amounted to RMB79,156,000 (2012: RMB64,516,000), representing a year-on-year increase of 22.7%. This was mainly attributable to the significant increase in gross profit on the rising sales revenue during the period.

Finance Costs

For the six months ended 30 June 2013, the Group's net finance costs amounted to RMB90,378,000 (2012: RMB87,221,000), representing 3.1% (2012: 2.3%) of the Group's total revenue. The net finance costs include the interest expense of convertible bonds for the period amounting to RMB28,635,000 (2012: RMB21,289,000).

Income Tax Expenses

For the six months ended 30 June 2013, income tax expenses of the Group amounted to RMB32,948,000 (2012: RMB30,621,000) and the effective tax rate was negative 25.5% (2012: 33.1%).

Overall Profitability Indicators

Due to the decreases in sales revenue and gross profit and the increases in expense ratios, the overall profitability indicators of the Group weakened for the six months ended 30 June 2013. The Group's loss attributable to equity holders amounted to RMB184,237,000 (2012: profit attributable to equity holders of RMB44,294,000), representing a year-on-year decline of 515.9%. The corresponding profit margin for the period was negative 6.3% (2012: 1.1%), representing a year-on-year decline of 7.4 percentage points. Return on equity holders' equity was negative 8.2% (2012: 1.2%), representing a year-on-year decline of 9.4 percentage points.

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2013 was the same as that in 2012. Inventories 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 sufficient in ensuring provision for inventories made by the Group.

As at 30 June 2013, the accumulated provision for inventories was RMB460,861,000 (31 December 2012: RMB585,996,000). The balance of total provision for inventories as at the end of last year witnessed a significant increase as the Group made a special provision on certain slow-moving inventories under its brands, while during the period, the provision for inventories was partially reversed corresponding to the better outcome of the clearance of inventories in line with the expansion of clearance channels. The Group witnessed a decrease in original value of inventories as well as an improvement in inventory mix as compared with those as at 31 December 2012.

Provision for Doubtful Debts

The Group's accounting policy in respect of provision for doubtful debts for the first half of 2013 was the same as that in 2012.

As at 30 June 2013, the accumulated provision for doubtful debts was RMB822,102,000 (31 December 2012: RMB937,535,000). Provision for doubtful debts was partially reversed along with the improvements in collection of trade receivables during the period.

Liquidity and Financial Resources

The Group's net cash outflow from operating activities for the six months ended 30 June 2013 amounted to RMB242,787,000 (2012: RMB602,155,000). As at 30 June 2013, cash and cash equivalents (including cash at bank and in hand, and fixed deposits held at banks with original maturity of no more than three months) amounted to RMB1,617,508,000. This represented a net increase of RMB376,204,000 as compared with the Group's position as at 31 December 2012. The increase was due to the following items:

Items	**Unaudited** **Six months ended 30 June 2013** ***RMB'000***
Net cash used in operating activities	(242,787)
Net capital expenditure	(91,319)
Net repayment of bank borrowings	(652,233)
Net proceeds from issuance of convertible securities	1,441,484
Other net cash outflow	(78,941)
Net increase in cash and cash equivalents	376,204

The Group's cash flows were improved as collection of trade receivables due from distributors showed improvements under the Company's Channel Revival Plan.

As at 30 June 2013, the Group's available banking facilities amounted to RMB1,232,325,000, amongst which outstanding bank borrowings amounted to RMB793,005,000. During the period, the Group issued convertible securities in the principal of HK$1,847,838,000, and received net proceeds of HK$1,798,838,000 (equivalent to approximately RMB1,441,484,000) after deducting the transaction costs. As at the end of the period, the outstanding bank borrowings and convertible bonds to equity ratio (i.e. the gearing ratio) was 49.9% (31 December 2012: 130.8%). The Company completed the issuance of convertible securities in April 2013, resulting in a decrease in the gearing ratio.

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

Foreign Exchange Risk

The Group's operations are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group's subsidiary in the United States uses United States Dollar as its functional currency. A small portion of the Group's cash and bank deposits are denominated in Hong Kong Dollars, United States Dollars and Euros. The Company also pays dividends in Hong Kong Dollars. In addition, the Group pays certain license fees and sponsorship fees in United States Dollars or Euros, and repays some bank borrowings in Hong Kong Dollars.

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

Pledge of Assets

As at 30 June 2013, there is no building and land use right pledged as securities for the Group's borrowings. As at 31 December 2012, buildings with net book value of RMB18,441,000 and land use rights with net book value of RMB14,594,000 are pledged as securities for the Group's bank borrowings.

Contingent Liabilities

As at 30 June 2013, the Group had no significant contingent liabilities.

BUSINESS REVIEW

In the first half of 2013, the Company has seen encouraging progress in the following key areas:

Further strengthening management team with world-class talents. In addition to a number of senior executives brought on board last year, the Company hired a new Chief Financial Officer and China Human Resources Officer, both of whom possess rich experience gained in multinational companies and expertise in the retail industry. The Company now has a world-class senior management team under the leadership of its Founder and Chairman, Mr. Li Ning, and Executive Vice Chairman, Mr. Jin-Goon Kim, as well as improved management systems and processes in place to execute the Transformation Plan.

Reducing inventory levels and improving distributor profitability through Channel Revival Plan. Over 90% of our distributors have been enrolled in the Channel Revival Plan in the first half of this year. As a result, average channel inventory turnover period have been reduced significantly, from over 9 months during its peak to less than 7 months ended June 30, 2013. Most of our channel partners have also experienced improved productivity and cash flow during the first half of 2013.

Further rationalizing sales network. In the first half of this year, Li Ning Company further right-sized the sales network by closing down more non-performing stores, as well as opening high-performing stores. As at the end of 30 June 2013 the Group has 6,024 stores in total. We will continue to rationalize the sales network to achieve a healthier store mix in keeping with our transforming business model.

Introducing innovative merchandising models, raising sell-out rates and retail pricing. The new merchandising model featuring "prescriptive trade fair orders + fast replenishment + fast response" that was introduced at the beginning of 2013 has effectively improved order guidelines and stocking arrangements to distributors and ensured that consumers demand is met on a more timely basis. The strong performance of our recommended A+ SKUs and fast response products and fast replenishment capabilities demonstrates our ability to identify and capture market opportunities and improve store turnover. This new model aims to increase sales at manageable average product costs, resulting in a higher product margins.

