



LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)



INTERIM REPORT **UNLEASHING**
2013 THE **POTENTIAL**

Mission

Through sports, we inspire people the desire and power to make breakthroughs

Vision

A world's leading brand in the sports goods industry

Core Values

Live for Dream, Integrity and Commitment,
We Culture, Achieving Excellence,
Consumer Oriented, Breakthrough



About Li Ning Group

Li Ning Company Limited is one of the leading sports brand companies in China, mainly providing sporting goods including footwear, apparel, equipment and accessories for professional and leisure purposes primarily under the LI-NING brand. Headquartered in Beijing, the Group has brand marketing, research and development, design, manufacturing, distribution and retail capabilities. It has established an extensive supply chain management system and a retail distribution network in China, predominantly through outsourced manufacturing operations and franchised distribution.

In addition to its core LI-NING brand, the Group also manufactures, develops, markets, distributes and/or sells sports products under several other brands, including Double Happiness (table tennis), AIGLE (outdoor sports) and Lotto (sports fashion) which are either self-owned by, licensed to or operated through joint ventures.

*Dominate **This** Second*



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Corporate Information

Board of Directors

Executive Directors

Mr. LI Ning (*Executive Chairman*)
Mr. Jin-Goon KIM (*Executive Vice Chairman*)
Mr. ZHANG Zhi Yong

Non-executive Directors

Mr. James Chun-Hsien WEI
Mr. CHEN Yue, Scott

Independent non-executive Directors

Mr. KOO Fook Sun, Louis
Ms. WANG Ya Fei
Mr. CHAN Chung Bun, Bunny
Mr. SU Jing Shyh, Samuel

Executive Committee

Mr. LI Ning (*Committee Chairman*)
Mr. Jin-Goon KIM
Mr. CHEN Yue, Scott

Audit Committee

Mr. KOO Fook Sun, Louis (*Committee Chairman*)
Ms. WANG Ya Fei
Mr. CHAN Chung Bun, Bunny

Remuneration Committee

Ms. WANG Ya Fei (*Committee Chairperson*)
Mr. CHEN Yue, Scott
Mr. CHAN Chung Bun, Bunny

Nomination Committee

Mr. Jin-Goon KIM (*Committee Chairman*)
Mr. LI Ning
Mr. CHAN Chung Bun, Bunny

Authorised Representatives

Mr. LI Ning
Mr. CHEN Yue, Scott

Company Secretary

Ms. TAI Kar Lei

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Principal Place of Business in Hong Kong

Suites 1, 7-15, L45
Office Tower, Langham Place
8 Argyle Street
Mongkok, Kowloon
Hong Kong
Telephone: +852 3541 6000
Fax: +852 3102 0927

Operational Headquarters

No. 8 Xing Guang 5th Street
Opto-Mechatronics Industrial Park
Zhongguancun Science & Technology Area
Tongzhou District
Beijing, PRC
Postal Code: 101111
Telephone: +8610 8080 0808
Fax: +8610 8080 0000

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

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

Auditor

PricewaterhouseCoopers
Certified Public Accountants

Legal Advisors

Hong Kong law
Baker & McKenzie

PRC law
All Bright Law Offices

Principal Bankers

Hong Kong
Hang Seng Bank Limited
DBS Bank Ltd., Hong Kong Branch

PRC
Industrial & Commercial Bank of China
China Construction Bank
Bank of China
China Merchants Bank
China MinSheng Banking Corporation Limited
Hang Seng Bank (China) Limited
DBS Bank (China) Limited



LI-NING





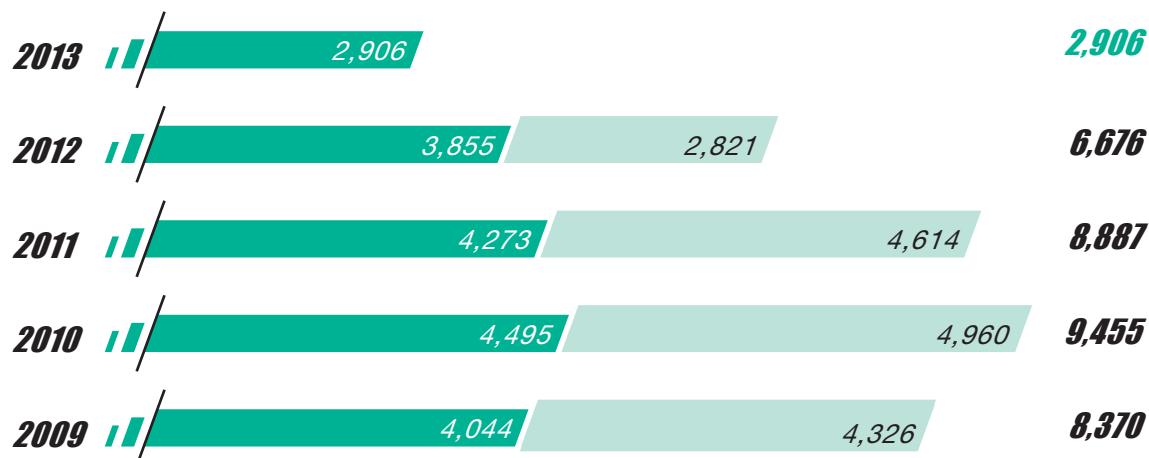
LI-NING

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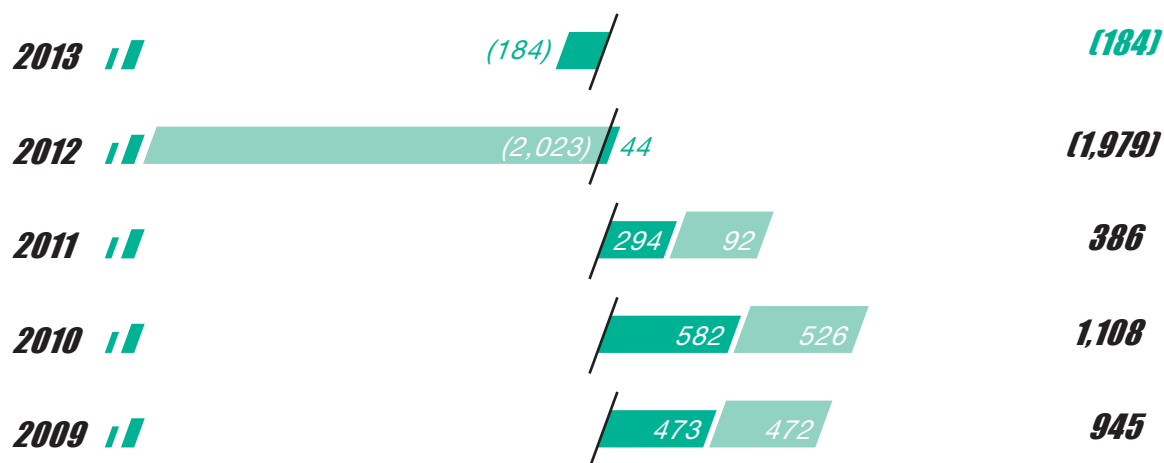
Sportsmanship

Five-year Financial Highlights

Revenue



(Loss)/Profit Attributable to Equity Holders



(All amounts in RMB millions)

First half year Second half year Full year

Management Discussion and Analysis

LI-NING Brand Sponsorship Resources

	Basketball	Track & Field/ Running	Badminton	Tennis	Women's Fitness	Olympic Champion Teams	Table Tennis	Shooting
TOP-NOTCH ATHLETES/ SPORTS TEAMS/ SPORTS CLUBS	Dwyane Wade	Asafa Powell	China National Badminton Team	Peng Shuai	Lesmills China	China National Table Tennis Team	Zhang Jike	QingHua University Shooting Team
	Evan Turner	Yelena Isinbaeva	Lin Dan	Marin Cilic		China National Gymnastics Team (Including China Artistic Gymnastics Team & China Trampoline Team)	Ma Long	
	Udonis Haslem	Christian Taylor		Tianjin Tennis Team		China National Diving Team	Li Xiaoxia	
	Marcus Williams	Andreas Thorkildsen		The delegation of Shanghai for the National Game		China National Shooting Team	Wang Liqin	
	Pool Jeter	Ngonidzasho Makusha					Ding Ning	
	Guo Ailun	China National Junior T&F Team					Liu Guoliang	
	Xirelijiang							
	Yi Li							
	Han Shuo							
	Zhao Dapeng							
	Su Ruoyu							
	Zhu Yanxi							
	Zeng Lingxu							
	China National Junior Team							
TOURNAMENTS	China Basketball Association	Li-Ning China 10K Running League	2013-2016 MAJOR EVENTS' Partner of BWF	(ATP) The Official Partner of Association of Tennis Professionals				
	China Junior & High School Basketball League	Beijing International Running Festival	BWF World Championships (Equipment sponsor)					
	Chinese University Basketball Association	China National track and high altitude endurance challenge	BWF Sudirman Cup (Title & Equipment sponsor)					
	National Basketball League		BWF Super Series China Open (Equipment sponsor)					
	CBA Junior League		BWF Super Series China Masters (Equipment sponsor)					
			BWF Super Series Singapore Open (Title & Equipment sponsor)					
			China National Tournaments (Title & Equipment sponsor)					
			China Badminton League (Title & Equipment sponsor)					
			China's Badminton Serie (Title & Equipment sponsor)					
	Zhou Qi	Eritrean T&F National Team	Singapore National Badminton Team	Tsung-Hua Yang		USA Diving Team - David Boudia		
Zhao Jiwei	4 Domestic contracted Athletes	Australian National Badminton Team	Saisai Zheng					
Shan Zhiming	9 Domestic Provincial Athletics Teams	Indonesian National Badminton Team	Karolina Pliskova/Kristyna Pliskova					
Xu Zhonghao	1 Domestic Top Marathon Club	Provincial Team: Beijing/Shanghai/Liaoning/Sichuan/Zhejiang/Tianjin/Hunan/Dongguan Century City Club/Guangxi/Hubei/Bayil/Guangdong/Qingdao	The Official Partner of China Open Merchandise					
OTHER IMPORTANT SPONSORSHIP RESOURCES	Zhao Tailong		Jorgensen (Denmark), Busanan (Thailand), Songphon (Thailand), Kunchala/Duang (Thailand), Pornpip (Thailand)	Lining International Junior Tennis Championships				
	He Tianju			Shenzhen Hongjindi Tennis Club				
	Chen Linjian							
	Heng Yifeng							
	Fan Bin							
	Wu Qinglong							
	Qu Shaobin							
	Yang Maogong							
	A Dijiang							



LI-NING





Standing Out

Management Discussion and Analysis (Continued)

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		Change (%)
	Six months ended 30 June 2013	2012 Restated*	
Income statement items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
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	

Management Discussion and Analysis (Continued)

	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:

- 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.
 - 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.
 - Including loss attributable to equity holders for the period from 1 January to 31 March 2013: RMB117,038,000.
 - 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.
 - 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.
 - 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.
 - 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.
 - 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.
 - 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.
- * Upon adoption of IFRS 11, proportional consolidation of joint ventures is no longer allowed. Hence, the Group accounted for its investment in Li-Ning Aigle Ventures Company Limited using equity method of accounting at the beginning of the earliest period presented. The figures for the six months ended 30 June 2012 has been restated in accordance with IFRS 11. Details are set out in note 3(a) to the condensed consolidated interim financial information.

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		Six months ended 30 June 2012		Revenue change (%)
	RMB'000	% of total revenue	RMB'000	% of total 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 obsolete 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.

Management Discussion and Analysis (Continued)

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

	Six months ended 30 June		Change (%)
	2013 % of revenue of LI-NING brand	2012 % of revenue of LI-NING brand	
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

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

Notes:

- Eastern region includes Shanghai, Zhejiang, Jiangsu, Jiangxi, Hunan, Hubei, Anhui and Shandong.
- Northern region includes Beijing, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Gansu, Ningxia, Qinghai, Shaanxi, Xinjiang, Jilin and Heilongjiang.
- Southern region includes Guangdong, Guangxi, Fujian, Hainan, Yunnan, Sichuan, Chongqing, Tibet and Guizhou.
- 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.

Management Discussion and Analysis (Continued)

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.

Management Discussion and Analysis (Continued)

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.

Management Discussion and Analysis (Continued)

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.

Management Discussion and Analysis (Continued)

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

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

Management Discussion and Analysis (Continued)

Number of retail stores by geographical location

	30 June 2013	31 December 2012	Change
LI-NING brand stores			
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.

Management Discussion and Analysis (Continued)

- **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. Bounce+ 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 + Bounce, 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.

Management Discussion and Analysis (Continued)

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 Ngonizasha 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.

Management Discussion and Analysis (Continued)

- 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.



Management Discussion and Analysis (Continued)

- 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.

Management Discussion and Analysis (Continued)

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.

Management Discussion and Analysis (Continued)

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.

Condensed Consolidated Interim Financial Information

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	7	801,148	857,044
Land use rights	8	358,263	362,763
Intangible assets	9	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	12	54,400	49,608
Total non-current assets		2,029,424	2,114,048
Current assets			
Inventories	10	841,358	901,368
Trade receivables	11	1,340,837	1,479,560
Other receivables and prepayments – current portion	12	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

Condensed Consolidated Interim Financial Information (Continued)

Interim Condensed Consolidated Balance Sheet (Continued)

	Note	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000 (Restated)
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	13	135,382	111,622
Share premium	13	1,101,736	315,972
Shares held for Restricted Share Award Scheme	13	(41,185)	(41,185)
Other reserves	14	1,130,212	489,485
Retained profits	14	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	17	137,734	152,518
Convertible bonds	19	631,637	651,632
Deferred income tax liabilities		79,192	79,318
Deferred income	20	59,089	59,736
Total non-current liabilities		907,652	943,204
Current liabilities			
Trade payables	15	632,052	958,020
Other payables and accruals	16	702,035	735,305
License fees payable – current portion	17	105,267	111,145
Borrowings	18	793,005	1,447,157
Convertible bonds – interest payable	19	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

The notes on pages 39 to 69 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Financial Information (Continued)

Interim Condensed Consolidated Income Statement

	Note	Unaudited Six months ended 30 June	
		2013 RMB'000	2012 RMB'000 (Restated)
Revenue	6	2,905,908	3,855,403
Cost of sales		(1,639,454)	(2,189,418)
Gross profit		1,266,454	1,665,985
Distribution costs		(1,209,512)	(1,144,381)
Administrative expenses		(157,425)	(466,759)
Other income and other gains – net	22	61,867	125,011
Operating (loss)/profit	6	(38,616)	179,856
Finance income	23	3,625	3,497
Finance costs	23	(94,003)	(90,718)
Finance costs – net		(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	24	(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	25	(15.19)	3.86
– diluted	25	(15.19)	3.85

The notes on pages 39 to 69 are an integral part of this condensed consolidated interim financial information.

	Note	Unaudited Six months ended 30 June	
		2013 RMB'000	2012 RMB'000
Dividends	26	–	–

Condensed Consolidated Interim Financial Information (Continued)

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:		
<i>Items that may be reclassified to profit or loss</i>		
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

The notes on pages 39 to 69 are an integral part of this condensed consolidated interim financial information.

Condensed Consolidated Interim Financial Information (Continued)

Interim Condensed Consolidated Statement of Changes in Equity

	Unaudited							
	Ordinary shares RMB'000 (Note 13)	Share premium RMB'000 (Note 13)	Shares held for Restricted Share Award Scheme RMB'000 (Note 13)	Other reserves RMB'000 (Note 14)	Retained earnings RMB'000 (Note 14)	Subtotal RMB'000	Non- controlling interests in equity RMB'000	Total equity RMB'000
As at 1 January 2013	111,622	315,972	(41,185)	489,485	737,703	1,613,597	198,644	1,812,241
Total comprehensive loss for the period	-	-	-	453	(184,237)	(183,784)	22,117	(161,667)
<i>Transactions with owners:</i>								
Value of services provided under share option schemes	-	-	-	11,359	-	11,359	-	11,359
Issuance of convertible securities	-	-	-	1,441,484	-	1,441,484	-	1,441,484
Shares converted from convertible securities	23,760	785,764	-	(809,524)	-	-	-	-
Dividends to non-controlling interests of a subsidiary	-	-	-	-	-	-	(1,268)	(1,268)
Acquisition of non-controlling interests of a subsidiary	-	-	-	(3,045)	-	(3,045)	(1,955)	(5,000)
Contribution from non-controlling interests of a subsidiary	-	-	-	-	-	-	2,500	2,500
As at 30 June 2013	135,382	1,101,736	(41,185)	1,130,212	553,466	2,879,611	220,038	3,099,649
As at 1 January 2012	111,604	312,379	(52,415)	370,106	2,730,169	3,471,843	192,816	3,664,659
Total comprehensive income for the period	-	-	-	(539)	44,294	43,755	17,497	61,252
<i>Transactions with owners:</i>								
Net proceeds from share issuance pursuant to share option schemes	18	1,586	-	-	-	1,604	-	1,604
Value of services provided under share option schemes	-	-	-	2,848	-	2,848	-	2,848
Transfer of fair value of share options exercised to share premium	-	1,031	-	(1,031)	-	-	-	-
Convertible bonds – equity component	-	-	-	113,395	-	113,395	-	113,395
Contribution from non-controlling interests of a subsidiary	-	-	-	-	-	-	5,000	5,000
As at 30 June 2012	111,622	314,996	(52,415)	484,779	2,774,463	3,633,445	215,313	3,848,758

The notes on pages 39 to 69 are an integral part of these financial statements.

Condensed Consolidated Interim Financial Information (Continued)

Interim Condensed Consolidated Statement of Cash Flows

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
		(Restated)
Net cash used in operating activities	(242,787)	(602,155)
Cash flows from investing activities:		
– acquisition of non-controlling interests of a subsidiary	(5,000)	–
– proceeds on disposal of investment in an associate	1,000	–
– purchases of property, plant and equipment	(60,272)	(78,559)
– purchases of intangible assets	(35,810)	(49,016)
– prepayment for other investments	–	(12,100)
– proceeds on disposal of property, plant and equipment	4,763	2,764
– interest received	3,625	3,497
Net cash used in investing activities	(91,694)	(133,414)
Cash flows from financing activities:		
– dividends paid to non-controlling interests of a subsidiary	(1,268)	–
– proceeds from issuance of ordinary shares	–	1,604
– contribution from non-controlling interests of a subsidiary	2,500	5,000
– proceeds from bank borrowings	1,408,005	917,186
– repayment of bank borrowings	(2,060,238)	(732,059)
– proceeds from issuance of convertible securities	1,480,488	–
– transaction costs paid in relation to issuance of convertible securities	(39,004)	–
– proceeds from issuance of convertible bonds	–	745,691
– interest paid	(46,219)	(68,163)
– increase in restricted bank deposits	(19,792)	(5,129)
Net cash generated from financing activities	724,472	864,130
Net increase in cash and cash equivalents	389,991	128,561
Cash and cash equivalents at beginning of period	1,241,304	1,188,504
Exchange (losses)/gains on cash and cash equivalents	(13,787)	1,704
Cash and cash equivalents at end of period	1,617,508	1,318,769

The notes on pages 39 to 69 are an integral part of this condensed consolidated interim financial information.

Notes to Condensed Consolidated Interim Financial Information

1. General information

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

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

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

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

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 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").

3. Accounting policies

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.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

3. Accounting policies (continued)

a) Change in accounting policy (continued)

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

3. Accounting policies (continued)

- b) During the period, the Company has issued convertible securities and 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.

4. Estimates

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

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2012.

5. Financial risk management

(a) Financial risk factors

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

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012.

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

(b) Liquidity risk

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. 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.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Segment information (continued)

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			Total RMB'000
	LI-NING brand RMB'000	Double Happiness brand RMB'000	All other brands 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

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Segment information (continued)

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

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	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	2012
	RMB'000	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.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

7. Property, plant and equipment

	Unaudited							
	Leasehold		Mould	Machinery	Office equipment and motor vehicles		Construction-in-progress	Total
	Buildings	improvement			vehicles	in-progress		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Six months ended 30 June 2013								
As at 1 January 2013 (restated)	570,963	34,921	52,107	104,956	68,484	25,613	857,044	
Additions	316	1,774	977	1,553	11,264	4,567	20,451	
Transfer out from								
construction-in-progress	-	-	-	316	-	(316)	-	
Disposals	(9,845)	(78)	-	(2,964)	(998)	-	(13,885)	
Depreciation charge	(13,803)	(12,976)	(17,016)	(6,317)	(12,350)	-	(62,462)	
As at 30 June 2013	547,631	23,641	36,068	97,544	66,400	29,864	801,148	
Six months ended 30 June 2012 (restated)								
As at 1 January 2012	429,465	56,079	66,512	52,483	79,658	146,893	831,090	
Additions	129	4,120	10,093	1,383	4,568	58,612	78,905	
Transfer out from								
construction-in-progress	-	-	-	86	-	(86)	-	
Disposals	-	(1,309)	(340)	(333)	(1,384)	-	(3,366)	
Depreciation charge	(11,352)	(23,729)	(26,096)	(3,574)	(12,003)	-	(76,754)	
As at 30 June 2012	418,242	35,161	50,169	50,045	70,839	205,419	829,875	

All of the Group's buildings are located in the PRC. Buildings with net book value of RMB4,756,000 (31 December 2012: RMB5,454,000) are built on land which the Group is in the process of updating the legal title (Note 8).

Depreciation expenses of RMB20,614,000 (30 June 2012: RMB29,885,000) has been charged to cost of sales, RMB27,562,000 (30 June 2012: RMB30,729,000) to distribution costs and RMB14,286,000 (30 June 2012: RMB16,140,000) to administrative expenses.

As at 30 June 2013, there is no building pledged as securities for the Group's borrowings. As at 31 December 2012, buildings with net book value of RMB18,441,000 are pledged as securities for the Group's borrowings (Note 18).

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

8. Land use rights

	Unaudited RMB'000
Six months ended 30 June 2013	
As at 1 January 2013	362,763
Amortisation charge	(4,500)
As at 30 June 2013	358,263
Six months ended 30 June 2012	
As at 1 January 2012	371,696
Amortisation charge	(4,434)
As at 30 June 2012	367,262

All the Group's land use rights are located in the PRC and are held under leases for periods varying from 20 to 50 years. The Group is in the process of updating the legal title for land use rights with net book value of RMB103,024,000 as at 30 June 2013 (31 December 2012: RMB104,435,000).

As at 30 June 2013, there is no land use right pledged as securities for the Group's borrowings. As at 31 December 2012, land use rights with net book value of RMB14,594,000 are pledged as securities for the Group's borrowings (Note 18).

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

9. Intangible assets

	Unaudited					Total RMB'000
	Goodwill RMB'000	Trademarks RMB'000	Computer software RMB'000	License rights RMB'000	Customer relationships & Non-compete agreements RMB'000	
Six months ended 30 June 2013						
As at 1 January 2013	179,226	84,530	54,893	83,220	21,513	423,382
Additions	-	-	870	3,699	-	4,569
Amortisation charge	-	(2,769)	(9,766)	(14,243)	(2,703)	(29,481)
As at 30 June 2013	179,226	81,761	45,997	72,676	18,810	398,470
Six months ended 30 June 2012						
As at 1 January 2012	179,226	90,068	56,957	398,665	26,920	751,836
Adjustment upon entering into Lotto supplemental license agreement (Note a)	-	-	-	(206,890)	-	(206,890)
Additions	-	-	4,068	-	-	4,068
Amortisation charge	-	(2,769)	(9,227)	(28,921)	(2,704)	(43,621)
Impairment charge (Note a)	-	-	-	(127,838)	-	(127,838)
As at 30 June 2012	179,226	87,299	51,798	35,016	24,216	377,555

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

9. Intangible assets (continued)

Note:

- (a) In June 2012, the Group and Lotto Sport H.K. Limited (“Lotto Sport”) entered into a supplemental agreement pursuant to which the termination date of the Lotto brand license was amended to 31 December 2018 (from the original termination date of 31 December 2028 under the original license agreement). In addition, the fixed minimum undiscounted periodic payments to be made in the remaining term of the license was revised to approximately RMB182,400,000 (RMB906,200,000 under the original license agreement).

Carrying amounts of intangible asset and license fees payable relating to the original Lotto license right, which amounted to RMB334,728,000 and RMB448,030,000 respectively, were derecognised with a gain of RMB68,302,000 after netting off the RMB45,000,000 consideration payable for entering into the supplemental license agreement. Such gain was recognised in the income statement as “Other income and other gains – net” (Note 22).

Intangible asset and license fees payable amounted to RMB127,838,000 and RMB127,838,000 respectively were recognised relating to supplemental license agreement.

Based on latest market condition and the projected business performance of the Lotto brand, an impairment provision of RMB127,838,000 has been made during the six months ended 30 June 2012 and included in ‘Administrative expenses’ in the income statement (Note 21).

As a result of above, the net impact related to revision of the licence agreement of Lotto brand was as follows:

	Unaudited Six months ended 30 June 2012 RMB'000
Other income and other gains – net (Note 22)	68,302
Administrative expenses (Note 21)	(127,838)
	<hr/> <hr/> (59,536)

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

10. 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.

11. 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

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

11. Trade receivables (continued)

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 significant 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 RMB'000	2012 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.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

12. Other receivables and prepayments

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000 (Restated)
Loans to a joint venture	20,710	21,082
Advances to suppliers	43,287	11,969
Prepayment for advertising and marketing expenses	81,056	8,327
Rental and other deposits	70,912	62,883
Prepaid rentals	101,413	142,429
Staff advances and other payments for employees	8,501	2,719
Deductible VAT input balance	59,449	–
Others	23,487	33,410
	408,815	282,819
Less: non-current portion	(54,400)	(49,608)
	354,415	233,211

Other receivables and prepayment do not contain impaired assets. Non-current portion mainly comprised prepaid rentals and deposits.

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

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

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

	Number of shares (Thousands)	Approximate amount HK\$'000
Authorised at HK\$0.10 each		
As at 30 June 2013 and 31 December 2012	10,000,000	1,000,000

Issued and fully paid

	Unaudited				
	Number of share of HK\$0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
As at 1 January 2013	1,053,470	111,622	315,972	(41,185)	386,409
Shares converted from convertible securities (Note 14)	298,397	23,760	785,764	–	809,524
As at 30 June 2013	1,351,867	135,382	1,101,736	(41,185)	1,195,933
As at 1 January 2012	1,052,411	111,604	312,379	(52,415)	371,568
Net proceeds from shares issued pursuant to share option schemes (Note a)	224	18	1,586	–	1,604
Transfer of fair value of share options exercised to share premium	–	–	1,031	–	1,031
As at 30 June 2012	1,052,635	111,622	314,996	(52,415)	374,203

Note:

- (a) During the six months ended 30 June 2013, the Company did not issue any share to the directors and employees of the Group (30 June 2012: 224,000 shares issued at weighted average issue price of HK\$8.83 per share) pursuant to the Company's share option schemes (Note 27).

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

14. Reserves

	Unaudited						Subtotal RMB'000	Retained earnings RMB'000	Total RMB'000
	Capital reserves RMB'000	Statutory reserve funds RMB'000	Share-based compensation reserve RMB'000	Convertible bonds reserve RMB'000	Convertible securities reserve RMB'000	Currency translation difference RMB'000			
As at 1 January 2013	64,175	233,945	74,074	113,395	-	3,896	489,485	737,703	1,227,188
Loss for the period	-	-	-	-	-	-	-	(184,237)	(184,237)
Value of services provided under share schemes	-	-	11,359	-	-	-	11,359	-	11,359
Share options lapsed	1,437	-	(1,437)	-	-	-	-	-	-
Issuance of convertible securities (Note a)	-	-	-	-	1,441,484	-	1,441,484	-	1,441,484
Shares converted from convertible securities (Note a)	-	-	-	-	(809,524)	-	(809,524)	-	(809,524)
Acquisition of non-controlling interests of a subsidiary	(3,045)	-	-	-	-	-	(3,045)	-	(3,045)
Translation difference of foreign currency financial statements	-	-	-	-	-	453	453	-	453
As at 30 June 2013	62,567	233,945	83,996	113,395	631,960	4,349	1,130,212	553,466	1,683,678
As at 1 January 2012	49,508	220,593	95,049	-	-	4,956	370,106	2,730,169	3,100,275
Profit for the period	-	-	-	-	-	-	-	44,294	44,294
Value of services provided under share schemes	-	-	2,848	-	-	-	2,848	-	2,848
Transfer of fair value of share options exercised to share premium	-	-	(1,031)	-	-	-	(1,031)	-	(1,031)
Share options lapsed	3,125	-	(3,125)	-	-	-	-	-	-
Issuance of convertible bonds – equity component (Note 19)	-	-	-	113,395	-	-	113,395	-	113,395
Translation difference of foreign currency financial statements	-	-	-	-	-	(539)	(539)	-	(539)
As at 30 June 2012	52,633	220,593	93,741	113,395	-	4,417	484,779	2,774,463	3,259,242

Note:

- (a) In April 2013, the Company issued convertible securities (the “CS”) in the aggregate principal amount of HK\$1,847,838,000 (equivalent to approximately RMB1,480,488,000). The CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK\$3.50 per ordinary share of the Company (subject to standard anti-dilution adjustments). The CS can be converted into 527,953,814 ordinary shares of the Company.

The CS cannot be redeemed unless the Company exercises the pre-emption right (but shall not be obliged) to redeem (or procure the purchase of) all or part of the principal amount of the CS.

As the Company has no contractual obligation to settle the CS in cash, the CS do not meet the definition of financial liabilities under IAS 32. As a result, all of the CS are classified as equity upon initial recognition and the 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, are included in shareholders' equity as other reserves.

As at 30 June 2013, convertible securities with carrying value of HK\$1,016,694,000 (equivalent to approximately RMB809,524,000) had been converted into ordinary shares of the Company. Accordingly, ordinary shares of the Company have been increased by 298,397,000 shares as at 30 June 2013 (Note 13).

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

15. 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 RMB'000	Audited 31 December 2012 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

16. Other payables and accruals

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000 (Restated)
Accrued sales and marketing expenses	251,012	257,547
Advances from customers	112,072	86,816
Wages and welfare payables	65,478	102,577
Other tax payables	40,235	3,620
Payable for property, plant and equipment	10,620	63,949
Other payables	222,618	220,796
	702,035	735,305

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

17. License fees payable

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

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

	Unaudited RMB'000	
Six months ended 30 June 2013		
As at 1 January 2013		263,663
Acquisition of license rights		3,699
Payment of license fees		(34,940)
Amortisation of discount (Note 23)		10,784
Adjustment for exchange difference		(205)
As at 30 June 2013		243,001
Six months ended 30 June 2012		
As at 1 January 2012		530,442
Adjustment upon entering into Lotto supplemental license agreement (Note 9 (a))		(320,192)
Consideration payable for entering into Lotto supplemental license agreement (Note 9 (a))		45,000
Payment of license fees		(44,948)
Amortisation of discount (Note 23)		9,072
Adjustment for exchange difference		(269)
As at 30 June 2012		219,105
	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Analysis of license fees payable:		
Non-current		
– over five years	5,603	17,636
– the second to fifth year	132,131	134,882
Current	105,267	111,145
	243,001	263,663

The license fees payable are mainly denominated in RMB, US\$ and EUR.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

17. License fees payable (continued)

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

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Less than 1 year	109,026	114,000
Between 1 and 5 years	177,785	186,453
Over 5 years	10,996	35,642
	297,807	336,095

18. Borrowings

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Current		
Bank borrowings denominated in		
– RMB	793,005	1,285,000
– HK\$	–	162,157
	793,005	1,447,157
Borrowings		
– secured	–	3,000
– unsecured	793,005	1,444,157
	793,005	1,447,157

The carrying amounts of the borrowings at the respective balance sheet dates approximate their fair value as the impact of discounting is not significant.

The weighted average effective interest rates per annum of the borrowings were 6.50% (30 June 2012: 6.91%) for bank borrowings denominated in RMB and 2.26% (30 June 2012: 2.84%) for bank borrowings denominated in HK\$ for the six months ended 30 June 2013.

As at 30 June 2013, the Group has no secured bank borrowings. As at 31 December 2012, bank borrowings amounting to RMB3,000,000 were secured by the Group's buildings and land use rights (Notes 7 and 8).

As at 30 June 2013, the Group had undrawn borrowing facilities within one year amounting to RMB439,320,000 (31 December 2012: RMB58,000,000). These facilities have been arranged to help financing the Group's working capital.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

18. Borrowings (continued)

Movement in borrowings is analysed as follows:

	Unaudited RMB'000
Six months ended 30 June 2013	
As at 1 January 2013	1,447,157
Additions	1,408,005
Effect of change in exchange rate	(1,919)
Repayments	(2,060,238)
As at 30 June 2013	793,005
Six months ended 30 June 2012	
As at 1 January 2012	838,059
Additions	917,186
Effect of change in exchange rate	854
Repayments	(732,059)
As at 30 June 2012	1,024,040

19. Convertible bonds

On 8 February 2012, the Company issued convertible bonds (the "CB") in the aggregate principal amount of RMB750,000,000 to TPG and the GIC Investor (existing shareholders of the Company). The CB bears a minimum interest rate of 4% per annum and due on 7 February 2017 (the "Maturity Date"). The initial conversion price is HK\$7.74 per ordinary share of the Company (subject to anti-dilutive adjustments).

The CB cannot be redeemed prior to maturity, unless due to events of default, upon which the holders have the right to require early redemption at 130% of the outstanding principal amount of the CB plus any unpaid interests. As at 31 December 2012, the holders have released the Company from several clauses which may create future financial constraints on the Company.

The initial fair value of the liability component and the equity conversion component was determined based on net proceeds at issuance. The fair value of the liability component was calculated by using a market interest rate for an equivalent non-convertible bond. The residual amount of RMB113,395,000, representing the value of the equity conversion component, was included in shareholders' equity as other reserves (Note 14).

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

19. Convertible bonds (continued)

In relation to the CB issued on 8 February 2012, the Company and the bondholders signed an amendment deed on 23 January 2013 (the "Modification Date"), under which both parties agreed to (1) modify certain clauses for the remaining term of the CB, as such clauses may create future financial constraints on the Company, and (2) reset the conversion price from the initial conversion price of HK\$7.74 to HK\$4.5 per ordinary share of the Company. The amendment became effective on the Modification Date.

The above two changes constituted a substantial modification of the original CB, which resulted in the derecognition of the carrying value of the debt portion of the CB as of the Modification Date amounting to RMB668,525,000 and the recognition of a new financial liability based on the fair value of the debt portion of the CB as of the Modification Date amounting to RMB634,896,000. The consequential gain of RMB33,629,000 was recognised in the interim condensed consolidated income statement as "Other income and other gains – net" (Note 22).

The convertible bonds recognised in the condensed consolidated balance sheet were calculated as follows:

	Unaudited RMB'000
Liability component on initial recognition on the Modification Date	634,896
Payment of interest	(15,000)
Accumulated interest expenses up to 30 June 2013	24,241
Liability component at 30 June 2013	644,137
Less: interest payable due within one year	(12,500)
Non-current portion	631,637

The face value of the CB as at 30 June 2013 is RMB750,000,000. No part of the CB was converted to ordinary shares of the Company during the period or subsequent to 30 June 2013 and before the approval date of this condensed consolidated financial information. The carrying value of the liability component is calculated using cash flows discounted at a risk adjusted market interest rate of 9.51% per annum. The carrying value of the liability component approximates its fair value as of 30 June 2013.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

20. Deferred income

	Unaudited RMB'000
Six months ended 30 June 2013	
As at 1 January 2013	59,736
Credited to income statement	(647)
As at 30 June 2013	59,089
Six months ended 30 June 2012	
As at 1 January 2012	61,030
Credited to income statement	(647)
As at 30 June 2012	60,383

The Group received government grant amounting to RMB64,697,000 for purchase of a land use right in the PRC in 2009. Such government grant was recorded as deferred income and would be credited to income statement over the lease period of the corresponding land use right of 50 years using straight-line method. An amount of RMB647,000 (30 June 2012: RMB647,000) has been credited to income statement during the six months ended 30 June 2013.

21. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	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

(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.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

22. Other income and other gains – net

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Government grants	23,191	54,971
License fees income	5,047	1,738
Gain on modification of the CB (Note 19)	33,629	–
Gain on derecognition of intangible asset and license fees payable relating to revision of the license agreement of Lotto brand (Note 9 (a))	–	68,302
	61,867	125,011

23. Finance income and costs

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000 (Restated)
Finance income		
– Interest income on bank balances and deposits	3,625	3,497
Finance costs		
– Amortisation of discount – license fees payable (Note 17)	(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)

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

24. 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

25. (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 CS (Please refer to Note 14 for details). 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.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

25. (Losses)/earnings per share (continued)

	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 the CS (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.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

25. (Losses)/earnings per share (continued)

Diluted (continued)

	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 the CS (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).

26. 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.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

27. Share-based compensation

(a) Share Option Scheme

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

	Unaudited			
	2013		2012	
	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK\$	Outstanding options (Thousands)
As at 1 January	8.884	35,451	13.287	23,984
Adjustment in relation to issuance of the CS (Note a)	8.167	3,040	–	–
Exercised	–	–	8.830	(224)
Lapsed	7.886	(1,393)	12.181	(4,641)
As at 30 June	8.171	37,098	13.608	19,119
Exercisable as at 30 June	13.268	12,584	14.853	11,003

Note:

- (a) As a result of the issuance of the CS, the exercise prices and the number of the shares to be allotted and issued upon full exercise of the outstanding share options were adjusted in accordance with the Share Option Scheme. The above adjustments have taken effect from 22 April 2013. Save for the above adjustments, all other terms and conditions of the share options granted under the Share Option Scheme remain unchanged.

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

27. Share-based compensation (continued)

(a) Share Option Scheme (continued)

Share options outstanding under this scheme as at 30 June 2013 and 31 December 2012 have the following expiry date and exercise price:

Expiry date	Unaudited 30 June 2013		Audited 31 December 2012	
	Exercise price (per share) HK\$	Share options (Thousands)	Exercise price (per share) HK\$	Share options (Thousands)
19 July 2013	18.080	381	19.680	350
4 July 2014	15.820	1,420	17.220	1,333
5 December 2014	–	–	10.940	93
31 December 2014	4.920	378	5.360	347
19 January 2015	10.450	7,637	11.370	7,121
1 April 2015	12.110	450	13.180	413
22 October 2015	20.090	2,798	21.870	2,691
15 July 2017	9.090	3,084	9.896	3,040
4 July 2018	4.310	1,088	4.690	1,000
31 December 2018	4.920	19,862	5.360	19,063
		37,098		35,451

(b) Restricted Share Award Scheme

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

	Unaudited Six months ended 30 June			
	2013		2012	
	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK\$	Number of Restricted Shares granted (Thousands)
As at 1 January	18.27	1,774	17.18	3,539
Lapsed	12.23	(156)	14.39	(801)
As at 30 June	18.85	1,618	17.99	2,738

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Commitments

(a) Capital commitments

Capital expenditure contracted for but not paid by the Group at the balance sheet date are as follows:

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Contracted for but not paid – Property, plant and equipment	–	42,506

(b) Operating lease commitments – where any group companies are the lessees

The Group has commitments to make the following aggregate minimum payments under non-cancelable operating leases in respect of its office premises and shops:

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Not later than 1 year	196,712	255,514
Later than 1 year and not later than 5 years	446,312	510,345
Later than 5 years	34,099	15,354
	677,123	781,213

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

29. Related-party transactions

The Group has the following related-party transactions during the period:

(a) Sales of goods to:

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Related companies of Shanghai Double Happiness (Group) Co., Ltd., all being controlled by a key management personnel of a non-wholly owned subsidiary	1,432	1,770
Digital Li-Ning Company Limited ("Digital Li-Ning"), being an associate of the Group	–	6,108
	1,432	7,878

(b) Purchases of goods from:

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000 (Restated)
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	8,766	8,146
Subsidiary of Li Ning Aigle Ventures	4,175	2,905
	12,941	11,051

(c) Sales of services to:

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000 (Restated)
Subsidiary of Li Ning Aigle Ventures	250	250

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

29. Related-party transactions (continued)

(d) Purchases of services from:

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Subsidiary of Viva China Holdings Limited ("Viva China"), being controlled by a substantial shareholder of the Company	19,744	150

(e) Underwriting commission paid to:

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Viva China	14,819	–

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

(f) Key management compensation

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

	Unaudited	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
Salaries and other benefits	8,382	5,372
Contribution to retirement benefit scheme	151	211
Employee share schemes for value of services provided	4,544	2,687
	13,077	8,270

Condensed Consolidated Interim Financial Information (Continued)

Notes to Condensed Consolidated Interim Financial Information (Continued)

29. Related-party transactions (continued)

(g) Period-end/year-end balances arising from sales/purchases of goods/services

	Unaudited 30 June 2013 RMB'000	Audited 31 December 2012 RMB'000
Receivables from related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	676	–
Digital Li-Ning	–	3,105
	676	3,105
Payables to related parties:		
Related companies of Shanghai Double Happiness (Group) Co., Ltd.	4,378	5,153
Subsidiary of Viva China	19,744	–
	24,122	5,153

Other Information

Interim Dividend

In light of the current operating environment, the Board considers it appropriate to retain cash for the future development of the Group, therefore, it does not recommend to declare an interim dividend in respect of the six months ended 30 June 2013 (2012: Nil).

Long-term Incentive Schemes

Share Purchase Scheme

As at 30 June 2013 and 2012, there is no option outstanding under the Share Purchase Scheme.

Post-IPO Share Option Scheme

Details of movements of the options granted under the Post-IPO Share Option Scheme for the six months ended 30 June 2013 are as follows:

Grantees	Date of grant	Pre-adjustment exercise price per Share HK\$	Adjusted exercise price per Share HK\$	As at 01/01/2013	Number of Shares				Adjusted on 22/04/2013	As at 30/06/2013	Vesting period	Exercise period
					Granted	Exercised	Lapsed	Cancelled				
Executive Directors												
Jin-Goon Kim	20/12/2012	5.360	4.92	287,450	-	-	-	-	25,456	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Zhang Zhi Yong	04/07/2008	17.220	15.82	121,600	-	-	-	-	10,769	132,369	04/07/2009 – 04/07/2011	04/07/2009 – 31/12/2015
	19/01/2009	11.370	10.45	4,519,400	-	-	-	-	400,229	4,919,629	19/01/2010 – 19/01/2014	19/01/2010 – 31/12/2015
	15/07/2011	9.896	9.09	836,690	-	-	-	-	74,095	910,785	01/07/2012 – 04/07/2014	01/07/2012 – 31/12/2015
	04/07/2012	4.690	4.31	1,000,000	-	-	-	-	88,558	1,088,558	04/07/2013 – 04/07/2015	04/07/2013 – 31/12/2015
Non-executive Directors												
James Chun-Hsien Wei	04/07/2008	17.220	15.82	51,400	-	-	-	-	4,552	55,952	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	11.370	10.45	263,400	-	-	-	-	23,326	286,726	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.896	9.09	209,180	-	-	-	-	18,525	227,705	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	5.360	4.92	287,450	-	-	-	-	25,456	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chen Yue, Scott	20/12/2012	5.360	4.92	287,450	-	-	-	-	25,456	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018

Other Information (Continued)

Grantees	Date of grant	Pre-adjustment exercise price per Share HK\$	Adjusted exercise price per Share HK\$	As at 01/01/2013	Number of Shares				Adjusted on 22/04/2013	As at 30/06/2013	Vesting period	Exercise period
					Granted	Exercised	Lapsed	Cancelled				
Independent non-executive Directors												
Koo Fook Sun, Louis	04/07/2008	17.220	15.82	51,400	-	-	-	-	4,552	55,952	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	11.370	10.45	263,400	-	-	-	-	23,326	286,726	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.896	9.09	209,180	-	-	-	-	18,525	227,705	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	5.360	4.92	287,450	-	-	-	-	25,456	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Wang Ya Fei	04/07/2008	17.220	15.82	51,400	-	-	-	-	4,552	55,952	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	11.370	10.45	263,400	-	-	-	-	23,326	286,726	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.896	9.09	209,180	-	-	-	-	18,525	227,705	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	5.360	4.92	287,450	-	-	-	-	25,456	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chan Chung Bun, Bunny	04/07/2008	17.220	15.82	51,400	-	-	-	-	4,552	55,952	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
	19/01/2009	11.370	10.45	263,400	-	-	-	-	23,326	286,726	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
	15/07/2011	9.896	9.09	209,180	-	-	-	-	18,525	227,705	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	5.360	4.92	287,450	-	-	-	-	25,456	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Su Jing Shyh, Samuel	20/12/2012	5.360	4.92	287,450	-	-	-	-	25,456	312,906	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018

Other Information (Continued)

Grantees	Date of grant	Pre-adjustment	Adjusted	As at 01/01/2013	Number of Shares							
		exercise price per Share HK\$	exercise price per Share HK\$		Granted	Exercised	Lapsed	Cancelled	Adjusted on 22/04/2013	As at 30/06/2013	Vesting period	Exercise period
Employees of the Group												
In aggregate	04/07/2008	17.220	15.82	655,032	-	-	(29,466)	-	55,395	680,961	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
In aggregate	05/12/2008	10.940	10.05	92,700	-	-	(94,861)	-	2,161	-	05/12/2009 – 05/12/2011	05/12/2009 – 05/12/2014
In aggregate	19/01/2009	11.370	10.45	1,232,080	-	-	-	-	109,111	1,341,191	19/01/2010 – 19/01/2014	19/01/2010 – 19/01/2015
In aggregate	22/10/2009	21.870	20.09	2,390,802	-	-	(123,940)	-	204,269	2,471,131	01/07/2010 – 01/07/2012	01/07/2010 – 22/10/2015
In aggregate	15/07/2011	9.896	9.09	962,687	-	-	(66,927)	-	79,327	975,087	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
In aggregate	20/12/2012	5.360	4.92	16,763,410	-	-	(545,194)	-	1,453,981	17,672,197	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Other participants												
In aggregate	19/07/2007	19.680	18.08	350,000	-	-	-	-	30,995	380,995	19/07/2008 – 19/07/2010	19/07/2008 – 19/07/2013
In aggregate	04/07/2008	17.220	15.82	351,401	-	-	-	-	31,119	382,520	04/07/2009 – 04/07/2011	04/07/2009 – 04/07/2014
In aggregate	19/01/2009	11.370	10.45	316,080	-	-	(105,360)	-	18,660	229,380	19/01/2010 – 19/01/2014	19/01/2010 – 01/04/2014
In aggregate	01/04/2009	13.180	12.11	413,100	-	-	-	-	36,583	449,683	01/04/2010 – 01/04/2012	01/04/2010 – 31/01/2014
In aggregate	22/10/2009	21.870	20.09	300,000	-	-	-	-	26,567	326,567	01/07/2010 – 01/07/2012	01/07/2010 – 22/10/2015
In aggregate	15/07/2011	9.896	9.09	403,804	-	-	(139,454)	-	23,411	287,761	01/07/2012 – 01/07/2014	01/07/2012 – 31/01/2014
In aggregate	20/12/2012	5.360	4.92	634,470	-	-	(287,450)	-	30,732	377,752	15/01/2013 – 15/01/2014	15/01/2013 – 31/12/2014
				35,451,326	-	-	(1,392,652)	-	3,039,766	37,098,440		

Note:

As a result of the Open Offer, the exercise prices and the number of the Shares to be allotted and issued upon full exercise of the outstanding Share Options were adjusted in accordance with the Share Option Scheme with effect from 22 April 2013. Please refer to the announcement of the Company dated on 25 April 2013 for details.

Restricted Share Award Scheme

During the six months ended 30 June 2013, no restricted shares were granted to eligible participants pursuant to the Restricted Share Award Scheme. No restricted shares were vested and 155,926 restricted shares lapsed during the period. As at 30 June 2013, the number of restricted shares granted under the scheme, except for those lapsed, amounted to 8,201,318 Shares, representing approximately 0.606% of the issued share capital of the Company as at the adoption date of the scheme. Details of movements of the restricted shares granted under the Restricted Share Award Scheme for the six months ended 30 June 2013 are as follows:

Date of grant	Fair value per Restricted Share (Note) HK\$	Number of Restricted Shares					as at 30/06/2013	Vesting period
		as at 01/01/2013	granted during the period	vested during the period	lapsed during the period			
03/09/2010	23.30	780,000	-	-	-	780,000	01/07/2011 – 01/07/2016	
03/09/2010	23.30	369,336	-	-	(35,582)	333,754	01/07/2011 – 31/08/2013	
30/12/2010	16.62	4,536	-	-	-	4,536	30/12/2011 – 28/02/2014	
15/07/2011	8.96	619,778	-	-	(120,344)	499,434	15/07/2012 – 15/07/2014	
		<u>1,773,650</u>	-	-	(155,926)	<u>1,617,724</u>		

Note:

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

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

Other Information (Continued)

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2013, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Listing Rules, are as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying shares	Total (Long Position)	Approximate % of total issued shares*
Li Ning	Interests of controlled corporations	268,181,850	146,758,944 ^(Note 1)	414,940,794	30.64%
Jin-Goon Kim	Personal interest	–	312,906 ^(Note 2)	312,906	0.023%
Zhang Zhi Yong	Personal interest & Interests of controlled corporation	4,310,100	8,851,341 ^(Note 3)	13,161,441	0.97%
James Chun-Hsien Wei	Personal interest	51,450	883,289 ^(Note 2)	934,739	0.07%
Chen Yue, Scott	Personal interest	–	312,906 ^(Note 2)	312,906	0.023%
Koo Fook Sun, Louis	Personal interest	345,450	883,289 ^(Note 2)	1,228,739	0.09%
Wang Ya Fei	Personal interest	347,044	883,289 ^(Note 2)	1,230,333	0.09%
Chan Chung Bun, Bunny	Personal interest	189,450	883,289 ^(Note 2)	1,072,739	0.08%
Su Jing Shyh, Samuel	Personal interest	–	312,906 ^(Note 2)	312,906	0.023%

* The percentage has been calculated based on 1,354,304,371 Shares in issue as at 30 June 2013.

Notes:

- Mr. Li Ning is deemed to be interested in an aggregate of 268,181,850 Shares held by Viva China Holdings Ltd ("Viva China BVI") and Alpha Talent Management Limited ("Alpha Talent"), and the convertible securities in the total amount of HK\$513,656,304 which is entitled to the conversion of 146,758,944 shares of the Company under the SFO and details are as follows:–
 - 266,374,000 Shares are held by Viva China BVI which is wholly owned by Viva China Holdings Limited ("Viva China"). Viva China is owned as to approximately 21.07% by Victory Mind Assets Limited and approximately 35.09% by Lead Ahead Limited which in turn are respectively 57% and 60% owned by Ace Leader Holdings Limited (which is 100% owned by a discretionary trust of which Mr. Li is a founder) and Mr. Li. Mr. Li is therefore deemed to be interested in the Shares held by Viva China.
 - 1,807,850 Shares are held by Alpha Talent, which is established and solely owned by Mr. Li for the purpose of holding the relevant Shares under the Share Purchase Scheme. Mr. Li is therefore deemed to be interested in the 1,807,850 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.
 - Viva China BVI subscribed convertible securities in an aggregate amount of HK\$513,656,304 under the Open Offer issued on 22 April 2013, which is entitled to the conversion of 146,758,944 shares of the Company.
- The underlying shares are the share options granted by the Company to the respective director.
- Mr. Zhang Zhi Yong is interested in 4,310,100 Shares, among which 1,060,100 Shares are held as personal interest and 3,250,000 Shares are held by Smart Step Management Limited ("Smart Step") which is 100% owned by Mr. Zhang. Mr. Zhang therefore is deemed to be interested in the 3,250,000 Shares held by Smart Step. Mr. Zhang is a director of Smart Step.

Moreover, Mr. Zhang also deemed to be interested in 8,851,341 underlying shares, among which 7,051,341 are share options granted by the Company and HK\$6,300,000 of convertible securities issued under Open Offer on 22 April 2013 which is entitled to conversion of 1,800,000 shares of the Company.

Save as disclosed above, so far as was known to any Director, as at 30 June 2013, none of the Directors or chief executives of the Company had, pursuant to Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interest or short position in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Hong Kong Stock Exchange.

Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2013, the register of substantial shareholders maintained under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions, representing 5% or more of the Company's issued share capital:

Name of the Shareholder	Number of Shares held	Underlying Shares under Convertible Bonds due 2017	Shares convertible from Convertible Securities under open offer issued on 22 April 2013	Total (Long Position)	Capacity	Approximate % of total issued Shares [#]
Li Ning	268,181,850	–	146,758,944	414,940,794 ^(Note 1)	Interest of controlled corporations	30.64%
Li Chun	266,374,000	–	146,758,944	413,132,944 ^(Note 2)	Interest of controlled corporations	30.51%
Viva China Holdings Limited	266,374,000	–	146,758,944	413,132,944 ^(Note 3)	Interest of controlled corporation	30.51%
David Bonderman	53,000,000	153,340,000	35,396,706	241,736,706 ^(Note 4)	Interest of controlled corporations	17.85%
James G. Coulter	53,000,000	153,340,000	35,396,706	241,736,706 ^(Note 4)	Interest of controlled corporations	17.85%

Other Information (Continued)

Name of the Shareholder	Number of Shares held	Underlying Shares under Convertible Bonds due 2017	Shares convertible from Convertible Securities under open offer issued on 22 April 2013	Total (Long Position)	Capacity	Approximate % of total issued Shares [#]
Minister for Finance	67,360,876	51,660,000	–	119,020,876 ^(Note 5)	Interest of controlled corporations	8.79%
Genesis Asset Managers, LLP	98,020,000	–	–	98,020,000	Investment manager	7.24%
FIL Limited	79,746,500	–	–	79,746,500	Investment Manager	5.89%

[#] The percentage is calculated based on 1,354,304,371 Shares in issue as at 30 June 2013.

Notes:

- Please refer to note 1 under "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures".
- Viva China BVI is wholly owned by Viva China Holdings Limited ("Viva China"), which is in turn owned as to approximately 21.07% by Victory Mind Assets Limited and approximately 35.09% by Lead Ahead Limited. Victory Mind Assets Limited is 38% held by Jumbo Top Group Limited, which is owned as to 100% by a discretionary trust of which Mr. Li Chun is a founder. Lead Ahead Limited is 40% held by Mr. Li Chun. Therefore Mr. Li Chun is deemed to be interested in 266,374,000 Shares and the convertible securities in the total amount of HK\$513,656,304 which is entitled to the conversion of a total of 146,758,944 Shares of the Company.
- Viva China BVI, a wholly owned subsidiary of Viva China, is interested in 266,374,000 Shares and the convertible securities in the total amount of HK\$513,656,304 entitling to the conversion of a total of 146,758,944 Shares of the Company.
- 53,000,000 Shares, Convertible Bonds with principal amount of RMB561,000,000 due 2017 and convertible securities in the principal amount of HK\$123,888,471 respectively entitling to the conversion in an aggregate of 153,340,000 CB Conversion Shares and 35,396,706 Shares of the Company are directly held by TPG Stallion, L.P. which is wholly owned by TPG Asia Advisors V, Inc., in turn, it is owned as to 50% by Mr. David Bonderman and 50% by Mr. James G. Coulter.
- 58,735,500 Shares and Convertible Bonds in principal amount of RMB189,000,000 due 2017 entitling to the conversion for total of 51,660,000 CB Conversion Shares are directly held by Tetrad Ventures Pte Ltd ("Tetrad") which is wholly owned by Government of Singapore Investment Corporation (Ventures) Pte Ltd ("GICV"). GIC Special Investments Pte Ltd manages the investment of Tetrad, and is wholly owned by Government of Singapore Investment Corporation Pte Ltd ("GIC"). GIC also directly holds 8,625,376 Shares and is wholly owned by Minister for Finance.

Save as disclosed above, as at 30 June 2013, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

Change in Director's Information

The changes in information on Directors since the date of the Annual Report 2012, which are required to be disclosed pursuant to Rule 13.51(B) of the Listing Rules are set out below:

- a. Mr. James Chun-Hsien Wei has been appointed as Chief Executive Officer of KSF Foods Holding effective 1 January 2013.
- b. The service contracts of Mr. Li Ning, Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei and Mr. Chan Chung Bun, Bunny with the Company had been renewed for 3 years with the same remuneration package with effect from 28 June 2013. The service contract for Mr. Zhang Zhi Yong ("Mr. Zhang") had been renewed for one year effective from 28 June 2013 and ceased to act as the chief advisor to the Executive Committee of the Board with effect from 4 July 2013. Mr. Zhang is entitled to an aggregate remuneration of RMB250,000 per annum.

Convertible Bonds

The Company had issued Convertible Bonds in the principal amount of RMB561,000,000 to TPG Stallion Holdings, L.P. ("TPG") and Convertible Bonds in the principal amount of RMB189,000,000 to Tetrad Ventures Pte Ltd ("GIC Investor") on 8 February 2012 at a conversion price of HK\$7.74 per Share. Nevertheless, on 23 January 2013, the Company entered into deeds of amendment with TPG and GIC Investor to amend certain terms and conditions attached to the Convertible Bonds, among which the conversion price was adjusted to HK\$4.5 per Share. Please refer to the announcement of the Company dated 25 January 2013 for more details.

Convertible Securities

As announced on 18 April 2013, the Company had issued approximately HK\$1,847,800,000 by way of open offer of convertible securities entitling the conversion for a total of 527,953,814 Shares of the Company. As of 30 June 2013, convertible securities in aggregate amount of HK\$1,044,388,597 had been converted into 298,396,742 Shares of the Company.

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 Shares during the period.

Corporate Governance

For the period from 1 January 2013 to 30 June 2013, the Company has complied with all the code provisions of the Corporate Governance Code contained in Appendix 14 to the Listing Rules with the exception of provisions A.2.1 and A.5.1 of the Corporate Governance Code, the Company complied with all the other code provisions set out in the Corporate Governance Code.

Other Information (Continued)

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. 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 Company has adopted the Model Code contained in Appendix 10 to the Listing Rules regarding securities transactions by its Directors. Following specific enquiry by the Company, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2013.

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
Executive Chairman

Hong Kong, 9 August 2013



Information for Investors

Share Information

Listing: Main Board of the Hong Kong Stock Exchange on 28 June 2004
Stock code: 02331
Board lot: 500 Shares
Number of Shares in issue as at 30 June 2013: 1,354,304,371 Shares
Market capitalisation as at 30 June 2013: approximately HK\$5,254,700,959

Interim Dividend for 2013

Nil

Financial Calendar

Announcement of 2013 interim results: 9 August 2013
Announcement of 2013 annual results: March 2014

Corporate Websites

<http://www.lining.com>
<http://www.irasia.com/listco/hk/lining>
<http://www.li-ning.com>

IR Contact

Investor Relations Department
Li Ning Company Limited
3/F, Double Happiness Mansion,
258 Zhizaoju Road, Shanghai, PRC
Postal Code: 200023
Telephone: +8621 2326 7366
Fax: +8621 2326 7492
E-mail: investor@li-ning.com.cn

Glossary

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

"Alpha Talent"	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning for the purpose of holding the relevant Shares under the Share Purchase Scheme
"Annual Report 2012"	the Company's annual report for the year ended 31 December 2012
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company" or "Li Ning Company"	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
"Director(s)"	the director(s) of the Company
"Group" or "Li Ning Group"	the Company and its subsidiaries
"HK\$"	Hong Kong Dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
"Post-IPO Share Option Scheme"	the post-IPO share option scheme of the Company adopted on 5 June 2004 and amended on 15 May 2009 and 11 October 2012
"PRC" or "China"	the People's Republic of China
"Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006 and amended on 30 April 2009 and 4 July 2012
"RMB"	Renminbi, the lawful currency of the PRC
"Share(s)"	ordinary share(s) of HK\$0.10 each in the share capital of the Company
"Share Purchase Scheme"	the share purchase scheme set up by Mr. Li Ning and adopted by Alpha Talent on 5 June 2004
"Shareholders"	shareholders of the Company
"Stock Exchange" or "Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited