LI-NING

LI NING COMPANY LIMITED
李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

Interim Report 2017

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.

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

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

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Corporate Information

BOARD OF DIRECTORS

Executive Director

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

Non-executive Directors

Mr. CHEN Yue, Scott
Mr. WU, Jesse Jen-Wei

Independent non-executive Directors

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

EXECUTIVE COMMITTEE

Mr. LI Ning *(Committee Chairman)*
Mr. CHEN Yue, Scott
Mr. WU, Jesse Jen-Wei

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. SU Jing Shyh, Samuel *(Committee Chairman)*
Mr. LI Ning
Dr. CHAN Chung Bun, Bunny, GBS, JP

AUTHORISED REPRESENTATIVES

Mr. LI Ning
Mr. CHEN Yue, Scott

COMPANY SECRETARY

Ms. TAI Kar Lei

REGISTERED OFFICE

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Fax: +8610 8080 0000

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Royal Bank House –
3rd Floor, 24 Shedden Road
P.O. Box 1586
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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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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
Troutman Sanders

PRC law
Tian Tai Law Firm

PRINCIPAL BANKERS

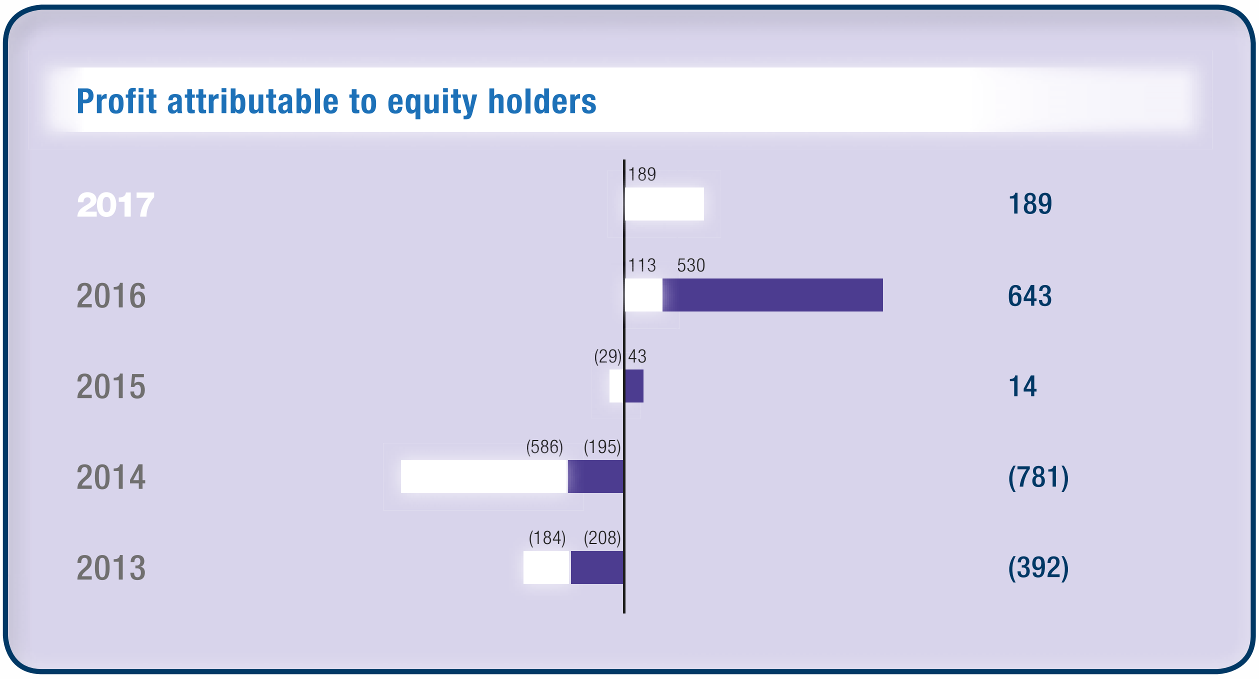
Hong Kong
Hang Seng Bank Limited
DBS Bank Ltd., Hong Kong Branch

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


SPORTSMANSHIP


DWADE

Five-year Financial Highlights



(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	OLYMPIC CHAMPION TEAMS	TABLE TENNIS	OTHERS
TOP-NOTCH ATHLETES/ SPORTS TEAMS/ SPORTS CLUBS	Dwyane Wade	LI-NING IRUN Club	China National Badminton Team	China National Table Tennis Team	Ma Long	The Delegation of Shanghai for the National Game
	Evan Turner	Vietnam Athletics Team	Chen Long	China National Diving Team	Ding Ning	Speed Skating Canada
	Glenn Robinson III		Fu Haifeng	China National Shooting Team		Tsinghua University Shooting Team
	Chinese Youth Basketball National Team		Zhao Yunlei			Iran Tractor Football Club
	China Basketball 3x3 Team		Australia National Badminton Team			Iran Esteghal Football Club
			Indonesia National Badminton Team			Li Tie
			Provincial Team: Beijing, Guangdong, Hunan, Liaoning, Qingdao, Xiamen, Shandong, Shanghai, Sichuan, Tianjin, Zhejiang			
TOURNAMENTS	China Basketball Association	LI-NING 10K Running League	Malaysia Purple Badminton League (2017-2018)			VTV Cup – International Women's Volleyball Cup
	Chinese University Basketball Association	Hong Kong Streetathon	Malaysia Purple Badminton League (2016-2017)			
	China Junior & High School Basketball League	Nanning International Half Marathon				
	Asian Basketball League (2017-2018)					
	Asian Basketball League (2016-2017)					
OTHER IMPORTANT SPONSORSHIP RESOURCES	Michael Carter-Williams	Approximately 200 KOL	Tontowi Ahmad (Indonesia)			Oksana Aleksandrovna Chusovitina
	Udonis Haslem		Liliyana Natsir (Indonesia)			
	Tyler Johnson		Hendra Setiawan (Indonesia)			
	Terrence Ross		Mohammad Ahsan (Indonesia)			
	Zeng Lingxu		Markis Kido (Indonesia)			
	Fang Shuo		Parupalli Kashyap (India)			
	Zhao Jiwei		Ajay Jayram (India)			
	Wang Zirui		Jwala Gutta (India)			
	Chen Linjian		Vincent Wong (HKSAR)			
	Yang Ming		Singapore Badminton Association			
	Zhao Jiayi					
	Zhao Jiaren					
	Meng Yi					
	He Tianju					
	Zhao Yanhao					
	Xirelijiang					
	Fan Bin					
	Adiljan					
	Qu Shaobin					
	Dr1ven Training Institute					
	Collin Trainer					


STANDING OUT

Financial Overview

The key operating and financial performance indicators of the Group for the six months ended 30 June 2017 are set out below:

	Unaudited Six months ended 30 June 2017	Unaudited Six months ended 30 June 2016	Change (%)
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**3,996,051**	3,595,635	**11.1**
Gross profit	**1,904,169**	1,677,541	**13.5**
Operating profit	**201,776**	152,647	**32.2**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 1)*	**415,626**	307,580	**35.1**
Profit attributable to equity holders *(Note 2)*	**189,170**	113,421	**66.8**
Basic earnings per share *(RMB cents) (Note 3)*	**7.93**	5.16	**53.7**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**47.7**	46.7	
Operating profit margin *(%)*	**5.0**	4.2	
Effective tax rate *(%)*	**22.8**	22.9	
Margin of profit attributable to equity holders *(%)*	**4.7**	3.2	
Return on equity attributable to equity holders *(%)*	**4.3**	3.5	
Expenses to revenue ratios			
Staff costs *(%)*	**10.7**	9.8	
Advertising and marketing expenses *(%)*	**11.3**	12.1	
Research and product development expenses *(%)*	**1.4**	1.6	
Asset efficiency			
Average inventory turnover *(days) (Note 4)*	**85**	94	
Average trade receivables turnover *(days) (Note 5)*	**56**	72	
Average trade payables turnover *(days) (Note 6)*	**85**	91	

	Unaudited 30 June 2017	Audited 31 December 2016
Asset ratios		
Debt-to-equity ratio *(%) (Note 7)*	**45.8**	69.7
Interest-bearing debt-to-equity ratio *(%) (Note 8)*	**4.2**	19.2
Net asset value per share *(RMB cents)*	**219.60**	200.56

Notes:

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

2. Including profit attributable to equity holders for the period from 1 January to 31 March 2017: RMB66,772,000.

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

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

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

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

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

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

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

Revenue

The Group's revenue for the six months ended 30 June 2017 amounted to RMB3,996,051,000, representing an increase of 11.1% as compared to the corresponding period of 2016.

Revenue breakdown by brand and product category

	Six months ended 30 June				
	2017		2016		
	RMB'000	% of total revenue	*RMB'000*	% of total revenue	Revenue Change (%)
LI-NING brand					
Footwear	2,009,204	50.2	1,827,921	50.8	9.9
Apparel	1,749,027	43.8	1,538,450	42.8	13.7
Equipment/accessories	207,690	5.2	186,285	5.2	11.5
Total	3,965,921	99.2	3,552,656	98.8	11.6
Other brands*					
Total	30,130	0.8	42,979	1.2	-29.9
Total	3,996,051	100.0	3,595,635	100.0	11.1

* Including Lotto, Kason and Aigle.

The Group's core brand, LI-NING brand, recorded revenue of RMB3,965,921,000, which accounted for 99.2% of the Group's total revenue, representing a year-on-year increase of 11.6%. The business of the Group has entered a phase of steady growth, however, at a slightly slower rate of increase. Details of which are as follows: (a) the key categories of the Company (namely running and cross-training) achieved excellent results, recording a significant year-on-year increase in revenue; (b) the Company made continuous efforts in developing mobile internet services, fostering rapid development of e-commerce channel with significant year-on-year sales growth recorded for the third consecutive year, while part of its revenue growth may be caused by cannibalization of market share of the previous offline business; (c) the Company further enhanced control over trade fair orders of both franchised and self-operated stores to ensure that the channel inventory can remain at a reasonable level, which led to a slowdown in the revenue growth of its franchised distributor business and also affected the growth of sales from direct operation.

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

	Six months ended 30 June 2017 % of revenue of LI-NING brand	2016 % of revenue of LI-NING brand	Change (%)
LI-NING brand			
PRC market			
Sales to franchised distributors	**45.9**	49.4	**(3.5)**
Sales from direct operation	**33.6**	35.5	**(1.9)**
Sales from e-commerce channel	**18.2**	12.8	**5.4**
International markets	**2.3**	2.3	**–**
Total	**100.0**	100.0	

During the period, the influence of e-commerce business in China and the Group's continuous expansion of e-commerce channel continued to contribute to the ongoing steady increase in the weighting of the total revenue of sales from e-commerce channel.

Revenue breakdown of LI-NING brand by geographical location

	Note	Six months ended 30 June 2017 RMB'000	2017 % of revenue of LI-NING brand	2016 RMB'000	2016 % of revenue of LI-NING brand	Revenue Change (%)
LI-NING brand						
PRC market						
Northern region	*1*	**2,100,647**	**53.0**	1,837,120	51.8	**14.3**
Southern region	*2*	**1,773,806**	**44.7**	1,632,130	45.9	**8.7**
International markets		**91,468**	**2.3**	83,406	2.3	**9.7**
Total		**3,965,921**	**100.0**	3,552,656	100.0	**11.6**

Notes:

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

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

Cost of Sales and Gross Profit

For the six months ended 30 June 2017, overall cost of sales of the Group amounted to RMB2,091,882,000 (2016: RMB1,918,094,000), and overall gross profit margin was 47.7% (2016: 46.7%). Among which, cost of sales of LI-NING brand amounted to RMB2,074,544,000 (2016: RMB1,894,796,000), with gross profit margin of 47.7% (2016: 46.7%). During the period, the aggregate proportion of sales from higher-margin direct operation and e-commerce channel grew up; the proportion of new products of wholesale channel increased; and the discount of new products from self-operated stores also improved. These factors resulted in a year-on-year increase of 1.0 percentage point of LI-NING brand's gross profit margin.

Distribution Expenses

For the six months ended 30 June 2017, the Group's overall distribution expenses amounted to RMB1,501,996,000 (2016: RMB1,355,081,000), accounting for 37.6% (2016: 37.7%) of the Group's total revenue. Among which, distribution expenses of LI-NING brand amounted to RMB1,498,613,000 (2016: RMB1,352,335,000), accounting for 37.8% (2016: 38.1%) of LI-NING brand's revenue. The Company put continuous effort in optimizing its channels and intensified the investment in retail operation, leading to an increase in the number of self-operated points of sales ("POS") as well as a corresponding increase in related staff costs and rental fees. Meanwhile, as the Group has invested its resources mainly in user's shopping experience since last year, the corresponding depreciation on the asset investment of POSs recorded a significant year-on-year increase. In addition, the e-commerce channel developed rapidly, leading to a year-on-year increase in relevant commission fees. However, at the same time, the Group further strengthened the reasonable control over all its investments. Accordingly, although LI-NING brand's distribution expenses increased year-on-year, its percentage to revenue decreased by 0.3 percentage point.

Administrative Expenses

For the six months ended 30 June 2017, the Group's overall administrative expenses amounted to RMB220,036,000 (2016: RMB202,996,000), accounting for 5.5% (2016: 5.6%) of the Group's total revenue. Among which, administrative expenses of LI-NING brand amounted to RMB217,484,000 (2016: RMB200,193,000), accounting for 5.5% of LI-NING brand's revenue, or 0.1 percentage point lower than the 5.6% in 2016. Administrative expenses of LI-NING brand mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses. The increase in administrative expenses during the period was mainly due to the Group's active initiative in attracting talents for new businesses and the incentives for key personnel as the businesses gradually improved, contributing to an increase in related labor costs for the period. However, at the same time, the Group has continuously exercised effective control over consulting fees and other miscellaneous expenses, leading to a decrease in related expenses. Taking into account all the above factors, LI-NING brand's administrative expenses increased year-on-year, whereas its percentage to revenue remained basically flat.

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

For the six months ended 30 June 2017, the Group's EBITDA amounted to RMB415,626,000 (including share of profit from an associate company, Double Happiness, of RMB30,110,000, which was accounted for as a discontinued operation in 2016) (2016 (relating to continuing operations only): RMB307,580,000). Among which, EBITDA of LI-NING brand amounted to RMB371,515,000 (2016: RMB287,565,000), representing a year-on-year increase of 29.2%. This was mainly attributable to the increase in revenue and gross profit margin as well as the decrease in expense ratio resulting from control of various expenses.

Finance Expenses

For the six months ended 30 June 2017, the Group's net finance income amounted to RMB8,268,000 (2016: net expense of RMB67,482,000), representing 0.2% (2016: -1.9%) of the Group's total revenue. The decrease in finance expenses was mainly due to the reversal of accrued interest expense on convertible bonds that is not payable due to early conversion as well as the decrease in interest expense on bank and other borrowings. The net finance income included the net reversal of interest expense on convertible bonds amounting to RMB6,986,000 (2016: expense of RMB33,403,000).

Income Tax Expense

For the six months ended 30 June 2017, income tax expense of the Group amounted to RMB55,736,000 (2016: RMB20,279,000) and the effective tax rate was 22.8% (2016: 22.9%).

Profit for the Period from Discontinued Operations

In December 2016, the Group completed the disposal of 10% equity interest in Double Happiness to a wholly-owned subsidiary of Viva China. Accordingly, Double Happiness is accounted for as an associate company of the Group as of 31 December 2016. For the six months ended 30 June 2016, the net profit of RMB80,018,000 from Double Happiness, which is principally engaged in the operation of Double Happiness brand, was classified as profit for the period from discontinued operations, among which RMB45,112,000 was attributable to equity holders of the Company.

Overall Profitability Indicators

The overall profitability indicators improved significantly during the six months ended 30 June 2017, which was attributable to the increase in both sales revenue and gross profit margin, the decrease in expense ratios and finance expenses of the Group during the period. During the period, the Group's profit attributable to equity holders amounted to RMB189,170,000 (2016: RMB113,421,000), representing a year-on-year increase of 66.8%. The corresponding margin of profit attributable to equity holders was 4.7% (2016: 3.2%). Return on equity attributable to equity holders was 4.3% (2016: 3.5%).

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2017 was the same as that in 2016. 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 to be adequate in ensuring appropriate provision for inventories is made by the Group.

As at 30 June 2017, the accumulated provision for inventories was RMB153,327,000 (31 December 2016: RMB143,203,000). As at the end of the period, there was an increase in the gross value of inventories as compared with that as at 31 December 2016, with a slight increase in the balance of the overall provision for inventories.

Provision for Doubtful Debts

The Group's policy in respect of provision for doubtful debts for the first half of 2017 was the same as that in 2016.

As at 30 June 2017, the accumulated provision for doubtful debts was RMB403,794,000 (31 December 2016: RMB414,137,000). As the business of our channel distributors improved, the balance of long aged trade receivables gradually decreased, the Group therefore reversed certain provision for doubtful debts during the period.

Liquidity and Financial Resource

The Group's net cash from operating activities for the six months ended 30 June 2017 amounted to RMB588,718,000 (2016: RMB345,869,000, including RMB303,944,000 from continuing operations and RMB41,925,000 from discontinued operations). As at 30 June 2017, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB2,364,510,000, representing a net increase of RMB410,922,000 as compared with the position as at 31 December 2016. The increase was due to the following items:

	Unaudited Six months ended 30 June 2017 *RMB'000*
Item	
Operating activities:	
Net cash generated from operating activities	588,718
Investing activities:	
Net capital expenditure	(163,833)
Net cash used in other investing activities	(4,682)
Financing activities:	
Net proceeds from borrowings	2,000
Net cash used in other financing activities	(8,524)
	413,679
Add: Exchange loss on cash and cash equivalents	(2,757)
Net increase in cash and cash equivalents	**410,922**

As the overall performance of our channel partners demonstrated a steady upward trend, the recovery of trade receivables increased significantly, leading to significant improvement in the Group's cash flow.

As at 30 June 2017, the Group's available banking facilities amounted to RMB1,300,000,000, amongst which outstanding borrowings amounted to RMB202,000,000. As at the end of the period, the ratio of outstanding borrowings and convertible bonds to equity attributable to equity holders (i.e. the gearing ratio) was 4.2% (31 December 2016: 19.2%).

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

Foreign Exchange Risk

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

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

Pledge of Assets

As at 30 June 2017, buildings and land use rights with net book value of RMB360,464,000 (31 December 2016: RMB369,121,000) and RMB76,876,000 (31 December 2016: RMB77,804,000) respectively were secured for acquiring the Group's borrowings.

Contingent Liabilities

As at 30 June 2017, the Group had no significant contingent liabilities.

Business Review

It remained the core development focus of the Company to vigorously explore and offer LI-NING brand value and enhance our brand image through digital operation. By identifying the consumption patterns, we offered versatile and interactive experience model and cost-effective products catering to consumer needs so as to satisfy their understanding and needs towards sports. By offering a comprehensive experience model encompassing sports experience, product experience and shopping experience, we strived to cater to the increasing consumer demand as well as participation and passion for sports. Meanwhile, digital operation brought young consumer groups closer to our brands, and offered the sports population with flexible and diverse interactions which are more relevant to their gossips on the changes in sports experience and sports modes that sports enthusiasts take pleasure in sharing via social platforms. During the period, various operational indicators saw continued improvement where the revenue of the Group maintained steady growth and its profitability improved steadily.

During the period, we continued to create LI-NING brand's value in terms of experience in full swing through three major pillars of enhanced product, channel and retail capability. In respect of products, we embraced the heritage of professional sports' DNA of LI-NING brand, and launched "LI-NING Arc" and "Super Light 14th" running shoes to improve the sports performance. Besides, we added more beginners' running shoe products to offer consumers with sustainable and diverse product experience. Meanwhile, as for the basketball category, the "WADE" series and the fashionable "BAD FIVE" apparel series featuring street basketball style have developed a trendy and avant-garde sense of sports fashion and brought the wearing experience with greater sense of sports vitality. In respect of channels, we focused on the improvement of store productivity and profitability by adopting the channel strategies of developing refining stores classification based on product categories and expanding key stores with high efficiency. Based on the regional disparity of consumer demands, we strive to display and provide at our stores products best catering to local demands. Meanwhile, we provided versatile and diverse sports experience and consumption experience based on category attributes. Together with the Company's overall promotional plans, we enhanced our brand recognition and loyalty and consumer viscosity under the bottom-up approach. During the period, the overall retail sales registered a high-single digit growth, new product discount rate and sell-out rate further improved.

Latest trade fair orders and operational update

Trade fair orders, in terms of tag price, for LI-NING brand products from franchised distributors registered a year-on-year growth for fifteen consecutive quarters. The orders from the latest trade fair, which are for the first quarter of 2018, held in June this year registered a high-single-digit growth on a year-on-year basis, continuing to meet our target based on more precise trade fair order strategy.

For the second quarter ended 30 June 2017, in respect of LI-NING Point-of-Sales (POS) which have been in operation since the beginning of the same quarter last year, the same-store-sales growth for the overall platform (including e-commerce) registered a high-single-digit growth on a year-on-year basis. In terms of channels, retail (direct operation) maintained almost flat on a year-on-year basis, wholesale (franchised distributors) registered a low-single-digit increase on a year-on-year basis, while the e-commerce virtual stores business registered a mid-nineties growth on a year-on-year basis.

For the quarter ended 30 June 2017, the retail sell-through of LI-NING POS for the overall platform (including e-commerce) increased by low-teens on a year-on-year basis. In terms of channels, retail (direct operation) registered a low-single-digit growth on a year-on-year basis, wholesale (franchised distributors) registered a mid-single-digit growth on a year-on-year basis, while the e-commerce virtual stores business registered a mid-forties growth on a year-on-year basis.

As at 30 June 2017, the total number of LI-NING POS in China amounted to 6,329, representing a net decrease of 111 POS since the beginning of this year. Out of the 111 POS, direct retail and wholesale accounts for 67 and 44 POS, respectively.

LI-NING Brand

Basketball

Amidst the shift of the overall sports product market towards running, sports and leisure, the basketball category made continuous adjustments to the product strategy to fully explore the trendy, street and cultural elements embedded in basketball sports. Through quality product experience, the trendy style was well recognised among young consumers.

Apparel

Through aligning the "insight on consumers" with "market analysis", LI-NING basketball launched the "BAD FIVE" apparel series which is specific to youngster groups, receiving great market recognition. Infused with innovative elements, the "Street-Basketball-themed T-shirts" was launched in the second quarter and became the star product amongst summer short-sleeved products. Moreover, the NBA player Wade himself endorsed the "WADE" series apparel products with an avant-garde design. With the support of marketing campaigns such as "WADE STORE" and "WADE CORNER", products achieved satisfactory sales performance.

Footwear

Professionalism is the core element of our basketball footwear products. We adjusted the product strategies according to market changes and controlled the size of launch of new footwear models by placing focused efforts on the professional models for every quarter. Among which, the "SONIC V" basketball shoes that launched in the second quarter, through integrated marketing of basketball sponsorship resources, raised the professionalism of LI-NING basketball shoes to a new level. To seize the market opportunities of culture products, we leveraged the endorsement of the "WADE" series and launched the "Essence" basketball culture footwear products, which won recognition from consumers. In planning the basketball culture footwear products ahead, we will attempt to explore other styles in a bid to rapidly capture market opportunities.

Marketing

With "Aligning Marketing with Youngsters" as the core idea of LI-NING basketball sports marketing, we adopted "Let's Go and Play" and "Make You Own Way" as the marketing themes for LI-NING basketball and the "WADE" series.

We leveraged the arena of the most professional events in China – CBA and Houston Rockets, the NBA powerhouse to develop the LI-NING basketball school system, through which more potential consumers may experience LI-NING professional products, thereby developing their trust on the professionalism of LI-NING brand. As to the campus basketball market, the China Junior & High School Basketball Leagues and CUBA attracted thousands of schools from 20 provinces, municipalities and regions annually. In terms of grassroots games, the grassroots league "Shot to Fame" was held during holidays, offering a professional and fun competition platform for all young basketball fans and created opportunities for these core consumers to experience our products. In the most recent "WADE/WADE TEAM China Tour", by launching the combined marketing strategy of "Shot to Fame" +"WADE", we attracted more teenagers to participate in the event to better know LI-NING brand and its products. As for NBA player sponsorship, in addition to the contract renewal with Evan Turner, we signed up Michael Carter-Williams as the endorser for LI-NING brand, which continued to expand LI-NING brand's influence.

The marketing of "WADE" brand seizes the professionalism and fashion possessed by Wade as the marketing focus. In respect of professional products, Wade's fifth signature shoes "WoW5" performed well in the signature shoe market. Meanwhile, Glenn Robinson III under the WADE TEAM won the Slam Dunk Contest in the 2017 NBA All-Star Game, marking the brilliant moment of promoting WoW5 ASG color themes. The flash mob activity themed "Slam dunk", which was held on the streets of New York one month later, has also become widespread on social media.

Regarding culture products, the 2017 "WADE/WADE TEAM China Tour" adopted culture products as the key promotion product, together with the main products of the season in three categories, namely basketball profession, sports casual and running, thereby maximizing the influence of Wade image in the Chinese market.

Running

Apparel

Through strategic product innovation, apparel goods serve mass professional runners and amateur runners. Our innovation efforts focused on improving the performance of professional products for professional runners while concerning the comfortable product experience of amateur runners.

We strived to develop consumer-oriented products by upgrading functional technology. Based on LI-NING's AT technology platform and applying 3D fitting and fashionable workmanship with humanistic functions, we enhanced our product reputation through upgrading functional technology to drive sales.

We facilitate consumption upgrade with the linkage of "product experience + sports experience + shopping experience". By aligning consumers' demands with diversified product offerings and marketing as well as facilitating sports consumption upgrade with its high value-added products, LI-NING Running will further refine its consumer structure.

Footwear

Continuing to focus on the development and innovation under the technology platforms of LI-NING brand. Main featured footwear products include:

– LI-NING "Air Arc" (空氣弧) Running Shoes

  The structure of LI-NING Arc is combined with air cushioning for the first time. The shoes offer dual cushioning effect and revolutionary shock absorption experience through the deformation and resiliency of the arc-shaped hollowed bow structure during sports, thereby enabling runners to gain better product experience. With FLEX SHELL surfaces, the product can reduce the friction between shoe surfaces and feet during sports with the reasonable use of elastic materials and craftsmanship, which are flexible and comfortable to wear.

– "Super Light 14th" Running Shoes

  Using the lite midsole of "LI-NING Cloud", the product is equipped with cushioning and lightweight functions, enabling wearers to feel more comfortable. The combination of comfortable oriental tapestry technique, silk tapestry technique and MONO yarn creates more compact one-piece knit surfaces, bringing comfortable experience for users.

– LI-NING "Cloud IV" Running Shoes

The product adopts the newly upgraded "Cloud IV" technology and dual density midsole to offer upgraded shock absorption performance. For the areas touching the floor, more low-density materials are used to absorb the impact when touching the floor and offer effective buffer. For the arch leg areas, more high-density materials are used to provide stable supports and prevent the likelihood of leg tilt. The midsoles are installed with intelligent chips, which can precisely record foot strikes, distance, route and frequency of stride during running. By incorporating the Lemon Sports Running APP (檸檬運動跑步APP), LI-NING "Cloud IV" Running Shoes can deliver a smart ecosystem.

Marketing

– Expanding the range of new key seasonal products to enlarge market share

Promoting the diversity of key seasonal products from single type to various types, we have distributed our differentiated key products according to the combined demands from different market segments. By offering differentiated promotional resources in retail outlets at the same time, we have launched online promotions through youth's preferred life-styles during festive and holiday seasons.

– Stepping up promotional efforts on core products to consolidate market share

For the "Super Light 14th" running shoes, LI-NING has effectively combined various differentiated advertising techniques and unbounded innovation with promotion on "Moments" through Wechat platform based on different customers. Such approach has not only boosted the effectiveness of advertisements, but also lowered the promotional expenses by identifying customers precisely through big data so as to magnify the return on investment. Meanwhile, we created a craze for "Super Light" pop-up stores in prime commercial zones of Chongqing, Changsha, Shenzhen and Shenyang, further closely communicating with end consumers. During the events, we have created enormous media value and thus further enhanced the influence of "Super Light" products.

– Leveraging popular tournaments to conduct promotions of top and professional marathon gears

In the marathon event of the National Games held this year, the team members of Yunnan and Bayi (which were sponsored by LI-NING) ranked the top two with LI-NING professional marathon gears. Such achievements have greatly improved the influence and recognition of LI-NING professional running products among mass runners.

– Enhancing product experience for users by taking advantage of LI-Ning 10K Running Completion

In the first half of this year, LI-Ning 10K Running League was successively held in Guangzhou, Kunming, Chongqing, Shanghai, Ningbo, Xi'an and Hohhot, with nearly 30,000 participants. In addition to the fundamental gear pack, the Company has added an "ultralight" luxury gear pack this year, with 27% of the runners wearing LI-NING running shoes in the 10K running competitions.

Badminton

During the first half of 2017, LI-NING badminton business continued its expansion into professional channels while working diligently to enhance its service quality at the retail end. In addition to the continuous promotion of "LI-NING Racket Stringer Certification Training" (李寧穿線師認證培訓), we also focused on facilitating the improvement in uplifting store image as well as enhancing staff's product knowledge and retail skills, with an aim to deliver better product experience and shopping experience across retail stores and consumer services.

In the first half of 2017, we continued to launch new products of LI-NING badminton rackets, N7-II and N9-II, with multiple color themes, which made their debut in the Sudirman Cup tournaments. In addition, we launched the super light product WS72, which weighted only 72 grams. Given the prominent production skill, the racket maintains ultra-light weight, meanwhile, with a tensile strength of over 32 pounds. Given this prominent niche and coupled with our strong promotional efforts, drives a hot sale of this product shortly after its launch.

The year 2017 is the first year of LI-NING's badminton uniform featuring the all-in-one weaving design. During the All England Open Badminton Championships and Sudirman Cup tournaments, the players of the National Badminton Team made appearance with their all-in-one uniform, which exhibited a charming and stylish outlook and won positive feedbacks from the players for the comfortness that the all-in-one weaving design delivered.

During the first half of 2017, LI-NING badminton continued to maintain the sales-oriented marketing strategy.

– In terms of sports resources promotion is conducted via major tournaments as key marketing platform, coupling with product endorsement from players as well as high-frequency and high-quality exposure of stadium on-site products. During the first quarter of 2017, the All England Open Badminton Championships (AEOBC) was taken as the major tournament with the uniform of the National Badminton Team for AEOBC games and various new sponsored rackets for the National Badminton Team including N7II, N9II, N99, N7II Light as product story-pack. Through players' performance, media broadcast and coverage as well as digital marketing, the products turned into hot-selling items among the public. During the second quarter of 2017, the Sudirman Cup was taken as the main event platform with the uniform and racket bags of the National Badminton Team for Sudirman Cup as product story-pack. Various sponsored rackets such as N7II, N9II, N99 and N7II Light were still our main promotional items. LI-NING equipment achieved nationwide high-frequency exposure lasting for a week via CCTV's full live broadcast of the tournaments. Moreover, with timely follow-up of We Media, the off-site moments were released in real time.

– In terms of developing top-notch sports resources, LI-NING brand signed up in March, 2017 with the Indonesian pair Natsir and Ahmad, the champions of badminton mixed-doubles at the Olympics, the Indonesian player Hendra, the gold medalist at the Olympics as well as the world champion Ahsan. This further diversified the top-notch sports resources of the badminton segment under LI-NING brand.

Kason, a well-known badminton equipment brand with 27 years of history, is a key and integral part of the Group's badminton segment. During the period, by optimizing the product mix and production costs as well as enhancing the cost-effectiveness of its products, the brand's classic racket products continued to sell well.

The Group will continue to differentiate between the LI-NING brand and the Kason brand in the market, enhance product competitiveness, and effectively utilise the brands' superior sports marketing resources to increase its market share in badminton products.

Training

In terms of products of training category, we continued to focus on functional sports products, push forward the innovation of technology platforms and refine sports segments. We offered distinctive categories of products according to sport consumers from different segments to enhance product experience.

We continued to push forward the innovation of technology platforms. Through internal and external application of functional technology, we developed the germanium fiber technology catering to different sports environment and external condition and launched corresponding tight outfits. Functional technology helps enhance blood circulation, reduce fatigue from sport exercises and facilitate physical recovery, thus improving sport performance. Icy printing technology breaks through the invisible vulnerability of traditional technology and applies xylitol with cooling features onto apparels in the form of printing. Xylitol generates endothermic reaction through absorbing sweat on the skin, thus producing a cool feeling on the skin. It is an innovative technology integrating the perfect appearance with functionality.

Regarding fitness products, we introduced a world-class and professional Bra manufacturer to develop brand-new and more professional fitness products based on different sports demands and support. The high-support bra adopts in-mold shock-absorber cup, which effectively reduces shock during sports participation. The-medium support bra adopts X-power structure to form various thicknesses of the cotton cup, providing extraordinary support and stability.

Sports Casual

We are committed to satisfying the demands of various consumers by precisely targeting different markets with different terminal levels whilst expediting the recognition of products among young consumer groups who pursue fashion trend.

Apparel

– Marvel Series Apparel

  We continued to cooperate with Marvel Studios. Through new planning, we have launched a series of related products with strong visual effect. Coupled with the related popular trend during film release, the products drew a number of young consumers into the stores. The motifs and designs were inspired by Marvel's classic elements, which incorporated the aesthetics in movies and concerned about the emotional link with consumers and fans.

– Flower and Urban Series

  With fashionable outline and colorful motifs and designs, the series features the theme of leisure and vitality. By incorporating the richly-formed fabric such as mesh and organza, the products can give visual highlights.

Footwear

– Exceed

Following the Olympics limited collection "EXCEED", we launched the ordinary edition of Exceed product, applying "LI-NING Cloud" shock-absorbing technology and "elastic and seamless weaving" upper technology. Featured with the delicate design of TPU sword logo on upper and topped with popular color themes, the footwear product is frequently exposed inside and outside China Fashion Week Show as well as Celebrity Sole Watch. Together with the launch of pro edition of LN x Marvel Guardians of the Galaxy, all these have laid a foundation for developing Exceed into the classic evergreen product embedded with the DNA of LI-NING brand.

– Family of air cushion products

We have developed and expanded the family of air cushion products. Following the launch of Bubble Up and Bubble Ace (half-foot air cushion products), we designed the brand-new Bubble Face (forefoot and rearfoot air cushion products) and Bubble Max (full-foot air cushion products).

Marketing

We have achieved more effective communication with young consumers through the incorporation of entertainment elements. We explored the fan economy with the product endorsements of showbiz artists and KOL, which in turn effectively attracted exploring additional potential customers. By making our brand more fashionable, we provided our existing users with more fashionable product offerings. During the period, through our cooperation with Keenyhouse, a cartoon image developed by Wang Likun (王麗坤), 'goddess' without makeup, and her team, we have launched trendy T-shirts and hats. In the future, the business model of crossover products will become the main initiative of entertainment marketing events.

It was our breakthrough to tap into the world class fashion. During the Shanghai Fashion Week, we teamed up with local design talents to present trendy shoes in the showcase, earning high regard and attention from media, designers, models, fashionistas and fashion brands in the fashion industry.

Through digital marketing, we share ideas with young consumers through "interactions", echoing their emotions with the content. By closely monitoring popular online topics, we respond quickly to publish posts illustrating our brand proposition, with an aim to enhance brand awareness. During the period, we launched a collection of black and white products themed "Youth is Fearless, Black or White" (青春無畏，非黑即白). While illustrating the attitude of black and white and the positive energy of youth, we invited Ma Long (馬龍) and Bao Chunlai (鮑春來) to take black and white themed photos, receiving feedbacks on the Internet.

Outdoor

Apparel

– Light Windbreaker

LI-NING Outdoor's water-proof light windbreaker adopts a simple color mix, delivering a sense of simplicity and trendiness. By applying the LI-NING AT PROOF SMART water-proof technology, the windbreaker is made of fabrics with excellent water-proof performance and sound ventilation, keeping the clothing dry and creating better wearing experience in summers. The design of adjustable built-in hood gives users a feeling of simplicity and convenience. For the zipped pockets on both sides, the left-side pocket features a convenient and practical design that is packable and stowable.

Footwear

– Wading Shoes

The LI-NING upstream outdoor wading shoes are simple and leisure, adopting a simple color mix. The quick-drying mesh design of the uppers brings wearers a pleasurable feeling, creating a cozy and dry wearing experience. The toe cap and heel are made of strong gripping and durable rubber with lightweight EVA midsole and slim shoe body, giving a soft and cozy wearing experience as well as enhancing slip and abrasion resistance.

LNG

LNG has a brand essence which focuses on the culture of urban sport lifestyle and the demands for high-end products encompassing the stoic fashion trend. Based on high quality functional fabrics, LNG values comfortability, fine details and minimalistic design as its core brand culture. The brand offers collections which cater for the lifestyles of sportswear gurus and adhere to high quality and unique design positioning, delivering highly fashionable urban sportswear for the "mainstream middle class consumers".

Apparel

– New Year Pack Series

The series was launched for sales in the first quarter of 2017. The motifs and designs of apparel were inspired by the signature red of Chinese New Year, featuring red all-over print and wind-proof fabric with sports technology. For fashionable long jacket fit, couple outfits are offered.

– Metallic Ion All-over Print Series

The series employs the most advanced printing process involving metallic ions, which integrates the workmanship into apparel with different textures and garment blocks, including long windbreaker, jacket and windbreaker. With the combination of sports fabric such as wind-proof fabric, quick-drying jacket fabrics and four-way stretch fabric and the fashionable garment blocks, the series has been well received by consumers since its market debut.

Footwear

Designed by Korean independent footwear designers, the footwear products create more popular elements. With streamlined appearance and pattern featuring the integration with apparel, the light sports fashion footwear products enable a better mix-and-match between shoes and apparel, boosting sales growth. In respect of fabric, genuine granular leather, LYCRA and seamless weaving are employed. As for the design, genuine leather and mesh fabric are combined, enriching the product spectrum of diverse designs.

International Business

Pursuing the strategies of the international business of LI-NING brand, the Group aims to enter the international market with its brand names, promote and sell the brands from China. Under the business modes of sole distributor or authorized sole agent, we established LI-NING stores in different regions to sell major products and badminton-oriented products of LI-NING brand. Distributors were responsible for marketing, sponsoring and organizing the local sports events, while the Company provided support to and monitored them. Currently, our business covers 46 countries across Asia, Europe and the Americas. It is expected that developing countries in Asia will remain the key markets in the future.

In the first half of 2017, LI-NING officially launched its Facebook and Instagram accounts to promote its brands, products and marketing campaigns. Meanwhile, we provided new sponsorships for Tractor Sazi Tabriz FC (an Iran football club) and renowned Indonesian badminton players Liliyana NATSIR, Tontowi AHMAD, Hendra SETIAWAN and Mohammad AHSAN.

Sales Channel Expansion and Management

As at 30 June 2017, the number of (including LNG, “” label and LI-NING YOUNG) conventional stores, flagship stores, factory outlets and discount stores under LI-NING brand amounted to a total of 6,329, representing a net decrease of 111 POS as compared to 31 December 2016. The number of distributors was 38, representing a net decrease of 1 as compared to 31 December 2016. POS breakdown as at 30 June 2017 is as follows:

Number of franchised and directly-operated POS

LI-NING Brand	30 June 2017	31 December 2016	Change
Franchised	4,785	4,829	-0.9%
Directly-operated retail	1,544	1,611	-4.2%
Total	6,329	6,440	-1.7%

Number of POS by geographical location

Regions	30 June 2017	31 December 2016	Change
Northern Region *(Note 1)*	3,145	3,151	-0.2%
Southern Region *(Note 2)*	3,184	3,289	-3.2%
Total	6,329	6,440	-1.7%

Note:

1. The Northern region includes provinces covering Beijing, Tianjin, Shanxi, Inner Mongolia, Shandong, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Ningxia, Qinghai, Gansu and Xinjiang.

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

Structural Adjustment and Quality Improvement of Sales Channels

In the first half of 2017, there was a net decrease in the number of the LI NING's POS, which was attributable to the active channel adjustment made by the Company. During the period, the Company was committed to adjusting the structure and improving the quality of sales channels. By improving the areas, locations and images of the POS, we continuously raised the efficiency of single store, thereby enhancing consumers' shopping experience and the profitability of single store. Specific measures included:

– Opening or revamping key experience-concept stores in the core business district of cities, with an aim to improve the display effect of brand's products and consumers' shopping experience. For example, the store in Xiaozhai Saige, Xi'an demonstrated Li Ning Company's operation quality and capability in shopping malls. By adopting a unique design of container, the flagship store in The River Mall has become a landmark building in Shanghai;

– Strategically closing down inefficient and loss-making stores in order to enhance the overall profitability of sales channels;

– Continuously strengthening the establishment of sales channels and operation management of factory outlets. In the first half of 2017, we finished the development of the new image for the factory outlets. Nearly 40 factory outlets were newly opened, upgraded or revamped. With the continuous improvement of the total inventory of sales channels, we commenced to increase the supply of exclusive products in factory outlets.

Transformation of Product Operation Model

The Company continued to make dedicated effort in transforming its product operation model, thereby achieving more accurate planning and supply of products, quicker launching and replenishment of products, and focusing on retail single store and single product as well as strengthening the product management in stores.

– Pushing forward precise product planning and supply to align the sales demand. Since the order fair held in the fourth quarter of 2017, product orders will be classified in accordance with the products' life cycle during product operation planning. The supply to various regions will also be adjusted based on the precise demand for products. Meanwhile, we will gradually adjust the order model and add a new "quick ordering" mode so as to capture business opportunities precisely;

– Accelerating the launch and replenishment of products through quick response to the supply chain. Since the beginning of 2017, we attempted to directly deliver products from the National Distribution Center (NDC) to stores, thereby shortening time for transit and exchange for deliveries. As it is significantly faster to deliver new products to retail outlets, this delivery model will be further promoted in the second half of the year. We also developed new sourcing and replenishment procedures, i.e. stores can directly place orders to factories. In the past, replenishment was made by the Company. Under the new procedures, retail outlets can make the decision based on their product demand, thereby offering products more precisely and rapidly. More stores will be selected for the relevant testing in the second half of the year;

– Focusing on the product assortment and operation of single store and strengthening the alignment between products and demand of retail outlets. During the year, we continued to optimize the store classification and single store order. On this basis, we established the store manager order system. Starting from the second quarter of 2017, store managers of the flagship stores have participated in and commenced ordering independently. There has been an improvement in the preciseness of product demand in stores.

Transformation of Logistics System

In 2017, the Company made continuous efforts in establishing a highly efficient and flexible retail logistics, omni-channel logistics and intelligent logistics system. The Company continued to improve the nation-wide logistics, warehousing and distribution network according to sales growth and the demand of future strategy. We integrated the capability of our urban distribution system and mainline, with an aim to establish a uniform tracking management system and strengthen the distribution capability of our terminal. In connection with the transformation of product operation model, we improved the operation process of our logistics business and information system. We also set up a retail logistics team to enhance our ability in making quick responses, synergy and logistic operation efficiency and to lower logistics cost in order to provide customers with more quality services.

Enhancing Retail Operations and Strengthening Execution Capability

The Company continued to strengthen the professional establishment of retail operation functions. We upgraded and refined the operating standards of stores, widened the coverage of retail training system and provided more training in respect of product knowledge and customer service for staff in both POS and franchised systems, thereby achieving continuous improvement in the results of the mystery shopper investigations for single store operation. Looking ahead, based on the development directions of our stores, we will continue to strengthen our teams of sports advisors and fashion advisors for the operations of our comprehensive key stores and sports casual stores, enhancing the corresponding sports and shopping experience.

During the first half of 2017, the sales efficiency of sales channels and sell-out rate continued to increase; inventory turnover and inventory structure continued to be optimized.

Store Visual Identity and Visual Promotion

The Company conducted research on the development trend of consumer structure in commercial zones such as shopping malls, pedestrian streets and department stores to identify and optimize the image and positioning of the stores. On one hand, we enhanced the displaying space, product experience and interactive area of comprehensive key stores with full range of product offering, thereby enhancing the brand image; on the other hand, we enhanced the professional feature of our products in specialty stores such as running stores, basketball stores, Wade stores and made attempts to open sports fashion stores in order to promote the sports trendiness of LI-NING brand and expose more youth consumer groups to our brand experience.

The Company managed the color scheme of stores according to the needs of various types of stores and aligned the integration planning of visual identity (VI), visual merchandising (VM) and retail marketing presentation (RM) with an aim to enhance the effectiveness exhibited by the products, stores and displays. In the promotion of "Super Light 14th" Running Shoes and its associated apparel products, we fully utilized the integration of sports resources and store space, fostering favorable marketing effect in the second quarter and providing complete product experience to consumers in retail outlets.

Membership Platform Marketing

Leveraging the integrated marketing model on the Internet, we effectively boosted the online and offline interaction of members, and achieved substantial growth in bringing customer traffic from online events to physical stores and the online membership recruitment at offline stores. In the promotional marketing of running products flaunting the "Super Light 14th" Running Shoes, we received positive response from members at the event site and online participation, which drove the product sales rate and associated purchase rate.

Omni-channel business operation

The Company continued to push forward the all-in-one omni-channel and completed the development of the phase I omni-channel project, contributing to the increase in cross-channel delivery business between e-commerce and physical stores. Various performance indicators including the orders responsivity, delivery accuracy, delivery punctuality and customer satisfaction also showed improvement. Aided with the full coverage of mobile payment, the shopping experience of consumers was further enhanced. Following the launch of the phase II omni-channel project, the Company will further improve the development of all-in-one system of inventory management in the coming half year. Accordingly, it is expected that we may achieve a more efficient use of the omni-channel platform to drive the utilization rate of existing stock of products and satisfy the purchasing demands of consumers at all times and all channels.

Supply Chain Management

In 2017, the Company continued to boost the management of product quality with a focus on enhancing product details and workmanship and improving product wearing comfort, which achieved continuous upgrade in product quality, thus gaining positive feedback and good reputation among consumers. In respect of cost management, the Company practiced the concept and operation of cost management throughout the development and production process, by which the procurement costs have been effectively managed. Meanwhile, consumers could enjoy their benefits as the price-value of the products got further improved.

In response to the Company's reformation from wholesale to retail operation model, the Company strengthened the responsiveness and elasticity of supply chain to assure precise and swift product delivery with the aim to cater to the supply chain cycle demands on business model of various products. Regarding supply chain development, the Company continued to tighten the requirements on environmental protection and human rights to ensure sustainable development.

E-Commerce

During the first half of 2017, the e-commerce business of LI-NING-Brand remained relatively high operating efficiency and successfully recorded a revenue growth of 58% on a year-on-year basis.

LI-NING continued to intensify the investment in lean digital operation in its e-commerce business, while gradually developed and improved the sales trend forecast system. Meanwhile, the business segment applied the trend forecast system in front-end and back-end tasks such as the coordination and integration of product planning and assortment and supply chain acceleration as well as the more refined lean operation, achieving relatively remarkable results.

Meanwhile, in upgrading the front-end of stores, we continued to enhance our operation in terms of products contents among core flagship stores at each platform (such as LI-NING official online flagship store, Tmall and JD stores) in a bid to enrich user interaction and give stores more "We Media" attributes.

In the future, LI-NING will continue to double its efforts in the upgrading of digital operation in e-commerce business in order to fuel the continuous growth in terms of scale and profits driven by high operating efficiency.

New Business

DANSKIN Brand

In October 2016, Li Ning Company announced the cooperation with Danskin, the professional dance sports brand in the United States, for the exclusive licensing right to operate the brand's businesses in the Mainland China and Macao. Established in New York in 1882, Danskin brand is a professional dancewear brand for women in the United States. Nowadays, Danskin has developed into a comprehensive sports lifestyle brand for women and its main market has expanded from the United States to Japan, Korea, Europe, Brazil, Latin America, Middle East (including Dubai), Israel, Southeast Asia, etc. Danskin's fashion philosophy emphasises the pursuit of lifestyle and cherishes the elegant and healthy attitude to life.

The brand styled itself as a brand of women sports presented in fashion manner. In the first half of 2017, the brand refined its product line classification, which included the fashion sports series covering sports products with fashionable and modern designs (Dansfit), the pure fashion series made of multifunctional fabrics (Danslife) as well as the high-end fashion series (Danslux) and the ballet series (Dance). Meanwhile, the brand has built partnership with suppliers possessing professional experience.

In future, the brand will focus on digital channel in its marketing activities, with an aim to promote its brand value and strengthen communication with consumers through day-to-day liaison. The channels primarily focus on prestigious landmark shopping malls located in metropolitan cities. We plan to open three to five POS in the fourth quarter of 2017.

"lining" Label

The brand remained as a fast fashion brand featuring sports and leisure attire. While sticking to voguish and creative lifestyle, the brand also caters to the demand of general public for sports concepts. In 2017, by leveraging upon the channel expansion plan, the brand expanded itself targeting mainly at established shopping malls. Moreover, we continued to improve and optimize products of this brand.

With the use of bright colors in brand promotion, the brand created a vivacious image that integrates different kind of lifestyle themes, showing the most attractive appearance visually among the new generation. Meanwhile, by providing casual-sportswear with versatility and mix-and-match function at affordable prices and are convenient and comfortable to put on, the brand enabled consumers to express their aesthetic values and personality, regardless of gender and age, and introduced the idea that dressers can match up different styles on their own.

As of 30 June 2017, 8 "lining" Label concept POS were opened in cities including Beijing, Shanghai, Hefei, Dalian and Qingdao.

LI-NING YOUNG

In the second half of 2016, Li Ning Company upgraded the existing LI-NING kidswear brand against the kidswear market and re-launched the LI-NING Kidswear brand: LI-NING YOUNG. Targeting teenagers aged between 3 to 14, the brand has set up two product lines for different age groups: curious kids aged between 3 to 6 and energetic teenagers aged between 7 to 14. The apparel, footwear and accessories products under the brand consist of three major categories including running, basketball and football and sports leisure.

During the first half of 2017, LI-NING YOUNG mainly focused on the Northern region of China and opened around 20 stores across 14 provinces in China. Through preliminary market research and store testing, LI-NING YOUNG gradually developed a retail model with products satisfying consumer needs as the core, driven by retail profitability and maintaining healthy development. The Company stepped up efforts in customer service and support in three aspects of channel, product and retail capability. While developing the unique execution standards for retail outlets, the Company provides unified training to team members and customers in order to carry out unified management over omni-channel stores with such retail and operation standards.

Launched in June 2017, Wade parent-child products, running windbreaker and kidswear apparel products as well as Q Cloud kid's footwear products were well received among consumers for their stylish, professional, safe and colorful features. The trade fair of LI-NING YOUNG for the first quarter of 2018 was held in June. Products demonstrated further improvements in the design, style and material, catering to teenagers' preferences and their demand for sports.

Other Brands

Double Happiness Brand

Double Happiness Brand is principally engaged in the manufacture, research and development, marketing and sales of table tennis equipment and other sports equipment. Double Happiness continued to adopt "promotion by sports stars and sponsorship of sports events" as its marketing philosophy. In 2017, the brand continued to sign up Ma Long (馬龍), Ding Ning (丁寧), Fan Zhendong (樊振東), Fang Bo (方博), Zhu Yuling (朱雨玲), Chen Meng (陳夢), Wang Hao (王皓) and Wang Liqin (王勵勤) as endorsers for its table tennis equipment, as well as successfully provided equipment for the 53rd World Table Tennis Championships in Dusseldorf, Germany and proactively promoted itself on the event. The brand will continue to provide professional equipment for events such as the Table Tennis World Cup and International Table Tennis Federation (ITTF) World Tour.

Double Happiness covering and blades were still the most popular choices of China National Table Tennis Team members. New table tennis balls adopting premium ABS materials have been used in major top events, including 2017 Table Tennis World Cup and ITTF World Tour. These new materials have significantly improved the durability, which greatly helps promote the sport of table tennis. In 2017, Double Happiness continued to optimize its channel models. Great efforts were also made to enhance both online and offline user experience, setting benchmarks for Double Happiness brand and its products.

AIGLE Brand

Against the ever-changing market environment, we believe that "the new retail trend focusing on consumers and emphasizing the integration of online and offline business, the understanding on the significance of future technology to the retail industry, the courage to introduce changes as well as the pursuit of innovation" will serve as the foothold of the brand's sustainable development.

Leveraging the precise market positioning, well-planned expansion strategy, high-quality products balancing design and function, and professional retail management, the brand sustained its growth momentum and continued to maintain its leading position as one of the outdoor and leisure brands in the market. In 2017, the brand has been consistently implementing the following major operation strategies with the aim to improve customer experience and boost brand recognition and loyalty by focusing on customized services:

– Further develop its positioning as an exquisite French brand of outdoor and leisure;

– Continuously expand into shopping malls, outlets and e-commerce channels;

– Closely monitor distribution channels so as to strive for continuous win-win situation;

– Establish strategic alliances with key shopping malls to enhance long term profitability;

– Sustain efforts to upgrade retail sales management and training and to improve frontline customer service.

Human Resources

During the first half of 2017, the Company continued to optimise the retail model based on single store profits, enhance retail operation efficiency and product innovation capability in a bid to achieve better product experience, sports experience and shopping experience. Moreover, the Company continued to improve the organisation, incentive and talent management system based on the business development focus.

To enhance the overall operating efficiency, the Company developed an efficient synergistic mechanism for the retail and supply-chain front through organisation and integration. In addition, the Southern Product Center was established to enhance the operating efficiency of products in Southern region. The Company also enhanced the operating efficiency of each product categories through organisational segmentation of product categories while uplifting the organisation and allocating more human resources for new business such as kidswear.

– With regard to talent management, the Company continued to implement the retail and product talents development system so as to screen and motivate key talents;

– In terms of remuneration, the Company continued to improve the incentive mechanism for retail frontend and business units;

– Regarding employer brand-building, an official WeChat account "LI-NING Recruitment" was set up as a window to showcase the Company's achievements in this area through a series of events organised or participated in by it. During the first half of 2017, the Company was once again named in the "2017 Top 100 Most Attractive Employers in China" Award and was honored the "2017 Excellent Award of Human Resources Management".

Looking ahead, we will adhere to the goal of achieving better product experience, sports experience and shopping experience as well as new business development goals in strengthening our organisational performance management and our talent team building. We wish to effectively control our cost on human resources, while continuing to strengthen our organisational capability and enhance the overall performance of our staff, in order to give full support to the Company's strategic goal and develop the organisational capability and talent team supporting the change of the Company.

As at 30 June 2017, the Group had 2,007 employees in total (31 December 2016: 1,975 employees), including 1,825 employees at the Group's headquarters and retail subsidiaries (31 December 2016: 1,800 employees), and 182 employees at the Group's other subsidiaries (31 December 2016: 186 employees).

Outlook

Looking forward, we will continue to strengthen and improve the following business focuses based on our major tasks which were accomplished in the first half of 2017. Meanwhile, we will create and consolidate LI-NING's experience value in order to achieve healthy and sustainable profit growth for the Company in the future:

- We will continue to create LI-NING's experience value in support of our products, channels and retail capability. In the meantime, we will bring forward our digital operation strategy in order to continuously consolidate our brand value;

- In respect of products, we will conduct further segmentation of the consumer structure and make timely adjustment to our strategies according to market changes. We will improve the management on product life cycle, expand the range of main products of the season and differentiate main products according to the demands at different market levels. In the meantime, we will intensify the promotional efforts for core products to consolidate our market share. Moreover, we will utilize online and offline promotion resources to enhance our brand recognition and reputation;

- In terms of channels, we will make continuous efforts in structural adjustment and quality improvement of channels. We will continue to open or revamp key experience stores and strategically close down inefficient and loss-making stores with a view to improve single-store efficiency;

- On the retail capability front, the reformation of product operation model remains our core task. The reformation contributes to a more precise product planning and supply while enhancing the in-store product management and the display of store image. We will uplift the operating standards of stores and expand the application of retail training system;

- We will continue to increase investment in the reformation of digital operation. By establishing and strengthening the sales trend forecast system, we strive to provide comprehensive experience value to consumers with high operating efficiency as well as in-depth and rich interactions;

- For new business, we will continue to exercise reasonable and prudent use of resources to explore business opportunities and market potentials in order to foster new opportunities for the Company's profit growth in the long run.

With the support of national policies and the constant increase in public awareness towards their own health, the robust development of sports market demands brings about new opportunities to the current and future sporting goods industry. Meanwhile, the continuous enhancement in professionalism of sports population group, the emergence of sports social media channels, the ever-changing hot topics and the diverse fashion trends pose new challenges to the industry. In order to accommodate the changing market environment, strengthening brand value and developing LI-NING brand value through experience will remain as the theme of the Company's long-term development. We will provide flexible experiences according to differentiated consumer habits with an aim to explore and broaden room for business development.

Condensed Consolidated Interim Financial Information

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	802,171	827,677
Land use rights	*8*	76,936	77,887
Intangible assets	*9*	260,707	282,696
Deferred income tax assets		172,002	207,458
Available-for-sale financial assets		14,000	14,000
Investments accounted for using the equity method		659,870	625,008
Derivative financial instruments		319	319
Other receivables and prepayments	*12*	96,069	95,009
Total non-current assets		2,082,074	2,130,054
Current assets			
Inventories	*10*	1,000,442	965,422
Trade receivables	*11*	1,102,174	1,370,254
Other receivables and prepayments – current portion	*12*	367,530	360,175
Restricted bank deposits		978	1,001
Short-term deposits		15,000	–
Cash and cash equivalents		2,364,510	1,953,588
Total current assets		4,850,634	4,650,440
Total assets		6,932,708	6,780,494

Interim Condensed Consolidated Balance Sheet *(Continued)*

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	14	203,232	188,021
Share premium	14	3,181,738	2,539,355
Shares held for Restricted Share Award Scheme	14	(44,298)	(50,605)
Other reserves	15	1,078,065	1,171,526
Retained earnings	15	335,472	146,302
		4,754,209	3,994,599
Non-controlling interests in equity		2,550	2,550
Total equity		4,756,759	3,997,149
LIABILITIES			
Non-current liabilities			
License fees payable	18	37,589	44,464
Derivative financial instruments		1,343	1,343
Deferred income tax liabilities		6,749	6,799
Deferred income	21	57,965	56,824
Total non-current liabilities		103,646	109,430

Interim Condensed Consolidated Balance Sheet *(Continued)*

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Current liabilities			
Trade payables	*16*	**950,762**	1,047,323
Other payables and accruals	*17*	**862,361**	807,885
License fees payable – current portion	*18*	**35,215**	41,603
Current income tax liabilities		**21,965**	9,118
Borrowings	*19*	**202,000**	200,000
Convertible bonds	*20*	**–**	567,986
Total current liabilities		**2,072,303**	2,673,915
Total liabilities		**2,175,949**	2,783,345
Total equity and liabilities		**6,932,708**	6,780,494

The notes on pages 46 to 80 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Income Statement

	Note	Unaudited Six months ended 30 June 2017 RMB'000	 2016 RMB'000
Continuing operations			
Revenue	6	3,996,051	3,595,635
Cost of sales		(2,091,882)	(1,918,094)
Gross profit		1,904,169	1,677,541
Distribution expenses		(1,501,996)	(1,355,081)
Administrative expenses		(220,036)	(202,996)
Other income and other gains – net	23	19,639	33,183
Operating profit	6	201,776	152,647
Finance income	24	24,851	4,343
Finance expenses	24	(16,583)	(71,825)
Finance income/(expenses) – net		8,268	(67,482)
Share of profit of investments accounted for using the equity method		34,862	3,423
Profit before income tax		244,906	88,588
Income tax expense	25	(55,736)	(20,279)
Profit for the period from continuing operations		189,170	68,309
Discontinued operations			
Profit for the period from discontinued operations	13	–	80,018
Profit for the period		189,170	148,327
Attributable to:			
Equity holders of the Company		189,170	113,421
Non-controlling interests		–	34,906
		189,170	148,327

Interim Condensed Consolidated Income Statement (Continued)

	Note	Unaudited Six months ended 30 June 2017 RMB'000	 2016 RMB'000
Profit attributable to equity holders of the Company arises from:			
Continuing operations		**189,170**	68,309
Discontinued operations	13	**–**	45,112
		189,170	113,421
Earnings per share from continuing and discontinued operations attributable to equity holders of the Company for the period (expressed in RMB cents per share)			
Basic earnings per share	26		
From continuing operations		**7.93**	3.11
From discontinued operations		**–**	2.05
From profit for the period		**7.93**	5.16
Diluted earnings per share	26		
From continuing operations		**7.50**	3.11
From discontinued operations		**–**	2.05
From profit for the period		**7.50**	5.16

The notes on pages 46 to 80 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2017 RMB'000	2016 RMB'000
Profit for the period		189,170	148,327
Other comprehensive (loss)/income:			
Items that may be reclassified to profit or loss			
Currency translation differences		(1,848)	292
Total comprehensive income for the period		187,322	148,619
Attributable to:			
Equity holders of the Company		187,322	113,713
Non-controlling interests		–	34,906
Total comprehensive income for the period		187,322	148,619
Total comprehensive income attributable to equity holders of the Company arises from:			
Continuing operations		187,322	68,601
Discontinued operations	13	–	45,112
		187,322	113,713

The notes on pages 46 to 80 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Changes in Equity

	Unaudited							
	Ordinary shares RMB'000 *(Note 14)*	Share premium RMB'000 *(Note 14)*	Shares held for Restricted Share Award Scheme RMB'000 *(Note 14)*	Other reserves RMB'000 *(Note 15)*	Retained earnings RMB'000 *(Note 15)*	Subtotal RMB'000	Non-controlling interests in equity RMB'000	Total equity RMB'000
As at 1 January 2017	188,021	2,539,355	(50,605)	1,171,526	146,302	3,994,599	2,550	3,997,149
Total comprehensive income for the period	–	–	–	(1,848)	189,170	187,322	–	187,322
Transactions with owners:								
Net proceeds from share issuance pursuant to share option schemes	273	11,957	–	–	–	12,230	–	12,230
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	–	14,226	–	14,226	–	14,226
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	(465)	–	465	–	–	–	–
Shares converted from convertible securities	1	9	–	(10)	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	21,475	(21,475)	–	–	–	–
Shares purchased for Restricted Share Award Scheme	–	–	(15,168)	–	–	(15,168)	–	(15,168)
Net proceeds from share issuance pursuant to conversion of convertible bonds	14,937	630,882	–	(84,819)	–	561,000	–	561,000
As at 30 June 2017	203,232	3,181,738	(44,298)	1,078,065	335,472	4,754,209	2,550	4,756,759

Interim Condensed Consolidated Statement of Changes in Equity *(Continued)*

	Unaudited							
	Ordinary shares RMB'000 *(Note 14)*	Share premium RMB'000 *(Note 14)*	Shares held for Restricted Share Award Scheme RMB'000 *(Note 14)*	Other reserves RMB'000 *(Note 15)*	Accumulated deficit RMB'000 *(Note 15)*	Subtotal RMB'000	Non-controlling interests in equity RMB'000	Total equity RMB'000
As at 1 January 2016	177,492	2,168,867	(2,084)	1,308,230	(472,602)	3,179,903	230,637	3,410,540
Total comprehensive income for the period	–	–	–	292	113,421	113,713	34,906	148,619
Transactions with owners:								
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	–	10,381	–	10,381	–	10,381
Transfer of fair value of Restricted Share Award Scheme vested to share premium	–	1,459	–	(1,459)	–	–	–	–
Appropriations to statutory reserves	–	–	–	23,813	(23,813)	–	–	–
Shares converted from convertible securities	–	9	–	(9)	–	–	–	–
Dividends to non-controlling interests of a subsidiary	–	–	–	–	–	–	(2,622)	(2,622)
Shares vested under Restricted Share Award Scheme	–	–	4,993	(4,993)	–	–	–	–
Shares purchased for Restricted Share Award Scheme	–	–	(10,358)	–	–	(10,358)	–	(10,358)
As at 30 June 2016	177,492	2,170,335	(7,449)	1,336,255	(382,994)	3,293,639	262,921	3,556,560

The notes on pages 46 to 80 are an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Cash Flows

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Cash flows from operating activities		
Continuing operations	596,201	321,926
Income tax paid	(7,483)	(17,982)
Discontinued operations	–	41,925
Net cash generated from operating activities	588,718	345,869
Cash flows from investing activities:		
Continuing operations		
– payment for investment in associates	–	(2,000)
– purchases of property, plant and equipment	(148,795)	(153,304)
– purchases of intangible assets	(16,136)	(41,910)
– proceeds on disposal of property, plant and equipment	1,098	2,882
– interest received	10,762	4,342
– loan repayments from joint venture	–	5,238
– (payment for)/proceeds from the disposal of available-for-sale financial assets and partial disposal of a subsidiary	(444)	13,478
– purchases of short-term deposits	(15,000)	–
Discontinued operations	–	(12,529)
Net cash used in investing activities	(168,515)	(183,803)
Cash flows from financing activities:		
Continuing operations		
– proceeds from issuance of ordinary shares	12,230	–
– shares purchased for Restricted Share Award Scheme	(15,168)	(10,358)
– proceeds from bank borrowings	2,000	10,000
– repayment of borrowings	–	(364,819)
– interest paid	(5,586)	(37,900)
Discontinued operations	–	(2,623)
Net cash used in financing activities	(6,524)	(405,700)
Net increase/(decrease) in cash and cash equivalents	413,679	(243,634)
Cash and cash equivalents at beginning of period (inclusive of cash and cash equivalents classified as held for sale)	1,953,588	1,989,265
Exchange (losses)/gains on cash and cash equivalents	(2,757)	3,208
Cash of disposal group classified as held for sale	–	(204,269)
Cash and cash equivalents at end of period	2,364,510	1,544,570

The notes on pages 46 to 80 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 10 August 2017.

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 2017 has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' ("IAS 34"). The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

3. Accounting policies

The accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to IFRSs effective for the financial year ending 31 December 2017.

(a) Amendments to IFRSs effective for the financial year ending 31 December 2017 do not have a material impact on the Group.

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

3. Accounting policies *(Continued)*

(b) Impact of standards issued but not yet applied by the entity

(i) IFRS 9 Financial instruments

IFRS 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt IFRS 9 until it becomes mandatory on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- The debt instruments that are currently classified as available-for-sale (AfS) financial assets appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

- A FVOCI election is available for the equity instruments which are currently classified as AfS.

- Equity investments currently measured at fair value through profit or loss (FVPL) will likely continue to be measured on the same basis under IFRS 9.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under IAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under IFRS 15 *Revenue from Contracts with Customers*, lease receivables, loan commitments and certain financial guarantee contracts.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

3. Accounting policies *(continued)*

(b) Impact of standards issued but not yet applied by the entity (continued)

(ii) IFRS 15 Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018. The Group will adopt the new standard from 1 January 2018.

Management is currently analysing the impact of the new standard on the Group's financial statements and has initially identified areas which are likely to be affected, including identification of separate performance obligations, the determination of stand-alone selling price and its relative allocation. The Group will continue to assess the impact of the new standard and does not expect that the adoption of the new standard will result in any material impact on the Group's results and financial position.

(iii) IFRS 16 Leases

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

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB794,811,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

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 2016.

5. Financial risk management

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 2016.

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

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

6. Segment information

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

Management considers the business from a brand perspective. During the year ended 31 December 2015, the Group decided to dispose 10% equity interest in Shanghai Double Happiness Co., Ltd. ("Double Happiness") and announced its disposal plan on 23 October 2015. Double Happiness was classified as discontinued operations for the six months ended 30 June 2016. The disposal transaction was completed in December 2016, upon which Double Happiness has become an associate company, and therefore no longer a reportable segment of the Group.

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 the financial information.

Revenue consists of sales from LI-NING brand, all other brands from continuing operations and Double Happiness brand from discontinued operations, which are RMB3,965,921,000, RMB30,130,000 and nil for the six months ended 30 June 2017 and RMB3,552,656,000, RMB42,979,000 and RMB409,455,000 for the six months ended 30 June 2016, 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.

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Segment information *(continued)*

The segment information provided to Management for the reportable segments for the six months ended 30 June 2017 and 2016 is as follows:

	Unaudited				
	Continuing			Discontinued	
	LI-NING brand RMB'000	All other brands RMB'000	Subtotal RMB'000	Double Happiness brand* RMB'000	Total RMB'000
Six months ended 30 June 2017					
Total revenue	3,965,921	44,985	4,010,906	–	4,010,906
Inter-segment revenue	–	(14,855)	(14,855)	–	(14,855)
Revenue from external customers	3,965,921	30,130	3,996,051	–	3,996,051
Operating profit	194,919	6,857	201,776	–	201,776
Distribution expenses and administrative expenses	1,716,097	5,935	1,722,032	–	1,722,032
Depreciation and amortisation	176,596	2,392	178,988	–	178,988
Six months ended 30 June 2016					
Total revenue	3,552,656	58,358	3,611,014	409,455	4,020,469
Inter-segment revenue	–	(15,379)	(15,379)	–	(15,379)
Revenue from external customers	3,552,656	42,979	3,595,635	409,455	4,005,090
Operating profit	138,515	14,132	152,647	103,291	255,938
Distribution expenses and administrative expenses	1,552,528	5,549	1,558,077	81,562	1,639,639
Depreciation and amortisation	149,097	2,413	151,510	–	151,510

* On 30 June 2016, Double Happiness brand had been classified as discontinued operations, the related revenue, expenses, tax are presented as a single amount in the interim condensed consolidated income statement as "profit for the period from discontinued operations" for the six month ended 30 June 2016. The disposal of 10% equity interest in Double Happiness was completed in December 2016. Investment in Double Happiness has been accounted for as Investments accounted for using the equity method since then.

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Segment information *(continued)*

A reconciliation of operating profit to profit before income tax is provided as follows:

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Operating profit from continuing operations	201,776	152,647
Finance income	24,851	4,343
Finance expenses	(16,583)	(71,825)
Share of profit of investments accounted for using the equity method	34,862	3,423
Profit before income tax from continuing operations	244,906	88,588
Operating profit from discontinued operations	–	103,291
Finance income	–	1,043
Finance expenses	–	(79)
Profit before income tax from discontinued operations	–	104,255

Geographical information of revenue

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Continuing operations		
The PRC (including the Hong Kong Special Administrative Region)	3,904,583	3,512,229
Other regions	91,468	83,406
Revenue from continuing operations	3,996,051	3,595,635
Discontinued operations		
The PRC (including the Hong Kong Special Administrative Region)	–	387,416
Other regions	–	22,039
Revenue from discontinued operations	–	409,455
Total	3,996,051	4,005,090

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Segment information *(continued)*

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 2017 and 2016, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

7. Property, plant and equipment

	Unaudited					
	Buildings RMB'000	Leasehold improvement RMB'000	Mould RMB'000	Machinery RMB'000	Office equipment and motor vehicles RMB'000	Total RMB'000
Six months ended 30 June 2017						
As at 1 January 2017	382,524	304,431	45,980	52,483	42,259	827,677
Additions	–	133,094	3,868	2,055	5,079	144,096
Disposals	–	(13,676)	(10)	(136)	(619)	(14,441)
Depreciation charge	(9,261)	(123,498)	(12,218)	(4,971)	(5,213)	(155,161)
As at 30 June 2017	373,263	300,351	37,620	49,431	41,506	802,171
Six months ended 30 June 2016						
As at 1 January 2016	401,165	188,497	52,357	57,750	40,536	740,305
Additions	30	160,259	8,549	25	6,867	175,730
Disposals	(6)	(3,491)	–	(14)	(1,349)	(4,860)
Depreciation charge	(9,263)	(93,613)	(15,378)	(4,489)	(6,110)	(128,853)
As at 30 June 2016	391,926	251,652	45,528	53,272	39,944	782,322

Depreciation expenses of RMB13,898,000 (30 June 2016: RMB15,879,000) has been charged to cost of sales, RMB132,571,000 (30 June 2016: RMB102,547,000) to distribution expenses and RMB8,692,000 (30 June 2016: RMB10,427,000) to administrative expenses.

As at 30 June 2017, buildings with net book value of RMB360,464,000 (31 December 2016: RMB369,121,000) were pledged as securities for the Group's borrowings (Note 19).

Notes to Condensed Consolidated Interim Financial Information (Continued)

8. Land use rights

	Unaudited RMB'000
Six months ended 30 June 2017	
As at 1 January 2017	77,887
Amortisation charge	(951)
As at 30 June 2017	76,936
Six months ended 30 June 2016	
As at 1 January 2016	79,788
Amortisation charge	(951)
As at 30 June 2016	78,837

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.

As at 30 June 2017, land use rights with net book value of RMB76,876,000 (31 December 2016: RMB77,804,000) were pledged as securities for the Group's borrowings (Note 19).

Amortisation of RMB951,000 (30 June 2016: RMB951,000) has been charged to administrative expenses.

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

9. Intangible assets

	Unaudited					
	Goodwill RMB'000	Trademarks RMB'000	Computer software RMB'000	License rights RMB'000	Customer relationships & Non-compete agreements RMB'000	Total RMB'000
Six months ended 30 June 2017						
As at 1 January 2017	**139,474**	**13,650**	**58,970**	**55,548**	**15,054**	**282,696**
Additions	**–**	**–**	**887**	**–**	**–**	**887**
Amortisation charge	**–**	**(650)**	**(10,273)**	**(8,529)**	**(3,424)**	**(22,876)**
As at 30 June 2017	**139,474**	**13,000**	**49,584**	**47,019**	**11,630**	**260,707**
Six months ended 30 June 2016						
As at 1 January 2016	139,474	14,949	54,223	35,021	21,903	265,570
Additions	–	–	9,772	7,000	–	16,772
Amortisation charge	–	(650)	(11,360)	(6,272)	(3,424)	(21,706)
As at 30 June 2016	139,474	14,299	52,635	35,749	18,479	260,636

Note:

Amortisation of RMB8,529,000 (30 June 2016: RMB6,272,000) has been charged to distribution expenses and RMB14,347,000 (30 June 2016: RMB15,434,000) to administrative expenses.

Notes to Condensed Consolidated Interim Financial Information (Continued)

10. Inventories

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Raw materials	1,243	1,763
Work in progress	2,696	2,727
Finished goods	1,149,830	1,104,135
	1,153,769	1,108,625
Less: provision for write-down of inventories to net realisable value	(153,327)	(143,203)
	1,000,442	965,422

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB2,047,932,000 for the six months ended 30 June 2017 (30 June 2016: RMB1,871,053,000).

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 2017 and 2016.

11. Trade receivables

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Accounts receivable	1,501,248	1,777,665
Notes receivable	4,720	6,726
	1,505,968	1,784,391
Less: allowance for impairment of trade receivables	(403,794)	(414,137)
	1,102,174	1,370,254

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 2017 RMB'000	Audited 31 December 2016 RMB'000
0 – 30 days	**485,544**	667,529
31 – 60 days	**138,523**	191,606
61 – 90 days	**188,608**	225,382
91 – 180 days	**311,945**	323,546
Over 180 days	**381,348**	376,328
	1,505,968	1,784,391

Customers are normally granted credit terms within 90 days. As at 30 June 2017, trade receivables of RMB693,293,000 (31 December 2016: RMB699,874,000) were past due. The Company's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significantly judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, ageing of the trade receivable, and the latest communication with individual customers. Management have been closely monitoring the credit risk of each customer and actively pursue collection of those receivables until all efforts are exhausted. An allowance for impairment of RMB403,794,000 has been made as at 30 June 2017 (31 December 2016: RMB414,137,000).

The impairment was firstly 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.

Notes to Condensed Consolidated Interim Financial Information (Continued)

11. Trade receivables *(continued)*

As of 30 June 2017, trade receivables of RMB289,499,000 (31 December 2016: RMB285,737,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
91 – 180 days	289,499	285,737

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

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
As at 1 January	414,137	475,757
Reversal of provision for impairment of trade receivables	(9,319)	(3,241)
Trade receivables written off during the period as uncollectible	(1,024)	(142)
As at 30 June	403,794	472,374

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.

Notes to Condensed Consolidated Interim Financial Information (Continued)

12. Other receivables and prepayments

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Prepaid rentals and other deposits	**269,907**	264,852
Advances to suppliers	**25,231**	18,812
Dividend receivable	**43,042**	43,042
Loans to a joint venture *(Note a)*	**17,985**	18,536
Prepayment for advertising expenses	**4,454**	1,812
Staff advances and other payments for employees	**1,910**	1,095
License fees receivable	**5,313**	15,687
Others	**95,757**	91,348
	463,599	455,184
Less: non-current portion	**(96,069)**	(95,009)
Current portion	**367,530**	360,175

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

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

(a) As at 30 June 2017, loan of HK$20,000,000 to Li-Ning Aigle Ventures was unsecured, interest free, and with no fixed maturity date.

Notes to Condensed Consolidated Interim Financial Information (Continued)

13. Discontinued operations

The assets and liabilities related to Double Happiness, a former 57.5% owned subsidiary of the Company, have been presented as held for sale following the approval of the Group's Management and shareholders to dispose 10% equity interest in Double Happiness to a wholly-owned subsidiary of Viva China at a consideration of RMB124,992,000 on 23 October 2015, and 4 December 2015, respectively. Given Double Happiness was classified as discontinued operation before the completion of disposal, a single amount is presented in the income statement for the six months ended 30 June 2016. Further, to the extent the shares of Double Happiness has not been listed on any major stock exchanges within four years following the completion of the disposal transaction, the Company has the right to call back the 10% equity interest and Viva China has a right to put back the 10% equity interest to the Company at a price of RMB124,992,000 plus 6.5% interest per annum after deducting the relevant cash dividends entitled. The disposal transaction was completed in December 2016.

(a) Analysis of the result of discontinued operations is as follows:

	Unaudited Six months ended 30 June 2016 RMB'000
Revenue	409,455
Expenses	(305,200)
Profit before income tax	104,255
Income tax expense	(24,237)
Profit for the period from discontinued operations	80,018
Attributable to:	
– Equity holders of the Company	45,112
– Non-controlling interests	34,906
Profit for the period from discontinued operations	80,018

Notes to Condensed Consolidated Interim Financial Information (Continued)

14. 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 2017 and 31 December 2016	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 2017	1,993,016	188,021	2,539,355	(50,605)	2,676,771
Net proceeds from shares issued pursuant to share option schemes *(Note a)*	3,143	273	11,957	–	12,230
Net proceeds from share issuance upon convertible bonds conversion	168,629	14,937	630,882	–	645,819
Shares converted from convertible securities *(Note 15)*	4	1	9	–	10
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(465)	–	(465)
Shares vested under Restricted Share Award Scheme	4,884	–	–	21,475	21,475
Shares purchased for Restricted Share Award Scheme	(3,566)	–	–	(15,168)	(15,168)
As at 30 June 2017	2,166,110	203,232	3,181,738	(44,298)	3,340,672
As at 1 January 2016	1,885,248	177,492	2,168,867	(2,084)	2,344,275
Transfer of fair value of Restricted Share Award Scheme vested to share premium	–	–	1,459	–	1,459
Shares converted from convertible securities *(Note 15)*	4	–	9	–	9
Shares vested under Restricted Share Award Scheme	–	–	–	4,993	4,993
Shares purchased for Restricted Share Award Scheme	(1,980)	–	–	(10,358)	(10,358)
As at 30 June 2016	1,883,272	177,492	2,170,335	(7,449)	2,340,378

(a) During the six months ended 30 June 2017, the Company issued 3,143,000 ordinary shares of HK$0.10 each to certain directors and employees of the Group at weighted average issue price of HK$4.47 pursuant to the Company's share option schemes (Note 27).

Notes to Condensed Consolidated Interim Financial Information (Continued)

15. Reserves

	Unaudited								
	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	Subtotal RMB'000	Retained earnings/ (Accumulated Deficit) RMB'000	Total RMB'000
As at 1 January 2017	137,283	309,888	77,439	84,819	557,461	4,636	1,171,526	146,302	1,317,828
Profit for the period	–	–	–	–	–	–	–	189,170	189,170
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	14,226	–	–	–	14,226	–	14,226
Share options lapsed	226	–	(226)	–	–	–	–	–	–
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	465	–	–	–	465	–	465
Shares converted from convertible securities *(Note)*	–	–	–	–	(10)	–	(10)	–	(10)
Shares converted from convertible bonds *(Note 20)*	–	–	–	(84,819)	–	–	(84,819)	–	(84,819)
Shares vested under Restricted Share Award Scheme	–	–	(21,475)	–	–	–	(21,475)	–	(21,475)
Translation difference of foreign currency financial statements	–	–	–	–	–	(1,848)	(1,848)	–	(1,848)
As at 30 June 2017	137,509	309,888	70,429	–	557,451	2,788	1,078,065	335,472	1,413,537
As at 1 January 2016	118,030	285,538	75,353	113,395	712,491	3,423	1,308,230	(472,602)	835,628
Profit for the period	–	–	–	–	–	–	–	113,421	113,421
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	10,381	–	–	–	10,381	–	10,381
Share options lapsed	3,232	–	(3,232)	–	–	–	–	–	–
Transfer of fair value of Restricted Share Award Scheme vested to share premium	–	–	(1,459)	–	–	–	(1,459)	–	(1,459)
Shares vested under Restricted Share Award Scheme	–	–	(4,993)	–	–	–	(4,993)	–	(4,993)
Appropriations to statutory reserves	–	23,813	–	–	–	–	23,813	(23,813)	–
Shares converted from convertible securities	–	–	–	–	(9)	–	(9)	–	(9)
Translation difference of foreign currency financial statements	–	–	–	–	–	292	292	–	292
As at 30 June 2016	121,262	309,351	76,050	113,395	712,482	3,715	1,336,255	(382,994)	953,261

Notes to Condensed Consolidated Interim Financial Information (Continued)

15. Reserves *(continued)*

Note:

(a) In April 2013, the Company issued convertible securities (the "2013 CS") in the aggregate principal amount of approximately HK$1,847,838,000 (equivalent to approximately RMB1,480,488,000). The 2013 CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK$3.5 per ordinary share of the Company (subject to standard anti-dilution adjustments). Upon issuance, the 2013 CS can be converted into 527,953,814 ordinary shares of the Company.

(b) In January 2015, the Company issued Offer Securities (qualifying shareholders can select either of subscribing ordinary shares or convertible securities) in the aggregate principal amount of approximately HK$1,553,530,000 (equivalent to approximately RMB1,229,930,000), under which 450,630,034 ordinary shares and 146,881,496 convertible securities (the "2015 CS") were issued. The 2015 CS are non-interest bearing and convertible at any time after issuance with an initial conversion price of HK$2.6 per ordinary share of the Company (subject to standard anti-dilution adjustments). Upon issuance, the 2015 CS can be converted into 146,881,496 ordinary shares of the Company.

(c) The 2013 CS and 2015 CS (collectively referred to as "CS") do not meet the definition of financial liabilities under International Accounting Standards 32 "Financial Instruments: Presentation", as (1) the Company has no contractual obligation to settle the CS in cash (i.e. the CS holder has no right to receive and the Company has no obligation to deliver cash, therefore there will be no exchange of cash for shares when the holders exercise the conversion right) or any financial assets; and (2) both the principal amount and the conversion price of the CS are denominated in HK$, the number of shares to be issued upon conversion is therefore fixed. As a result, all of the CS are classified as equity upon initial recognition.

(d) Net proceeds raised via the issuance of the Offer Securities in January 2015 are HK$1,515,030,000 (net of total transaction costs of HK$38,500,000), which is equivalent to approximately RMB1,199,408,000.

In relation to the issuance of the Offer Securities in January 2015, the Company paid underwriting commission expense of HK$11,908,000, HK$6,315,000, HK$5,000,000 and HK$2,277,000 to Viva China Holdings Limited ("Viva China"), TPG Stallion, L.P. ("TPG"), Mr. Lo Yu Sai and Milestone Capital Strategic Holdings Limited, respectively (equivalent to approximately to RMB9,427,000, RMB4,999,000, RMB3,959,000 and RMB1,803,000 respectively) which had been included as part of the transaction costs.

(e) As at 30 June 2017, on a cumulatively basis, CS with carrying value of HK$1,459,008,000 (equivalent to approximately RMB1,177,468,000) had been converted into ordinary shares of the Company, amongst which carrying value of HK$11,000 (equivalent to approximate RMB10,000) were converted into 4,000 ordinary shares of the Company during the six months ended 30 June 2017 (Note 14).

Notes to Condensed Consolidated Interim Financial Information (Continued)

16. 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 2017 RMB'000	Audited 31 December 2016 RMB'000
0 – 30 days	808,898	645,967
31 – 60 days	119,444	302,661
61 – 90 days	15,162	85,887
91 – 180 days	813	3,064
181 – 365 days	1,940	5,107
Over 365 days	4,505	4,637
	950,762	1,047,323

17. Other payables and accruals

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Accrued sales and marketing expenses	311,679	293,222
Wages and welfare payables	82,509	101,712
Advances from customers	100,520	84,655
Other tax payables	60,695	35,405
Payable for property, plant and equipment	10,617	12,693
Others	296,341	280,198
	862,361	807,885

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

18. 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 2017	
As at 1 January 2017	**86,067**
Additions	**5,647**
Payment of license fees	**(20,896)**
Amortisation of discount *(Note 24)*	**2,896**
Adjustment for exchange difference	**(910)**
As at 30 June 2017	**72,804**
Six months ended 30 June 2016	
As at 1 January 2016	91,243
Additions	7,000
Payment of license fees	(32,997)
Amortisation of discount *(Note 24)*	3,894
Adjustment for exchange difference	889
As at 30 June 2016	70,029

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Analysis of license fees payable:		
Non-current		
– the second to fifth year	**22,337**	28,426
– more than five years	**15,252**	16,038
Current	**35,215**	41,603
	72,804	86,067

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

18. 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 2017 RMB'000	Audited 31 December 2016 RMB'000
Less than 1 year	36,608	42,842
Between 1 and 5 years	28,815	36,241
Over 5 years	29,500	32,000
	94,923	111,083

19. Borrowings

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Borrowings		
– non-current	–	–
– current	202,000	200,000
	202,000	200,000
Borrowings		
– RMB	202,000	200,000
– US$	–	–
	202,000	200,000
Borrowings		
– secured	200,000	200,000
– unsecured	2,000	–
	202,000	200,000

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

19. Borrowings *(continued)*

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 5.04% (30 June 2016: 4.59%) for bank borrowings denominated in RMB and nil (30 June 2016: 4.40%) for those borrowings denominated in other currencies for the six months ended 30 June 2017.

Bank borrowings amounting to RMB200,000,000 were secured by the Group's buildings and land use rights, as at 30 June 2017 and 31 December 2016, respectively (Notes 7 and 8).

Movement in borrowings is analysed as follows:

	Unaudited RMB'000
Six months ended 30 June 2017	
As at 1 January 2017	**200,000**
Additions	**2,000**
As at 30 June 2017	**202,000**
Six months ended 30 June 2016	
As at 1 January 2016	566,499
Additions	10,000
Effect of change in exchange rate	(1,680)
Repayments	(364,819)
As at 30 June 2016	210,000

As at 30 June 2017, the Group has undrawn borrowing facilities within one year amounting to RMB1,098,000,000 (31 December 2016: RMB900,000,000). These facilities have been arranged to finance the Group's working capital.

Notes to Condensed Consolidated Interim Financial Information (Continued)

20. 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). It was subsequently reset to HK$4.50 per ordinary share of the Company (as a result of the amendment agreement which modified the initial conversion price) and to HK$4.092 per ordinary share of the Company (as a result of the issuance of the 2015 CS) on 23 January 2013 and 30 January 2015, respectively.

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.

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.

CB with a carrying amount of RMB189,000,000 was converted into the ordinary shares of the Company on 18 August 2016, and CB with a carrying amount of RMB561,000,000 was converted into the ordinary shares of the Company on 3 February 2017.

Details of the convertible bonds recognised in the interim condensed consolidated balance sheet were as follows:

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
As at 1 January	**567,986**	722,533
Payment of interest	**–**	(15,000)
Interest expenses	**4,234**	33,403
Reversal of accrued interest expenses upon conversion	**(11,220)**	–
Conversion into ordinary shares and share premium	**(561,000)**	–
As at 30 June	**–**	740,936

Balance as at 30 June 2016 included interest payable of RMB12,500,000.

Notes to Condensed Consolidated Interim Financial Information (Continued)

21. Deferred income

Deferred income consists of government grants, and vouchers granted and points accumulated under the customer loyalty programme.

	Government grants RMB'000	Unaudited Customer loyalty programme RMB'000	Total RMB'000
Six months ended 30 June 2017			
As at 1 January 2017	55,369	1,455	56,824
Addition	–	2,868	2,868
Credited to income statement	(647)	(1,080)	(1,727)
As at 30 June 2017	54,722	3,243	57,965
Six months ended 30 June 2016			
As at 1 January 2016	61,984	3,726	65,710
Addition	–	3,744	3,744
Credited to income statement	(6,216)	(3,395)	(9,611)
As at 30 June 2016	55,768	4,075	59,843

Notes to Condensed Consolidated Interim Financial Information (Continued)

22. Expenses by nature

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Cost of inventories recognised as expenses included in cost of sales	2,047,932	1,871,053
Depreciation on property, plant and equipment *(Note a)*	155,161	128,853
Amortisation of land use rights and intangible assets	23,827	22,657
Advertising and marketing expenses	449,888	433,918
Commission and trade fair related expenses	64,460	50,664
Staff costs, including directors' emoluments *(Note a)*	428,585	351,745
Operating lease rentals and related expenses in respect of land and buildings	405,388	370,181
Research and product development expenses *(Note a)*	55,561	58,819
Transportation and logistics expenses	140,731	135,445
Reversal of provision for impairment of trade receivables	(9,319)	(3,241)
Auditor's remuneration	2,982	2,840
– Audit services	2,500	2,500
– Non-audit services	482	340
Management consulting expenses	14,842	22,018
Travelling and entertainment expenses	18,283	16,879

Note:

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

23. Other income and other gains – net

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Government grants	10,845	22,725
License fees income	8,794	8,980
Profit on disposal of available-for-sale financial assets	–	1,478
	19,639	33,183

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

24. Finance income and expenses

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Finance income		
– Interest income on bank balances and deposits	10,762	4,343
– Net foreign currency exchange gain	2,869	–
– Reversal of accrued interest expenses on convertible bonds	11,220	–
	24,851	4,343
Finance expenses		
– Amortisation of discount – license fees payable *(Note 18)*	(2,896)	(3,894)
– Interest expense on bank and other borrowings	(5,006)	(10,173)
– Interest expense on convertible bonds	(4,234)	(33,403)
– Net foreign currency exchange loss	–	(4,081)
– Others	(4,447)	(20,274)
	(16,583)	(71,825)
Finance income/(expenses) – net	8,268	(67,482)

Notes to Condensed Consolidated Interim Financial Information (Continued)

25. Income tax expense

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Current income tax		
– Hong Kong profits tax	660	2,677
– PRC corporate income tax	19,670	15,209
– Withholding income tax on interest income from subsidiaries in PRC	–	2,991
	20,330	20,877
Deferred income tax	35,406	(598)
Income tax expense	55,736	20,279

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

26. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue less shares held for Restricted Share Award Scheme during the period. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company completed the issuance of Offer Securities. The below market subscription price of these two events had effectively resulted in 57,691,000 ordinary shares (30 June 2016: 71,733,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share.

	Unaudited Six months ended 30 June	
	2017 **RMB'000**	2016 RMB'000
Profit from continuing operations attributable to equity holders of the Company	**189,170**	68,309
Profit from discontinued operations attributable to equity holders of the Company	**–**	45,112
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (in thousands)	**2,386,214**	2,196,704
Basic earnings per share – from continuing operations	**7.93**	3.11
Basic earnings per share – from discontinued operations	**–**	2.05
Basic earnings per share (RMB cents)	**7.93**	5.16

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

26. Earnings per share *(continued)*

Diluted

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

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Profit from continuing operations attributable to equity holders of the Company, used to determine diluted earnings per share	182,184	68,309
Profit from discontinued operations attributable to equity holders of the Company	–	45,112
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (in thousands)	2,386,214	2,196,704
Adjustment for the restricted shares (in thousands)	11,645	1,234
Adjustment for the share options schemes (in thousands)	4,170	–
Adjustment for the convertible bonds (in thousands)	28,105	–
Deemed weighted average number of ordinary shares for diluted earnings per share (in thousands)	2,430,134	2,197,938
Diluted earnings per share – from continuing operations	7.50	3.11
Diluted earnings per share – from discontinued operations	–	2.05
Diluted earnings per share (RMB cents)	7.50	5.16

As at 30 June 2017, there were 6 million share options that could potentially have a dilutive impact on continuing operations in the future but were anti-dilutive during the six months ended 30 June 2017. As at 30 June 2016, there were 57 million share options and 225 million ordinary shares assuming conversion of convertible bonds that could potentially have a dilutive impact on continuing operations in the future but were anti-dilutive during the six months ended 30 June 2016.

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

27. Share-based compensation

(a) *2004 Share Option Scheme*

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

	Unaudited Six months ended 30 June			
	2017		2016	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	5.551	14,306	5.535	30,457
Adjustment in relation to issuance of the Offer Securities *(Note a)*	–	–	–	–
Exercised	4.519	(1,299)	–	–
Lapsed	5.779	(400)	4.810	(5,562)
As at 30 June	5.650	12,607	5.697	24,895
Exercisable as at 30 June	5.795	10,418	5.900	19,166

Note:

(a) As a result of the issuance of the Offer Securities in January 2015, 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 2004 Share Option Scheme. The above adjustments have taken effect from 2 February 2015. Save for the above adjustments, all other terms and conditions of the share options granted under the 2004 Share Option Scheme remain unchanged.

Notes to Condensed Consolidated Interim Financial Information (Continued)

27. Share-based compensation *(continued)*

(a) *2004 Share Option Scheme (continued)*

Share options outstanding under this scheme as at 30 June 2017 and 31 December 2016 have the following expiry date and exercise price:

Expiry date	Unaudited 30 June 2017		Audited 31 December 2016	
	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
15 July 2017	8.250	1,490	8.250	1,490
31 December 2018	4.470	4,877	4.470	5,686
31 December 2018	6.350	1,509	6.350	1,510
30 September 2019	6.350	2,148	6.350	2,148
31 December 2019	4.600	1,263	4.600	1,806
31 December 2019	6.160	–	6.160	302
31 December 2020	6.350	1,161	6.350	1,161
31 December 2020	4.630	159	4.630	203
		12,607		14,306

Notes to Condensed Consolidated Interim Financial Information *(Continued)*

27. Share-based compensation *(continued)*

(b) *2014 Share Option Scheme*

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

	Unaudited Six months ended 30 June			
	2017		2016	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	4.319	28,300	4.440	33,200
Granted	–	–	3.300	3,000
Exercised	4.440	(1,844)	–	–
Lapsed	4.440	(1,233)	4.440	(4,067)
As at 30 June	4.304	25,223	4.334	32,133
Exercisable as at 30 June	4.366	15,456	4.440	10,267

Share options outstanding under this scheme as at 30 June 2017 and 31 December 2016 have the following expiry date and exercise price:

	Unaudited 30 June 2017		Audited 31 December 2016	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
31 December 2020	4.440	22,223	4.440	25,300
07 June 2026	3.300	3,000	3.300	3,000
		25,223		28,300

Notes to Condensed Consolidated Interim Financial Information (Continued)

27. Share-based compensation *(continued)*

(c) *2006 Restricted Share Award Scheme*

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

	Unaudited Six months ended 30 June			
	2017		2016	
	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)
As at 1 January	3.200	14,484	9.005	1,590
Granted	–	–	3.200	15,866
Exercised	3.200	(4,809)	6.710	(1,370)
Lapsed	3.200	(129)	–	–
As at 30 June	3.200	9,546	3.475	16,086

(d) *2016 Restricted Share Award Scheme*

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

	Unaudited Six months ended 30 June			
	2017		2016	
	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	4.660	225	–	–
Exercised	4.660	(75)	–	–
As at 30 June	4.660	150	–	–

Notes to Condensed Consolidated Interim Financial Information (Continued)

28. Commitments

Operating lease commitments – where any group companies are the lessee

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 2017 RMB'000	Audited 31 December 2016 RMB'000
Not later than 1 year	335,827	331,982
Later than 1 year and not later than 5 years	450,289	473,695
Later than 5 years	8,695	17,337
	794,811	823,014

29. Related-party transactions

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

(a) Purchases of goods from:

	Unaudited Six months ended 30 June	
	2017 RMB'000	2016 RMB'000
Subsidiary of Li-Ning Aigle Ventures Company Limited ("Li Ning Aigle Ventures"), being controlled by a joint venture of the Group	5,351	4,956
Tianjin Yue Hao Tuo Outdoor Sports Company Limited ("Tianjin Yue Hao Tuo"), being an associate of the Group	–	441
	5,351	5,397

Notes to Condensed Consolidated Interim Financial Information (Continued)

29. Related-party transactions *(continued)*

(b) *Sales of services to:*

	Unaudited Six months ended 30 June 2017 RMB'000	2016 RMB'000
Tianjin Kuan Mao Mi Children's Products Company Limited ("Tianjin Kuan Mao Mi"), being an associate of the Group	6,337	7,224
Subsidiaries of Viva China Holdings Limited ("Viva China"), being controlled by a substantial shareholder of the Company	651	651
Subsidiary of Li-Ning Aigle Ventures	324	281
	7,312	8,156

(c) *Purchases of services from:*

	Unaudited Six months ended 30 June 2017 RMB'000	2016 RMB'000
Subsidiaries of Viva China	36,329	32,414
Double Happiness (an associate of the Group)	2,760	–
	39,089	32,414

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.

Notes to Condensed Consolidated Interim Financial Information (Continued)

29. Related-party transactions *(continued)*

(d) Key management compensation

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

	Unaudited Six months ended 30 June 2017 RMB'000	Unaudited Six months ended 30 June 2016 RMB'000
Employee share schemes for value of services provided	6,500	5,991
Salaries and other benefits	6,403	9,762
Contribution to retirement benefit scheme	219	362
	13,122	16,115

(e) Period-end/year-end balances

	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Receivables from related parties:		
Double Happiness	49,042	46,042
Prepayments to subsidiaries of Viva China	13,500	35,425
Tianjin Kuan Mao Mi	5,250	15,624
Subsidiaries of Viva China	193	153
	67,985	97,244
Payables to related parties:		
Subsidiaries of Viva China	8,433	500

Other Information

INTERIM DIVIDEND

The Board does not recommend to declare an interim dividend in respect of the six months ended 30 June 2017 (2016: Nil).

LONG-TERM INCENTIVE SCHEMES

Share Option Scheme

The options granted under the 2004 Share Option Scheme which remained outstanding immediately prior to its termination on 30 May 2014 shall continue to be valid and exercisable in accordance with their terms of grant and the rules of the 2004 Share Option Scheme. The outstanding options granted under the 2004 Share Option Scheme as at 30 June 2017 entitled the holders to subscribe for 12,606,824 Shares. Details of movements of the options granted under the 2004 Share Option Scheme for the six months ended 30 June 2017 are as follows:

				Number of Shares							
Grantees	Date of grant	Exercise price per Share HK$	Adjusted exercise price per Share upon the 2015 Open Offer HK$ *(Note 2)*	As at 01/01/2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30/06/2017	Vesting Period	Exercise Period
Executive Director											
Li Ning	17/01/2014	7.00	6.35	1,509,470	–	–	–	–	1,509,470	17/01/2014 – 31/12/2014	17/01/2014 – 31/12/2018
Non-executive Director											
Chen Yue, Scott	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Independent non-executive Directors											
Koo Fook Sun, Louis	15/07/2011	9.09 *(Note 1)*	8.25	250,873	–	–	–	–	250,873	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Wang Ya Fei	15/07/2011	9.09 *(Note 1)*	8.25	250,873	–	–	–	–	250,873	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chan Chung Bun, Bunny, GBS, JP	15/07/2011	9.09 *(Note 1)*	8.25	250,873	–	–	–	–	250,873	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Su Jing Shyh, Samuel	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	–	–	–	344,743	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018

Grantees	Date of grant	Exercise price per Share HK$	Adjusted exercise price per Share upon the 2015 Open Offer HK$ (Note 2)	Number of Shares: As at 01/01/2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30/06/2017	Vesting Period	Exercise Period
Employees of the Group											
In aggregate	15/07/2011	9.09 (Note 1)	8.25	737,146	–	–	–	–	737,146	01/07/2012 – 01/07/2014	01/07/2012 – 15/07/2017
In aggregate	20/12/2012	4.92 (Note 1)	4.47	3,961,731	–	809,500 (Note 3 (a))	–	–	3,152,231	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
In aggregate	13/08/2013	5.07	4.60	1,683,532	–	489,285 (Note 3 (b))	54,629	–	1,139,618	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	18/12/2013	6.79	6.16	301,753	–	–	301,753	–	–	19/12/2014 – 19/12/2018	19/12/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	6.35	1,124,386	–	–	–	–	1,124,386	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
In aggregate	04/04/2014	5.10	4.63	203,358	–	–	43,910	–	159,448	05/04/2015 – 05/04/2019	05/04/2015 – 31/12/2020
Other participants											
In aggregate	13/08/2013	5.07	4.60	122,914	–	–	–	–	122,914	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	6.35	2,148,402	–	–	–	–	2,148,402	17/01/2014 – 01/09/2016	17/01/2014 – 30/09/2019
In aggregate	17/01/2014	7.00	6.35	36,875	–	–	–	–	36,875	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
				14,305,901	–	1,298,785	400,292	–	12,606,824		

Notes:

1. As a result of the 2013 Open Offer, the exercise prices were adjusted in accordance with the 2004 Share Option Scheme on 22 April 2013. Please refer to the announcement of the Company dated 25 April 2013 for details.

2. As a result of the 2015 Open Offer, the exercise prices were adjusted in accordance with the 2004 Share Option Scheme on 2 February 2015. Please refer to the announcement of the Company dated 30 January 2015 for details.

3. (a) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$5.88.

   (b) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$5.61.

Details of movements of the options granted under the 2014 Share Option Scheme for the six months ended 30 June 2017 are as follows:

Grantees	Date of grant	Exercise price per Share HK$	Number of Shares As at 01/01/2017	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30/06/2017	Vesting Period	Exercise Period
Employees of the Group										
In aggregate	01/04/2015	4.44	24,500,000	–	1,844,166 *(Note)*	1,233,336	–	21,422,498	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
In aggregate	08/06/2016	3.30	3,000,000	–	–	–	–	3,000,000	08/06/2017 – 08/06/2019	08/06/2017 – 07/06/2026
Other participants										
In aggregate	01/04/2015	4.44	800,000	–	–	–	–	800,000	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
			28,300,000	–	1,844,166	1,233,336	–	25,222,498		

Note: The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$5.73.

Details of the valuation of the share options granted during the six months ended 30 June 2017 under the 2004 Share Option Scheme and 2014 Share Option Scheme are set out in note 27 to the condensed consolidated interim financial statements. The fair values are inherently subjective and uncertain due to the assumptions made and the limitations of the model used.

Restricted Share Award Scheme

The Restricted Shares granted under the 2006 Restricted Share Award Scheme which remained outstanding immediately prior to its expiry on 14 July 2016 shall continue to be valid and vest in accordance with their terms of grant and the rules of the 2006 Restricted Share Award Scheme. As at 30 June 2017, the number of unvested Restricted Shares granted under the 2006 Restricted Share Award Scheme is 9,545,299 Shares. Details of movements of the Restricted Shares granted under the 2006 Restricted Share Award Scheme for the six months ended 30 June 2017 are as follows:

		Number of Restricted Shares					
Date of grant	Fair value per Restricted Share HK$ *(Note)*	As at 01/01/2017	Granted during the period	Vested during the period	Lapsed during the period	As at 30/06/2017	Vesting period
17/06/2016	3.20	14,483,800	–	4,809,467	129,034	9,545,299	01/04/2017 – 01/04/2019
		14,483,800	–	4,809,467	129,034	9,545,299	

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

Details of movements of the Restricted Shares under the 2016 Restricted Share Award Scheme for the six months ended 30 June 2017 are as follows:

		Number of Restricted Shares					
Date of grant	Fair value per Restricted Share HK$ *(Note)*	As at 01/01/2017	Granted during the period	Vested during the period	Lapsed during the period	As at 30/06/2017	Vesting period
15/08/2016	4.66	225,500	–	75,166	–	150,334	01/04/2017 – 01/04/2019
		225,500	–	75,166	–	150,334	

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

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

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

As at 30 June 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Name of Director	Capacity	Number of Shares held	Number of underlying Shares	Total (Long Position)	Approximate % of total issued Shares*
Li Ning	Personal interest & Interests of controlled corporations	306,830,759 *(Note 1)*	254,506,280 *(Note 1)*	561,337,039	25.78%
Chen Yue, Scott	Personal interest	–	344,743 *(Note 2)*	344,743	0.02%
Koo Fook Sun, Louis	Personal interest	489,387	595,616 *(Note 2)*	1,085,003	0.05%
Wang Ya Fei	Personal interest	491,645	595,616 *(Note 2)*	1,087,261	0.05%
Chan Chung Bun, Bunny, GBS, JP	Personal interest	268,387	595,616 *(Note 2)*	864,003	0.04%
Su Jing Shyh, Samuel	Personal interest	–	344,743 *(Note 2)*	344,743	0.02%

* The percentage has been calculated based on 2,177,093,169 Shares in issue as at 30 June 2017.

Notes:

1. Mr. Li Ning ("Mr. Li") is interested in 306,830,759 Shares, among which 4,895,639 Shares are held as personal interest, and he is deemed to be interested in an aggregate of 301,935,120 Shares held by Viva China Holdings Ltd ("Viva China BVI") and Alpha Talent. Moreover, Mr. Li is deemed to be interested in 254,506,280 underlying Shares, among which (i) 1,509,470 Shares are share options granted by the Company, (ii) 3,169,267 Shares are unvested Restricted Shares granted by the Company, and (iii) the convertible securities in the total amount of HK$722,478,136 which is convertible into 249,827,543 Shares, is held by Viva China BVI. Details are as follows:

    (a) Viva China BVI, a wholly-owned subsidiary of Viva China Holdings Limited ("Viva China"), is interested in 299,374,000 Shares and 249,827,543 underlying Shares, which comprise of (i) convertible securities in the total amount of HK$398,156,304 which is convertible into 125,088,377 Shares at the conversion price of HK$3.183 each, and (ii) convertible securities in the total amount of HK$324,321,831.60 which is convertible into 124,739,166 Shares at the conversion price of HK$2.60 each. Viva China is owned as to approximately 19.08% by Victory Mind Assets Limited ("Victory Mind"), approximately 24.22% by Lead Ahead Limited ("Lead Ahead") and approximately 22.72% by Dragon City Management (PTC) Limited ("Dragon City") respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor). As a result, Mr. Li is deemed to be interested in the 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. Mr. Li is also an executive director, the chairman and chief executive officer of Viva China.

    (b) 2,561,120 Shares are held by Alpha Talent, which is solely owned by Mr. Li. Mr. Li is therefore deemed to be interested in the 2,561,120 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.

    (c) Mr. Li is interested in 1,509,470 share options granted under the 2004 Share Option Scheme at an exercise price of HK$6.35 each and 3,169,267 unvested Restricted Shares under the 2006 Restricted Share Award Scheme.

2. The underlying Shares are the share options granted by the Company to the respective Directors under the 2004 Share Option Scheme.

Save as disclosed above, so far as was known to any Director, as at 30 June 2017, 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 Stock Exchange, or any interest which were required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or any interests which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

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

As at 30 June 2017, the register of substantial shareholders kept under section 336 of the SFO shows that the Company had been notified of the following substantial shareholders' interests and short positions which representing 5% or more of the Company's issued share capital:

Name of Shareholder	Capacity	Number of Shares held	Number of underlying Shares	Total (Long Position)	Approximate % of total issued Shares*
Li Ning	Personal interest & Interests of controlled corporations	306,830,759	254,506,280	561,337,039 *(Note 1)*	25.78%
Li Chun	Interest of controlled corporations	299,374,000	249,827,543	549,201,543 *(Note 2)*	25.23%
Viva China Holdings Limited	Interest of controlled corporation	299,374,000	249,827,543	549,201,543 *(Note 1(a))*	25.23%
FIL Limited	Investment manager	164,680,882	–	164,680,882	7.56%
Ministry of Finance of the People's Republic of China	Interest of controlled corporations	–	137,796,671	137,796,671 *(Note 3)*	6.33%
Lou Yunli	Interest of controlled corporations	134,583,330	–	134,583,330 *(Note 4)*	6.18%
James Christopher Kralik	Interest of controlled corporations	134,583,330	–	134,583,330 *(Note 4)*	6.18%
Marathon Asset Management LLP	Investment manager	109,571,216	–	109,571,216	5.03%

* The percentage has been calculated based on 2,177,093,169 Shares in issue as at 30 June 2017.

Notes:

1. Mr. Li Ning is interested in 306,830,759 Shares, among which 4,895,639 Shares are held as personal interest, and he is deemed to be interested in an aggregate of 301,935,120 Shares held by Viva China BVI and Alpha Talent. Moreover, Mr. Li is deemed to be interested in 254,506,280 underlying Shares, among which (i) 1,509,470 Shares are share options granted by the Company, (ii) 3,169,267 Shares are unvested Restricted Shares granted by the Company, and (iii) the convertible securities in the total amount of HK$722,478,136 which is convertible into 249,827,543 Shares, is held by Viva China BVI. Details are as follows:

    (a) Viva China BVI, a wholly-owned subsidiary of Viva China, is interested in 299,374,000 Shares and 249,827,543 underlying Shares, which comprise of (i) convertible securities in the total amount of HK$398,156,304 which is convertible into 125,088,377 Shares at the conversion price of HK$3.183 each, and (ii) convertible securities in the total amount of HK$324,321,831.60 which is convertible into 124,739,166 Shares at the conversion price of HK$2.60 each. Viva China is owned as to approximately 19.08% by Victory Mind, approximately 24.22% by Lead Ahead and approximately 22.72% by Dragon City respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li and 40% by his brother, Mr. Li Chun respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor). As a result, Mr. Li is deemed to be interested in the 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. Mr. Li is also an executive director, the chairman and chief executive officer of Viva China.

    (b) 2,561,120 Shares are held by Alpha Talent, which is solely owned by Mr. Li. Mr. Li is therefore deemed to be interested in the 2,561,120 Shares held by Alpha Talent. Mr. Li is a director of Alpha Talent.

    (c) Mr. Li is interested in 1,509,470 share options granted under the 2004 Share Option Scheme at an exercise price of HK$6.35 each and 3,169,267 unvested Restricted Shares under the 2006 Restricted Share Award Scheme.

2. As disclosed in Note 1(a) above, Mr. Li Chun is deemed to be interested in 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China. He is the brother of Mr. Li Ning.

3. According to the corporate substantial shareholder notice filed to the Stock Exchange by Ministry of Finance of the People's Republic of China ("MOF"), MOF is deemed to be interested in such long position of unlisted and physically settled derivative interest in 137,796,671 underlying Shares held by Lake Tai Investment Holdings Limited which is in turn wholly-owned by Huarong (HK) International Holdings Limited. China Huarong International Holdings Limited is owned as to 88.10% and 11.90% by Huarong Real Estate Co., Ltd. ("Huarong Real Estate") and Huarong Zhiyuan Investment & Management Co., Ltd. ("Huarong Zhiyuan") respectively. Both Huarong Real Estate and Huarong Zhiyuan are wholly-owned by China Huarong Asset Management Co., Ltd. which is in turn owned as to 77.49% by MOF.

4. Linden Street Capital Limited ("Linden"), a company owned as to 50% by Lou Yunli and 50% by James Christopher Kralik, is deemed to be interested in 134,583,330 Shares, among which 70,833,330 Shares are held by Milestone Capital Strategic Holdings Limited and 63,750,000 Shares are held by Milestone Sports Limited.

Save as disclosed above, as at 30 June 2017, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

CONVERTIBLE BONDS

The Company had issued convertible bonds (the "Convertible Bonds") in the principal amount of RMB561,000,000 to TPG Stallion Holdings, L.P. (which is an affiliate of TPG) and Convertible Bonds in the principal amount of RMB189,000,000 to Tetrad Ventures Pte. Ltd. ("GIC Investor") on 8 February 2012, respectively.

Nevertheless, on 23 January 2013, the Company entered into deeds of amendment with TPG and GIC Investor respectively to amend certain terms and conditions attached to the Convertible Bonds, among which the conversion price of the Convertible Bonds was reset to HK$4.50 per Share. Please refer to the announcement of the Company dated 25 January 2013 for details.

As a result of the 2015 Open Offer and pursuant to the terms and conditions of the Convertible Bonds, the conversion price of the Convertible Bonds was adjusted from HK$4.50 per Share to HK$4.092 per Share on 2 February 2015. Based on the outstanding Convertible Bonds in the aggregate principal amount of RMB750,000,000 on 2 February 2015, the conversion right attaching to the outstanding Convertible Bonds was adjusted from 205,000,000 Shares to 225,439,882 Shares. Please refer to the announcement of the Company dated 30 January 2015 for details.

GIC Investor exercised the conversion right attached to its Convertible Bonds in the principal amount of RMB189,000,000 on 18 August 2016 in accordance with the terms and conditions of the Convertible Bonds. The Company issued and allotted 56,810,850 new Shares at the conversion price of HK$4.092 each to GIC Investor. The newly issued Shares represented approximately 3.01% of the then issued Shares of the Company.

TPG exercised the conversion right attached to its Convertible Bonds in the principal amount of RMB561,000,000 on 3 February 2017 in accordance with the terms and conditions of the Convertible Bonds. The Company issued and allotted 168,629,032 new Shares at the conversion price of HK$4.092 each to TPG. The newly issued Shares represented approximately 8.41% of the then issued Shares of the Company.

As at 30 June 2017, the Company has no outstanding Convertible Bonds. Details of the Convertible Bonds are set out in note 20 to the condensed consolidated interim financial information.

CONVERTIBLE SECURITIES

On 22 April 2013, the Company issued convertible securities (the "2013 Convertible Securities") with an aggregate principal amount of HK$1,847,838,000 which is convertible into a total of 527,953,814 Shares. Please refer to the announcement of the Company dated 18 April 2013 for details.

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

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

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

During the six months ended 30 June 2017, the 2013 Convertible Securities in an aggregate principal amount of approximately HK$12,248.18 had been converted into 3,848 Shares. As at 30 June 2017, the outstanding 2013 Convertible Securities amounted to approximately HK$402,780,386.24 and the outstanding 2015 Convertible Securities amounted to HK$324,322,031.80 which are convertible into a total of 126,541,120 Shares and 124,739,243 Shares respectively.

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 2017. Except for the purchase of Shares by the trustee of the 2006 Restricted Share Award Scheme and 2016 Restricted Share Award Scheme (collectively, the "Restricted Share Award Schemes") pursuant to the trust deeds and the rules of the Restricted Share Award Schemes, 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 2017 to 30 June 2017, the Company has complied with all the code provisions of the Corporate Governance Code ("Code Provisions") contained in Appendix 14 to the Listing Rules with the exception of paragraph A.2.1 of the Code Provisions.

According to paragraph A.2.1 of the Code Provisions, the roles of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. As the Company has not yet identified a suitable candidate to be the chief executive officer ("CEO") during the six months ended 30 June 2017, Mr. Li Ning, the Executive Chairman and Interim CEO of the Company, assumed the role of chief executive officer of the Company. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles are currently undertaken by Mr. Li Ning. Notwithstanding the above, the Board is of the view that the assumption of the roles of Executive Chairman and Interim CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group's business strategies. The Board also believes that the current arrangement is in the interest of the Company and its Shareholders as a whole.

The Company has adopted the Model Code regarding securities transactions by the Directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

The audit committee of the Company, consisting of three independent non-executive Directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed the auditing, risk management, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2017.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2017 in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

By order of the Board
Li Ning
Executive Chairman and Interim CEO

Hong Kong, 10 August 2017

Information for Investors

SHARE INFORMATION

Listing: Main Board of the Hong Kong Stock Exchange on 28 June 2004
Stock code: 2331
Board lot: 500 Shares
No. of issued Shares as at 30 June 2017: 2,177,093,169 Shares
Market capitalization as at 30 June 2017: approximately HK$12,931,933,424

INTERIM DIVIDEND FOR 2017

Nil

FINANCIAL CALENDAR

Announcement of 2017 interim results: 10 August 2017
Announcement of 2017 annual results: March 2018

CORPORATE WEBSITES

Li Ning Official Website: http://www.lining.com (Chinese) / http://en.lining.com (Enghish)
Li Ning IR Website: http://ir.lining.com

CONTACT FOR INVESTOR RELATIONS

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Glossary

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

"2004 Share Option Scheme"	the share option scheme adopted by the Company on 5 June 2004, amended on 15 May 2009 and 11 October 2012 and terminated on 30 May 2014
"2006 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006, as amended on 30 April 2009 and 4 July 2012 and expired on 14 July 2016
"2013 Open Offer"	the open offer of convertible securities issued by the Company as set out in the listing document of the Company dated 27 March 2013
"2014 Share Option Scheme"	the share option scheme adopted by the Company on 30 May 2014
"2015 Open Offer"	the open offer of offer securities issued by the Company as set out in the listing document of the Company dated 9 January 2015
"2016 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2016
"Alpha Talent"	Alpha Talent Management Limited, a limited liability company incorporated in the British Virgin Islands and wholly owned by Mr. Li Ning
"Articles of Association"	the articles of association of the Company
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company" or "Li Ning Company"	Li Ning Company Limited, a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
"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

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