Continuously promoting new products with improved functionality and design. In 2013, we introduced new products adopting the latest state-of-the-art technologies in sportswear. More importantly, under the fast response and fast replenishment models, we integrated production with research and development resources into front-end supply chains. This minimised logistics and transportation time and streamlined flows and processes throughout the supply chain, thus achieving timely introduction and replenishment of best-selling products to satisfy market demand at a faster pace.

Promoting recognition of LI-NING brand and marketing through key sponsorships and better utilization of digital platform. Our strategy to allocate resources to key sponsorships and marketing activities has proven highly effective and achieved satisfactory results. The partnership with NBA star and three-time championship team player, Dwyane Wade, has yielded exciting achievements. Wade, the Chief Brand Officer of the Wade line of products, actively participated in the design of "Way of Wade" product collections, and the launch of his LI-NING basketball shoes and Wade's 2013 China Tour have both resonated with Chinese consumers. Sponsorships of CBA and China's national teams as well as other successful athletes also continued to enhance the LI-NING brand name and help boost the sales of new products. We are well positioned to heighten the Company's brand image, influence and assets to consolidate our leading position in China's sporting goods industry. As digital marketing is becoming an increasingly important communication platform to young consumers, we have also rolled out several initiatives to increase visibility online and encourage more interactive communications with our consumers.

Introducing initiatives to strengthen retail operations. We enhanced our internal capabilities in key areas including fast replenishment for products in stores to increase product sales; fast introduction of new products to respond to market opportunities and increase sales turnover; and improvement of logistics infrastructure and supply chain capabilities to support direct distribution. In addition, with an aim to improve store operating efficiency, we launched the retail management programmes for top seven distributors and key stores in the first half of 2013, building up trust and confidence between the Group and clients, and delivering a successful experience through effective execution in results tracking, product management and store operating improvements. As at the end of June, the participating distributors and stores posted significant growth in retail performance compared to the periods prior to the launch of the programme.

LI-NING Brand

Brand Marketing and Promotion

The focus of the Group's marketing strategy in the first half of 2013 continued to be on the domestic consumer market, LI-NING brand and professional sports. Through optimising the existing resources, practising innovation in products, technology and communications, the Group built up consumers' confidence in, and preference for, the LI-NING brand by closing the gap between the brand and the consumers. The Group aims to reshape and heighten its brand image, expand the influence of the brand and enhance its brand equity to consolidate its leading position in China's sporting goods industry.

Promotion of Basketball Events and Products

During the first half of 2013, the Group continued to allocate more resources to basketball and established the most powerful marketing platform targeting prominent basketball events in China. The platform covered the entire hierarchy of basketball sponsorship resources including China's top professional leagues, such as CBA, NBL and CBA Youth, as well as student leagues of different age groups – from junior high schools, high schools to colleges – highlighting its leadership position in basketball and brand exclusivity for professional sports. Brand marketing was centred on stories and experiences surrounding the events as well as the broadcasting of the matches. These marketing efforts helped to strengthen the link between LI-NING brand and the sport while further solidifying our brand equity.

Sponsorship of CBA, the Top Basketball League in China

The Company carried out a series of innovative marketing campaigns surrounding the CBA events, and for the first time offered CBA team uniforms for sale to foster a CBA culture among consumers. For instance, the announcement of the official sales figure of each team at the end of the season drew wide attention, showing the successful cultivation of a CBA culture among fans.

The strong affiliation between LI-NING brand and the league made CBA games more engaging with its fans, as demonstrated by an audience of over 300 million for the broadcasting of the playoffs. The fans activities sponsored by the brand within and outside the sporting venues attracted more than 400,000 participants.

In February, the Group joined efforts with the CBA to organize an all-star game in Guangzhou which was positively received by the fans and the media. The relationship with its fans was further strengthened through a number of activities including the warm-up shooting contests, all-star weekend events and sale of exclusive all-star products. A series of interactive activities during the CBA playoffs season bolstered the interaction with consumers, leading to high sell-out rates for products featured in the events.

Partnership with NBA Superstar Wade

The activities focusing on Wade and "Way of Wade" products drew the eyeballs of fans, enhancing the value of the basketball products of LI-NING brand. In the NBA All-Star Game in February, the "Devil Rays" shoes, which were tailor-made for Wade, drew wide attention from fans at home and abroad through public relations activities and limited edition offerings. The All-Star shoes, presented by Wade in person to CBA all-star players sponsored by LI-NING brand, reinforced the ties among Wade, CBA and LI-NING. Taking this opportunity, the "Devil Rays" shoes debuted in Beijing, Shanghai and Guangzhou in May with limited edition offerings, attracting hundreds of fans who queued round the clock, effectively fuelling the consumption sentiment and creating a marketing legend for a Chinese brand.

In his tailored LI-NING brand playoff shoes, Wade delivered an outstanding performance in the NBA finals and won the NBA finals championship for the third time. Featuring such championship, we effectively leveraged our close relationship with media and opinion leaders to convey the message of "Way of Wade" and "Dominate This Second", paving the way for Wade's visit to China in July.

In early June, a series of warm-up events for Wade's visit to China attracted numerous participants. The online voting on colour scheme options of the "Way of Wade" series was highly popular and attracted a total of over 300,000 participants and 8 million votes. The two models with most votes will be offered for sale in the third quarter. The Company also rallied a number of stories related to "Way of Wade" on Renren.com, one of the most popular domestic social media platforms in China, which attracted tens of thousands of fans sharing their stories about basketball and Wade.

The Wade-themed marketing events led to triumphs both in branding and business. For instance, nearly 300 pairs of Wade's playoff shoes sold through our online platform on the rollout day, breaking the record of highest daily sales volume for new products. The Champion-themed T-shirts also sold out on the second day after being introduced to the market.

Sponsorship of Running Events

Following its debut in 2012, "LI-NING China 10K Road Racing League" was extended nationwide in 2013 with multiple innovations to enhance its professionalism, and has gradually become a favourite running activity for runners. "LI-NING China 10K Road Racing League" is an official competition of the Chinese Athletic Association initiated by the Company and was exclusively named under the LI-NING brand, representing the first road racing competition held in the form of a league in China. Sub-competitions will be held in 8 cities this year across various group races. The events are expected to draw close to 40,000 runners. To ignite public passion towards running and provide professional competition experience, the Company introduced a number of user-friendly elements in the rules of the contest, route selection, running gears and track services.

The theme of "Prove it by 10K", resonated with a lot of runners to prove their commitment through the competition, and was also well-received by the online communities. During off-season, information regarding running concept, techniques and experience continued to be shared on the official online platform to maintain the momentum of public participation in running.

Compared to the professional positioning of "LI-NING China 10K Road Racing League", "FunRun" is a running event targeting the amateur runners. Since its debut in 2009, "FunRun" has become an annual event specifically for runners. Capitalising on its influence through extended activity platform, LI-NING brand has enhanced its brand equity and differentiated itself from other sporting brands.

The annual LI-NING "FunRun" carnival took place in Chaoyang Park in Beijing in the second quarter of 2013. Under the theme of "Run as you like", more than 1,500 amateur runners enjoyed the fun of running the event. In addition to the carnival, various interactive events were held for consumers to promote the sports to the public.

Strengthening Leading Position in Badminton

Through on-going effort in product innovations and development over the past 4 years since we became the exclusive equipment sponsor for the Chinese national badminton team in 2009, LI-NING brand has become the official partner of the Badminton World Federation ("BWF") in 2013-2016, and the equipment sponsor for major events of the BWF.

In May 2013, LI-NING brand debuted in the global arena as the equipment sponsor for Sudirman Cup, a world class team event providing extensive brand exposure within and outside the courts. Notably, as the game was held in Malaysia this year, the Company innovatively engaged with local distributors to carry out brand marketing activities to better serve the local market. In addition to equipment and services necessary for the event, an on-site badminton carnival was staged combining product exhibitions and sales, as well as player meetings and interviews throughout the event. The carnival attracted over 10,000 participants during 8 days.

Utilization of Digital Marketing

Digital marketing, as an important communication platform to young consumers, accounted for an increasing weight among the Company's brand marketing activities. In 2013, the Company optimised its goals and strategies of the entire digital marketing system from a one-way digital marketing strategy to "social marketing + social networking marketing", with focuses on supporting its marketing campaigns and enhancing brand professionalism, penetration of target consumers and media efficiency.

The Company's strategic initiatives include:

- ***Categorised resource allocation*** – Digital processes were integrated across five categories, consolidating the management of electronic public relations ("EPR"), interactive experience activities, digital media planning, self-owned platforms (micro blogging, official website, etc.) and e-commerce operators.

- ***Innovative consumer interactive experience*** – Boosting penetration in youth through innovative means such as mobile phone and viral-marketing videos. For instance, cartoons and 3D videos were used to introduce unit-bow products and explain the anti-shock mechanism of the latest models. Online word-of-mouth and offline promotions were synchronised between Sina Weibo and our flagship stores. Over 1.4 million website hits were received in one of the online activities for the 10th generation ultra light running shoes.

- ***Optimised EPR based on social marketing*** – EPR social communication was achieved through consumer interaction, self-propagation and forwarding. For instance, the Company leveraged on the influence of some key opinion leaders as well as celebrities to publicise the unit-bow products on social networking platforms, attracting over 1.9 million viewers. Meanwhile, the social media system established provided data analysis and mining based on discussions relating to LI-NING and other brands. These findings were distilled into consumer insights and feedbacks, which were included into continuously optimised reports as a reference to branding, product and sales divisions.

- ***Assessment of digital platform efficiency*** – An overall assessment system was established across digital media, social networking media and e-commerce operators. The system significantly improved the analysis of overall planning, digital media placement effect, conversion of interactive activities and coverage to target consumer groups across all media platforms.

- ***Social networking marketing system on self-owned platforms*** – Sales opportunities were created through in-depth communication within the communities of professional sportsmen and target consumers. In 2013, we completed the integration of self-owned platforms as scheduled through streamlining our agents as well as platforms including the official website, micro blogging portal and interactive community.

  The Company is in the process of building a "LI-NING mega-community" across its official website, micro blogging portal, Renren.com and interactive community, providing marketing content which targets consumers on specific platforms to facilitate interaction and to improve the consumer data management system.

Product Marketing Initiatives

During the first half of 2013, our new products recorded exceptional sales for the first and second quarters with sell-out rates significantly increased year-on-year to healthy levels, and products featured in marketing stories witnessing a higher sell-out rate than average. New products in core categories also accounted for an increasing proportion of total new product sales.

The outstanding sales of new products were a result of a clear communication strategy and highly innovative implementation capacity. For instance, in promoting our unit-bow technology in the first half, our in-depth research revealed that consumers pay special attention to anti-shock effect at specific positions in movements. Based on this core consumer insight, the "positioned anti-shock enhancements" was distilled as the core concept of integrated marketing communications for unit-bow technology, including television commercials, viral-marketing videos and in-store POP advertisements. Our unit-bow for basketball further benefited from the exposure through the CBA event broadcasting sponsored by the Company. The shoes, both on players and in various marketing communications, greatly endorsed the professionalism of the unit-bow technology, making it a best-seller of bow technology-based products in the first half of 2013.

In promoting the ultra light shoe series in the first half of 2013, the consumer positioning as shoes "for beginning runners" separated it from professional anti-shock product lines such as LI-NING Bow/LI-NING Arc, with a pursuit for more emotional communication with consumers. Under the light-running concept of "Run as You Like" we organised the 10K and FUNRUN events focusing on running experiences, to allow runners at various levels to participate in running activities. The 10th generation ultra light products were shrewdly integrated into all activities, sports events and in-store experience in the course of communication, to serve the goal of becoming the first pair of running shoes for target consumers and, ultimately, translate to better sales of the ultra light series.

Rationalization and Management of Sales Channels

Channel Revival Plan

Given the challenges in the sportswear industry and issues with channel inventory and profitability, the Group adopted the Channel Revival Plan at the end of 2012, to join efforts with distributors to provide tailored solutions to rationalize their store networks, reduce channel inventory, improve product merchandising and enhance retail operations. In the first half of the year, the Group entered into agreements with over 90% of our distributors under the Channel Revival Plan. Since implementation of the plan, the Company has made significant progress in all of the focus areas and as a result, average channel inventory turnover period has reduced significantly from over 9 months at its peak in 2012 to a current level of less than 7 months, the sell-out rates of new products have exceeded historical levels and most of our distributors have seen improved profitability.

Retail Stores

As at 30 June 2013, the number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to a total of 6,024, representing a net decrease of 410 stores as compared to 31 December 2012. There were 54 distributors, one less than at the end of 2012. Store breakdown as at 30 June 2013 is as follows:

Number of franchised and directly-operated retail stores

LI-NING brand stores	30 June 2013	31 December 2012	Change
Franchised retail stores	**5,393**	5,803	**(7.07%)**
Directly-operated retail stores	**631**	631	**0.00%**
Total	**6,024**	6,434	**(6.37%)**

Number of retail stores by geographical location

LI-NING brand stores	30 June 2013	31 December 2012	Change
Eastern Region *(Note 1)*	**2,451**	2,602	**(5.80%)**
Northern Region *(Note 2)*	**2,275**	2,432	**(6.46%)**
Southern Region *(Note 3)*	**1,298**	1,400	**(7.29%)**
Total	**6,024**	6,434	**(6.37%)**

Notes:

1. Eastern region includes Shanghai, Zhejiang, Jiangsu, Jiangxi, Anhui, Shandong, Hunan and Hubei.

2. Northern region includes Beijing, Tianjin, Shanxi, Hebei, Inner Mongolia, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Gansu, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region and Qinghai.

3. Southern region includes Guangdong, Guangxi, Fujian, Hainan, Yunnan, Guizhou, Sichuan, Chongqing and Tibet.

The Company has taken the following measures regarding channel management in the first half of 2013:

- **Focus on profit-making stores:** Based on structural adjustments to the store network in 2012, the Group has been focusing on profitability in its channel expansions. Profitable and efficient stores were retained while non-profitable ones were closed to ensure improvement of overall store quality and channel profitability.

- **Stabilise the number of stores:** During the first half of 2013, closures of our flagship stores, conventional stores and factory outlets stabilised at a slower rate, as many of the least productive stores were closed in 2012. Meanwhile, the Group started to effectively address channel inventory issues and enhance operating efficiency in order to improve store profitability. The store mix improved, as most of the stores closed in the first six months were less efficient stores, while new, more efficient stores were opened.

- **New merchandising model:** At the start of 2013, the Group introduced a merchandising model featuring "prescriptive trade fair orders + fast replenishment + fast response". Starting from the first quarter of 2013, the Group provided improved ordering guidelines (including recommended A+ SKUs) and stocking arrangements to clients. While ensuring the execution of trade fair orders, the Group provided fast replenishment of best-selling models based on market demand, and boosted their input and output efficiencies. The Group's information sharing platform provided clients with access to weekly updates of best-selling and slow-moving models based on nationwide sales data. In addition to the existing product plan, new market opportunities were captured through short-term planning and fast production that allowed the company to stay more in tune to market demand and contribute more to overall performance. Going forward, the Group will further promote the fast replenishment and fast response model to maximise efficiency in store turnover.

- **Notable effect of the retail programme for pilot distributors:** With the aim of boosting store operating efficiency, we launched the retail management programme for our top seven distributors in the first half of 2013. The program focuses on the building of trust and confidence between the Group and its distributors, and delivering an overall successful experience through effective execution in results tracking, product management and store operations. As at the end of June, the seven distributors posted significant growth in retail performance compared to periods before the launch of the program.

- **Retail business model (RBM) at pilot stores:** The programme introduced effective reforms and advancements in product and retail management. It involved consumer-oriented product planning, improving order mix of A+ products and enhancing store layout to effectively provide customers with an improved retail experience. To speed up the on-shelf cycle of new products, we analysed merchandise performance in a timely manner, and increased the transfer and replenishment of merchandise. The quick response model was introduced for fast production of best-sellers and delivery to market. We established an independent professional retail management team to strengthen the management of stores, regional operations and subsidiaries, and developed management toolkits to effectively facilitate and provide guidelines to retail activities. The monthly turnover of RBM stores registered year-on-year growth rates significantly higher than those for other stores not in the program.

E-Commerce

- Thanks to the development of online markets by our E-Commerce division over the past five years, we have established a comprehensive e-commerce distribution platform, which has yielded remarkable results. The Group won several industry awards including "China's Most Investment Potential in E-commerce Gold Seed Award" (中國電子商務最具潛力投資價值金種子獎) from APEC E-Commerce Business Alliance and "Eguan Best E-commerce Customer Value Management" (易觀傳統企業電子商務客戶價值管理最佳獎) from Analysys International, which demonstrate strong recognition from the e-commerce industry.

- The Group has established its online mall (www.e-lining.com) and opened official stores under the LI-NING brand on Taobao.com, JD.com, Tencent Paipai and other well-known third party e-commerce platforms in China. LI-NING brand zones also opened on Amazon.cn and S.cn, among other well-known domestic online malls.

Product Design, Research and Development

As a professional sporting goods brand, the Group has continued to advance its product design and innovation. Through continuous enhancement in product function and quality, the Group is committed to offering product series which are able to meet the needs of both ordinary consumers and professional athletes.

New Products Adopt a New Merchandising Model

To better cater to new market trends and needs, the Group adopted new merchandising in 2013, comprised of "prescriptive trade fair orders" plus "retail oriented fast replenishment and fast response", to gradually shift from the traditional wholesale model to a retail operating model.

Our recommended A+ products are defined as best-selling SKUs at respective regions according to historical sales data, market trends and geographical and climate differences, and these are recommended to our channel partners at the trade fairs. As indicated by sales data for the first half of 2013, our A+ and fast response products posted exceptional sales performance.

Under the fast replenishment and fast response models, we integrated production and research and development resources in front-end supply chains according to initial sales, minimised logistics and transportation time and streamlined flows and processes throughout the supply chains, thus achieving timely introduction and replenishment of best-selling products to satisfy market demand at faster paces. Fast replenishment can effectively prevent stock-outs of best-selling products and increase sales at manageable average product costs. Our fast response model enables us to capture timely feedback on market trends and demand, improve product development efficiency and success rate, and hence effectively reduce inventories to increase retail revenue with the improved average retail discounts. In 2013, the lead time for fast response products was shortened to 3-6 months, compared to 1-1.5 years of typical go-to-market cycle for products under the traditional wholesale model.

Footwear Products

Footwear Technology Platform Highlights

- Anti-shock technologies: Our two core anti-shock technologies are LI-NING Bow and LI-NING Arc.

  In 2013, the LI-NING Bow family featured new bow units with a more accurate anti-shock effect which drew upon the anti-shock principle of bowstring structure and applied modular assembly, thus allowing better sport performance through positioned anti-shock specific to different sport needs.

  The LI-NING Arc technology employed hollowed anti-shock units at full length soles to decentralise foot pressure and achieved great shock-absorption performance. Meanwhile, through groove design and balanced arrangement, higher bendability and improved flexibility have been easily achieved.

- China Hemp Technology: Natural hemp fibre has porous folds with strong odour and moisture absorbent and quick drying performance, and contains active phenolic with significant antibacterial effect.

  Through purification and fibrosis treatment, natural herbs are placed into the hollowed fibre centre ply using high-tech tools, which can slowly release natural plant aroma in high-temperature and humid environments to inhibit bacteria and keep clean air in shoes with an effective bacteria inhibition rate of over 96.7%. The China Hemp technology is co-developed by the Group and the Military Supplies and Equipment Institute of Logistics Department of Chinese People's Liberation Army under a joint patent. It has been approved as a special material for combat-purpose shoes for army.

  Currently, hemp insoles are used by most of our shoes to provide better wearing experience for consumers.

Product Highlights

- Unit-bow running shoes: Independent bow units aligning with running motion curve are mounted in bottom structure of the shoes, providing accurate shock-absorption and flexible running experience.

- Thunder unit-bow basketball shoes: It utilises new KPU material for the upper to make it solid and air-permeable; modular anti-shock bow units at sole to provide selective kinetic energy absorption and release at major stress areas; and rubber outsole featuring PavTrac wear-resistant technology to extend the life of basketball shoes. The shoes desirably met players' needs in the 2012-2013 CBA All-Star Game and playoffs.

- The 10th generation ultra light running shoes: This light and functional shoe weighs only 212 grams. Utilising the simplest supporting cross-strap structure with a lightweight and simplistic instep structure, the overall upper provides effective protection and support. The shoes for men are made with carbon fibre, which is very light yet with high strength support, while the shoes for women are made with glass fibre, providing better resilience and impact resistance. The midsole applies our proprietary FoamEVA lightweight formula to provide a comfortable feeling and reduce energy loss. Bounse+ material is utilised at full length soles to provide sound rebounding effect and resistance to compression. The TPU balancing patches at arches can effectively prevent excessive midfoot twisting in running.

- The 10th generation ultra light basketball shoes: It follows the design of the 10th generation ultra light running shoes, featuring the same lightweight streamlined appearance. With carbon fibre cloth inside and outside to ensure stability of movements, the ultra light weight of 340g helps to improve performance on basketball court.

- "Way of Wade" basketball shoes: The genuine leather uppers with modern reinforced TPU eye-catching trim highlights the quality of the shoe. The carbon fibre plate at midsole provides superior foot support and resilience, with Cushion + Bounse, a classic anti-shock and rebounding technology at the soles, to fulfil players' movement needs. The unique elements of Wade across shoes reflect his personal charm.

  Accompanying the NBA Championship season 2012-13 won by Wade, the W.O.W models became big hits with consumers. The editions such as Gold Rush (逐輝), Team No Sleep (無眠), Veterans Day (老兵) and Caution (警告) enjoyed widespread reputation and were highly appreciated by players as such models well interpreted the story and attributes of Wade.

- The 3rd generation LI-NING Arc: In addition to the flexible anti-shock concept realized through an integrally moulded and hollowed structure, the Company also brought new technology breakthroughs for the 3rd Generation LI-NING Arc. The technology involves the low-density soft and flexible upper material to provide extra comfort, as well as the high-density lower material to provide better support and resistance to compression. The upper structure plus outsole technology provides 360-degree flexibility for LI-NING Arc product. The 3rd generation LI-NING Arc family comprises running shoes, training shoes and basketball shoes.

- Legend 84: As a fast-response product at entry level prices, it incorporates simplistic design and vulcanised sole, and is easy to match to a variety of styles and suitable for most consumer groups. Its sales substantially outperformed similar products during the trial and official launch periods. It is the most successful fast response product so far and has also become an evergreen product in the sports lifestyle series.

- Sports lifestyle vintage shoes: Vintage shoes as a trend represents one of the most important income streams in our sports life product series. The two vintage models of "Glory 92" (征榮92) and "3KM" alone accounted for over 25% of orders of our sports lifestyle shoes in 2013. The vintage models also carry forward the heritage of the LI-NING product story. For instance, "Glory 92" shoes, which were worn by China national team at the Barcelona Olympic Games Award Ceremony in 1992, are replicated and integrated with modern craftsmanship and have become a classic and indispensable product for the LI-NING brand.

- Outdoor wading shoes: It utilises light and air-permeable quick-drying mesh at the upper to provide better drying effect after wading. The midsoles integrate LI-NING Arc technology into a transparent shape to reveal the wading element and allow visible drainage through the side conduits. The "STORM GRIP" (旋風顆粒) technology-based outsole for outdoor sports, featuring multi-angle tilted matrix arrangement, provides strong traction in water.

- Sponsored athletics shoes: The new series of our athletics shoes rolled out in 2013 are designed in line with the core concept of "Tiger Tally" (虎符), a symbol of oriental culture. The product line comprises models sponsored for international athletes including Yelena Isinbaeva, Andreas Thorkildsen, Asafa Powell, Christian Taylor and Ngonizashe Makusha. Domestic athletes include Huang Xiaoxiao (黃瀟瀟), Wang Xueqin (王雪芹) and Xie Limei (謝荔梅), as well as sponsored teams including the National Teenager Athletics Team. The element of tiger tally, a symbol of military power for Chinese ancient emperors, is artfully incorporated into the overall pattern of the shoes to highlight the power and speed of athletes, and tiger tally is well integrated into the apparel theme to showcase the ambition of athletes on the arena.

- Sponsored tennis shoes: During the first half of 2013, we sponsored professional tennis shoes for tennis resources including Marin Cilic, Peng Shuai (彭帥), Yang Zonghua (楊宗樺), Zheng Saisai (鄭賽賽), the Pliskova sisters and the Tianjin Provincial Tennis Team.

  "Heroine" (刀馬旦) women's tennis shoes: It combines the heroine character theme in Chinese Peking opera, as well as personal traits of players. Peng Shuai wore the shoes when she won the women's doubles championship of WTA Rome station in May 2013 and the women's doubles championship of Wimbledon Tennis Championships (one of the four "Grand Slam" tournaments) in July.

  "Pro Competition" (奇魚一代) men's tennis shoes: Tennis Warehouse, the largest tennis supplies website in the United States, made a professional review on our top-class tennis shoes "Pro Competition". According to the review of seven attributes including foot support/stability and overall sole durability, "Pro Competition" scored 4 (full score: 5), demonstrating a strong edge in professional performance. Based on "Pro Competition", we developed a new model of "Court Racer" (奇速) for men's tennis competitions in 2013 in pursuit of lighter and faster design, which was also highly praised by Cilic.

Apparel

Technology Platform Highlights

- Coffee Charcoal Fabric: We utilised coffee charcoal fabric, which is a new functional material with three main environmentally friendly features: 1) the material is made of coffee dreg which reduces environmental pollution; 2) its production process has low power consumption and carbon dioxide emission; and 3) as an environmentally friendly product, its functionality draws upon the natural characteristics of coffee. The fabric has heat insulation and antibacterial capabilities.

- Instant take-off zipper: To help players in CBA, gymnastics, badminton and table tennis matches quickly take off sweatpants and return to the courts after intermissions, our apparel technology team developed instant take-off sweatpants incorporating instant take-off zipper technology, which were granted a utility model patent by the State Intellectual Property Office.

- Li-Ning AT technology platform: Further optimising AT technology platform, a leading technology platform recognized as industry benchmark, we conducted an all-around review of logos including heat transfer labels and tags, to standardize their positions and sizes. Functional technical indicators were updated to control comprehensive management on applications on the technology platform. The Group is committed to building the AT platform into a functional material with advanced technology and safe trademark usage, thus meeting player's demands on material functions and sharpening product competitiveness.

  The focus is mostly on the AT story, improving the utilisation of AT functional fabric to further promote AT-platform applications. To build on our exclusive technology attributes, we expanded the application scope of functional fabric in special products, and maintained stable annual growth in the utilisation ratio of advanced materials. During the first half of the year, the utilisation of functional fabric was significantly increased, and AT materials were utilised in close to 50% of models in the first and second quarters of 2013.

Product Highlights

- Running Products: In 2013, the Group rolled out the world's lightest running windbreaker in its professional sports product lines. The ultra light windbreaker developed in the second quarter of 2013 utilises the "LITE AT FEATHER" technology, a new AT technology developed by LI-NING. The ultra light windbreaker can reduce the burden on runners when running. The windbreaker's unique lightweight fabric and AT technology provide protection against fog, wind and light rain, and are designed to have a breathable fit. Given such unique features, the ultra light windbreaker has won many awards, including two world records namely "The World's Lightest Men's Sports Coat" and "The World's Lightest Open-end Zipper".

- CBA Sponsored Products: As one of the Group's core professional sports, our products (especially the apparel for players) in the CBA 2012-2013 season conveyed traditional Chinese cultural elements with modern design and expression, and artfully incorporated product technologies and functions. The abstract pattern on the back of the outfit was inspired by Ding, a type of sacrificial vessel in Qin Dynasty. The pattern is crafted with full-length TT mesh to maximise the breathability, improving breathability over traditional mesh by 69%.

  The apparel for professional players uses LI-NING AT DRY 3D moisture wicking material, with fast drying materials supplemented by Lycra, and provide sound breathability, freedom of movement and comfortable fit. The shorts adopt woven fabric with laser puncturing craftsmanship on both sides, working with natural air flow to keep ventilation of the main areas where the human body perspires for an extended cooling effect.

In addition to apparel for players, LI-NING brand has also developed Sports Armour (運動裝甲), which is high-end protective sports gear for professional basketball players. As LI-NING's proprietary functional sports apparel, it focuses on wrapping and protecting muscles.

- Gold Medal Team Sponsored Products: Deepening its support for national gold medal teams including badminton, table tennis, diving, shooting and gymnastics, the Group offers products with professional designs tailored to different sports categories to support the athletes performing at their best.

  The badminton apparel borrows the story package of "World", incorporating traditional Chinese patterns, symbolising the long-lasting dominance of the Chinese badminton team in the world. Designed around the breakdown of human muscles, the tops highlight major working muscles and strengthen the design of line and colour. The fabric utilises advanced materials to enhance ventilation and breathability, as well as improve moisture absorption to keep the body cool throughout high intense competitions. Lycra material ensures a greater range of movement for players.

  The table tennis apparel features a circling dragon pattern with added shiny powder to highlight dynamic effects. At the dragon's scales, they are positioned over flashy gauze material to increase air ventilation, keeping players dry and comfortable in movements while showcasing the external beauty of the products.

  The apparel for the diving team utilises four-way stretch fabric as well as special designs for U-shape back, V-shape hip and dual shoulder straps for ergonomics, completely wrapping athletes' acting muscles.

  The apparel for the shooting team utilises the most advanced ultrasonic laser technology combined with air mesh fabric and tailoring techniques, in order to realize an air exchange system on the back to speed up air flow and exchange, allowing for instant sweat absorption to keep the back dry.

  The apparel for the gymnastics team, with its superior elasticity and unique tailoring to provide flexibility and comfort for gymnasts, ensures free, smooth movements during the match, which allows gymnasts to complete even more perfect landings.

- Badminton Rackets: The Group made continuous investments in innovation and research on technologies for badminton products, one of the Group's core sports categories. Following the "3D Breaking-free" (立體風刃) and "Air Stream System" (風動導流) patented technologies, our racket research and development institute further developed the patented technology of "Energy Aggregation" (能量聚合). The successful development of new technologies provides us a number of racket technology platforms that are visible, functional and innovative.

  In June 2013, new sponsorship-grade rackets based on our racket technology platforms were rolled out, which were highly appreciated by players of the Chinese Badminton Team and received a warm response from the market, with its superior technological functionality and vivid coating visual effect. Our professional research, development and design capabilities continued to strengthen the professional status of the LI-NING brand in the badminton racket market.

Supply Chain Management

As part of the Company's Transformation Plan, and in response to rising industry challenges, the Group views the development of leading supply chain capabilities and retail operation capabilities as a core competitive advantage and a critical component of our new business model. Improved supply chain capabilities will be critical in controlling costs, clearing inventory, increasing operational efficiency, reducing lead times and laying the foundation for a retail-oriented business model. The Group has taken the following management initiatives in 2013, so far:

Management and control of procurement costs and establishment of a new model to improve operating efficiency and financial performance of the supply chain. The following means were employed to meet the cost control target:

- Enhancing material versatility and consistency to centralise resources, reducing the number of SKUs, reducing order complexity and streamline the number of suppliers, thus concentrating resources to obtain economies of scale and improve bargaining power

- Establishing a competitive procurement system that chooses suppliers with the higher cost competitiveness

- Continuing to promote the overseas manufacturing of apparel products

- Re-planning the network of production bases to increase the share of procurement from Central and Western China

- Establishing the vendor-managed inventory (VMI) model to boost operational efficiency and optimise the level of inventories through communication with suppliers

- Controlling procurement risks under a procurement security system plan, in order to identify risks in a timely manner through monthly reviews of supplier mix and business operations and adoption of countermeasures

Enhancement of retail logistics capabilities, including:

- In the first half of 2013, the Group progressed well in improving its logistics and delivery system. Through effectively optimising warehouse network layout and integrating logistics supplier resources, the Group substantially increased delivery efficiency and reduced overall delivery time as well as transportation costs

- A logistics and retail delivery system was created and the Group completed preliminary design and layout of logistics to support direct delivery to retail outlets

- With the initial success in the transformation of its logistics system, the Group developed a more refined delivery system, comprising different means of delivery to support different sales requirements from trade fair orders, fast response and direct delivery to stores

Establishment of fast retail capabilities include:

- The Group set up a forecast system, and merchandise planning processes were streamlined to build up a management platform to support the retail model

- By establishing a supplier collaboration platform that would continuously shorten supply cycle and improve supply chain responsiveness, the Group enhanced its ability to respond to changing demands with shortened order lead time that should reduce the risk of inaccuracies and effectively cut down inventories

- With a newly established business model to identify market opportunities, the Group established an internal decision-making system to efficiently develop and manufacture new products, thus maximising business revenue through quick identification and satisfying of market demand

- Bulk orders under the Trade Fair model were gradually replaced by small batch production, and subsequent production volume determined in phases according to market response and forecast

- Under a newly established inventory management model, new ways were introduced to support the physical expansion of retail network, such as centralised management, agile replenishment and flexible transfer of goods to reduce inventories, improve product sales and minimise losses from product stock-outs

Clearance of channel inventory

Addressing existing inventory issues, the Group adopted fast and effective means for inventory clearance, on top of the conventional network. They include specialised outlets in niche domestic markets, effective overseas sales channels and collaboration with e-commerce operators, such as VANCL and vipshop, and supermarkets for efficient inventory clearance. Through these means, obsolete inventories were significantly reduced in the first half of the year, with inventory levels of the Group and in the channels expected to return to reasonable levels in the second half of the year.

Double Happiness Brand

Double Happiness brand is owned by Shanghai Double Happiness Co., Ltd. and its subsidiaries (collectively, "Double Happiness"), in which the Group holds a 57.5% equity interest. It is principally engaged in the manufacture, research and development, marketing and sales of table tennis and other sports equipment. Synergies in brand marketing, promotion, sports tournament sponsorship and distribution channel expansion of the two brands, LI-NING and Double Happiness, have further strengthened the Group's position in China's table tennis market.

During the period, Double Happiness continued to adopt the "sponsorship of sports stars and sports events" as its core marketing and promotion strategy. In 2013, Double Happiness continued its endorsement of outstanding table tennis players in China, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧) and Li Xiaoxia (李曉霞), who were all spokespersons for its table tennis equipment. Double Happiness also actively sponsored various professional tournaments in China and around the world. During the first half of 2013, it attained the sponsorship and marketing for the 52nd World Table Tennis Championships in Paris, and continued to provide professional equipment for events such as 10 Stops of the International Table Tennis Federation ("ITTF") Pro Tour during the first half, and the Chinese Table Tennis Club Super League.

Double Happiness signed the 2013-2016 ITTF cooperation agreement in which Double Happiness was granted the official equipment supplier status for the 2016 Olympic Games. This comprehensive cooperation also gives Double Happiness the role of official equipment supplier for the World Table Tennis Championships from 2014 to 2016, the World Cup from 2013 to 2016 and the ITTF Pro Tour from 2013 to 2016.

Double Happiness possesses strong capabilities in product research, development and design. Over 80% of China National Table Tennis team members opted for the Double Happiness branded covering. Besides equipment for professional players, Double Happiness introduced comprehensive improvements or updates in performance, configuration and packaging of its products according to customer feedbacks and market needs in 2013. New products were rolled out in the first quarter and were well received by the market. Meanwhile, Double Happiness also launched an "e" series, specifically for e-commerce channels in the second quarter of 2013.

Double Happiness products are mainly distributed via wholesale and integrated sporting goods stores. It has adopted a wholesale model with a relatively stable clientele across 30 provinces and municipalities. In 2013, based on the refined professional table tennis equipment distributor system and supermarket distributor system, Double Happiness introduced a bidding mechanism to expand its clientele and actively explored e-commerce business models to further integrate customer resources and strengthen customer management.

Other Brands

Kason

Kason, a well-known badminton equipment brand with over 20 years of history, is an integral part of the Group's badminton business.

During the reporting period, Kason continued to strengthen its classic brand positioning perceived by consumers, and maintained a stable business growth through optimisations in product mix, production costs and cost performance of products. While its classic rackets remained popular, the newly developed apparel and shoes maintained market competitiveness in terms of product design and pricing. Through differentiated brand positioning for LI-NING brand and Kason brand, the Group will continue to increase product competitiveness and make reasonable use of the brands' top-class sports marketing resources to increase its market share in the badminton category.

AIGLE

Despite the challenging retail environment on the whole and a prevailing recession in leisure and outdoor brands due to unfavourable market impacts, AIGLE continued to gain higher brand recognition among consumers, largely due to the brand's unique market positioning and competitive edge.

During the period, AIGLE brand continued its effective retail management and a well-paced shop opening strategy. As a result, stable progress was achieved, including further increased sales in the existing stores and positive business momentum for newly opened stores. AIGLE brand also remained one of the leading brands in outdoor and leisure sectors in major malls.

In the future, AIGLE brand will continue the following major operational strategies to increase brand recognition and loyalty among consumers and sustain its business growth:

- Continue to penetrate into provincial capitals and other first-tier cities. It will gradually open brand image stores with a globally common identity, increase retail store coverage in cities above the provincial level and diversify the channel portfolio to ensure stable financial returns in the long run.

- Further strengthen retail management to enhance customer relations management and effective inventory management.

- Maintain in-depth promotion in outdoor and tourism media to increase brand exposure and visibility.

Lotto

In the first half of 2013, Lotto gradually closed loss-making self-operated stores as scheduled, and diminished the coverage and number of its stores in China. The number of self-operated subsidiaries was decreased to reduce expenses and bring costs under reasonable control.

On inventory clearance, it started to open factory outlets, discount stores and special sales events while identifying proper business channels to meet the goal of inventory reduction. Meanwhile, it seeks to carry out promotional and marketing activities in cooperation with e-commerce channels. As the de-authorisation for distributors has been completed, the major tasks in the first half of this year focused on rational allocation of the repurchased goods, collection of receivables and round-off work.

ORGANISATIONAL REFORM AND HUMAN RESOURCES

As at 30 June 2013, the Group had 3,383 employees (31 December 2012: 3,447), of whom 1,713 (31 December 2012: 1,676) were from the Group's headquarters and retail subsidiaries, and 1,670 (31 December 2012: 1,771) were from other subsidiaries, including Double Happiness, Lotto, Kason and other non-LI-NING brand operations.

In 2013, the Group continued to advance the transformation and development of LI-NING brand's core business. Emphasis was placed on human resource optimizations to support the Transformation Plan, including continuous improvements in internal and external talent pools, to forge the core competitiveness of the Group.

The Group regards its workforce as an important asset for corporate development and has placed special emphasis on the recruitment, training, motivation and retention of core management and professional staff. Over the past 12 months, the Group has successfully introduced C-level senior management members responsible for management and development of finance, marketing, products, supply chain and human resources functions.

During the period, the Group carried out human resource optimizations particularly in relation to its retail talent in line with its transition to a retail-oriented business model. The Group systematically built up internal and external talent pools, with an emphasis on identifying and promoting internal talents while attracting excellent talents from the industry. Adhering to the principle of rationally considering job responsibilities and individual performance and capabilities when determining employee compensation packages, the Group enhanced the linkage between remuneration and performance by optimizing the compensation mix to promote a performance-driven culture. Furthermore, the Group continued the mid-level leadership development program to speed up the cultivation and growth of internal talents in support of its business targets.

OUTLOOK AND STRATEGIES

China economic growth remains stable growth.

Looking into the second half of 2013, while there are still uncertainties related to its economic recovery, China's economy remains fundamentally stable. The government pays increasing attention to the quality of growth, meaning a change to a consumption-focused model from an investment-driven model. While the long-term effect on stimulating domestic consumption remains to be seen, consumption growth in the sportswear sector is expected to remain robust in China as the population continues to participate in more sports activities. China's sportswear industry penetration is still low compared to mature markets, which indicates significant potential growth yet to come.

Domestic sporting goods industry continues to face challenges of inventory clearance and erosion to profitability due to overexpansion.

In the first half of 2013, the domestic sportswear industry remained highly fragmented. Major industry players have started to take steps to tackle issues with excess inventory and declining profitability, including sales promotions, more prudent sell-in volumes and the closure of non-performing stores. We expect that more time is needed for the industry to recover and, as a result, the market will remain challenging in the near term.

Li Ning's Transformation Plan is the right way to go; the Company will deepen various initiatives in the second half of 2013.

As discussed when the Transformation Plan was launched, the Company has made improving sell-through and reducing channel inventory a priority in its recovery, and in the near term, the Company expects that continued reductions on sell-in will still have an impact on revenues. However, the Company's focus on operational improvement in the past year has paid off, with early evidence of recovery seen in our entire ecosystem. Encouraged by the early successes across a number of operational initiatives and pilot programs, management will continue to move forward in executing the Transformation Plan. We will continue to enhance management process controls, improve our brand positioning, help our distribution channels to improve profitability, improve products and merchandising to better respond to consumer demand, and maintain our focus on effective cost control. Ultimately, we look forward to achieving our goal of re-orienting the Company to sports marketing-driven, retail-oriented business model, which we believe will result in significant growth and value to our investors and other stakeholders.

For the full year of 2013, we expect the Company's operating cash flow will continue to improve, along with our distributors' profitability. We expect the anticipated full year financial loss will be narrowed compared to 2012. The transformation is well on track and management is confident we will deliver on the vision and strategy we promised to shareholders.

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 2013. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period.

CORPORATE GOVERNANCE

For the period from 1 January 2013 to 30 June 2013, the Company complied with the code provisions in the Code on Corporate Governance Practice ("code provision") set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange") with the exception of code provisions A.2.1 and A.5.1.

According to code provision A.2.1, the role of the chairman and chief executive of the Company 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 CEO, the day-to-day responsibilities of the CEO have been assumed by Mr. Li Ning, the Executive Chairman, who manages the external affairs and relationships of the Group, and by Mr. Jin-Goon Kim, the Executive Vice Chairman, who manages the internal affairs and operations of the Group from 1 January 2013 to 30 June 2013 during the period under review. Therefore, there was no separation of the roles of the chairman and the CEO as both of the roles are currently undertaken by the Chairman and/or the Vice Chairman of the Board. Notwithstanding the above, the Board is of the view that the current management structure remains to be effective for the Group's operations and sufficient checks and balances are in place. The operations and management of the Company are constantly subject to the scrutiny and valuable contributions of the independent non-executive Directors. The Board will continue to review the management structure regularly to ensure that it continues to meet these objectives and is in line with industry practices. The Board will also continue to identify suitable candidates to become the CEO.

According to code provision A.5.1, the chairman of the nomination committee must either be held by the chairman of the board, or an independent non-executive director, and the majority of its members must be independent non-executive directors. The Company's Nomination Committee currently consists of Mr. Jin-Goon Kim (Executive Vice Chairman) as the Chairman, and Mr. Li Ning (Executive Chairman) and Mr. Chan Chung Bun, Bunny (independent non-executive director) as the members. In view of the Group currently being amidst a period of reform, the Board hopes to garner greater support from TPG-nominated directors during this process of reform, and thus has decided to appoint Mr. Jin-Goon Kim as the chairman of the Nomination Committee. The Board also needs the Executive Chairman, Mr. Li Ning, to become more involved with the work of the Nomination Committee. The Board believes this arrangement is necessary for the Company in this current stage.

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 auditing, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2013.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2013 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

By order of the Board
Li Ning Company Limited
Li Ning
Executive Chairman

Hong Kong, 9 August 2013

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Jin-Goon Kim and Mr. Zhang Zhi Yong. The non-executive directors are Mr. James Chun-Hsien Wei and Mr. Chen Yue, Scott. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Mr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel.