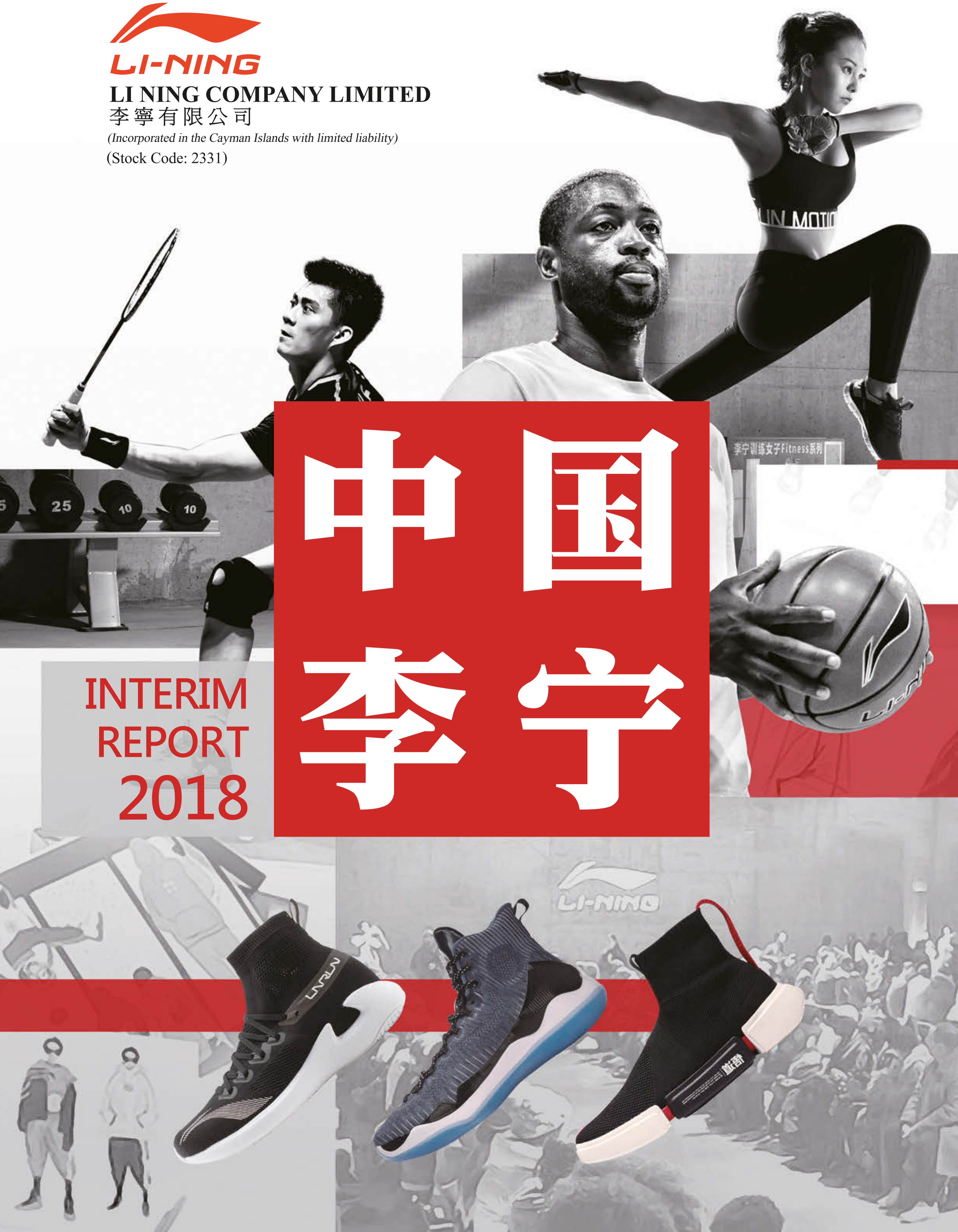
LI-NING

LI NING COMPANY LIMITED
李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)



INTERIM REPORT 2018

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.

中国李宁

OUR MISSION

Burning passion with sports

VISION

A world's leading brand in sports

CORE VALUES

"Win the Dream", "Consumer Oriented", "We Culture" and "Breakthrough"

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Independent non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Ms. WANG Ya Fei *(Committee Chairperson)*
Mr. LI Qilin
Dr. CHAN Chung Bun, Bunny, GBS, JP

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. LI Ning
Ms. WANG Ya Fei

COMPANY SECRETARY

Ms. TAI Kar Lei

REGISTERED OFFICE

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Cayman Islands

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Wanchai
Hong Kong

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

LEGAL ADVISORS

Hong Kong law
LC Lawyers

PRC law
TAHOTA Law Firm

PRINCIPAL BANKERS

Hong Kong
Hang Seng Bank Limited
DBS Bank Ltd., Hong Kong Branch
China Minsheng Banking Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited

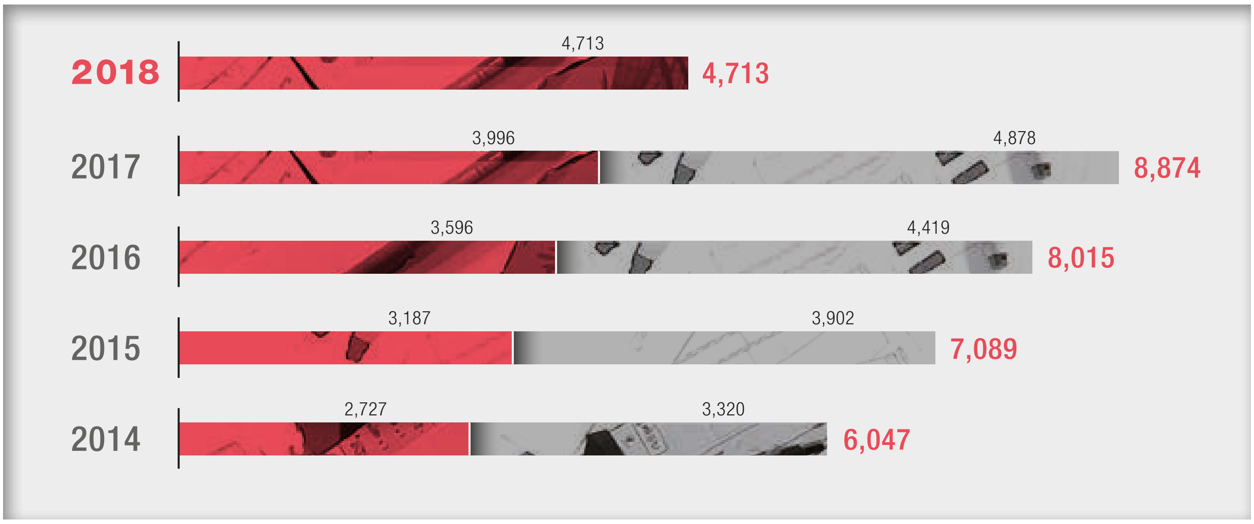
PRC
Industrial & Commercial Bank of China
China Construction Bank
Bank of China
China Merchants Bank
China Minsheng Banking Corporation Limited

SPORTSMANSHIP

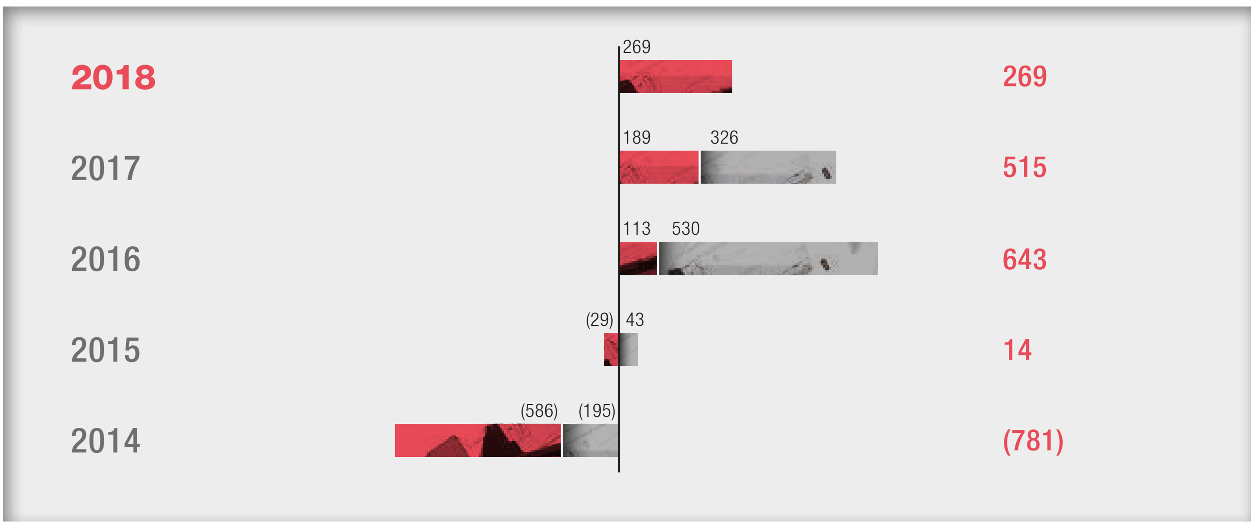

DWADE

Five-year Financial Highlights

Turnover



Profit attributable to equity holders



(All amounts in RMB millions)

First half year   Second half year   Full year

Management Discussion and Analysis

Financial Overview

The key operating and financial performance indicators of the Group for the six months ended 30 June 2018 are set out below:

	Unaudited Six months ended 30 June 2018	2017	Change (%)
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**4,712,773**	3,996,051	**17.9**
Gross profit	**2,293,867**	1,904,169	**20.5**
Operating profit	**293,799**	201,776	**45.6**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 1)*	**527,482**	415,626	**26.9**
Profit attributable to equity holders *(Note 2)*	**268,569**	189,170	**42.0**
Basic earnings per share *(RMB cents) (Note 3)*	**11.10**	7.93	**40.0**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**48.7**	47.7	
Operating profit margin *(%)*	**6.2**	5.0	
Effective tax rate *(%)*	**18.0**	22.8	
Margin of profit attributable to equity holders *(%)*	**5.7**	4.7	
Return on equity attributable to equity holders *(%)*	**5.1**	4.3	
Expenses to revenue ratios			
Staff costs *(%)*	**11.5**	10.7	
Advertising and marketing expenses *(%)*	**10.5**	11.3	
Research and product development expenses *(%)*	**1.3**	1.4	
Asset efficiency			
Average inventory turnover *(days) (Note 4)*	**85**	85	
Average trade receivables turnover *(days) (Note 5)*	**42**	56	
Average trade payables turnover *(days) (Note 6)*	**82**	85	

	Unaudited 30 June 2018	Audited 31 December 2017
Asset ratios		
Debt-to-equity ratio *(%) (Note 7)*	**48.6**	44.3
Net asset value per share *(RMB cents)*	**248.89**	234.65

Notes:

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of profit for the period, income tax expense, finance income – 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 2018: RMB120,567,000.

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 pursuant to the Restricted Share Award Schemes.

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

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

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

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

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 2018 amounted to RMB4,712,773,000, representing an increase of approximately 17.9% as compared to the corresponding period of 2017, with a higher year-on-year increment. The growth in revenue was mainly attributed to: (a) revenue from e-commerce channel has been maintaining a high growth rate for a few consecutive years and the growth rate is still significantly higher than other business channels despite a gradual slowdown; (b) during the period, with the increased recognition of the Company's products in the market and continuous enhancement of the operation capability of self-operated stores, the increase in sales revenue from direct operation grew significantly over the corresponding period last year; and (c) with the enhancement in channel operation capability and terminal sales capability of distributors, the Group increased the amount of trade fair orders of distributors, and revenue generated by the franchised distributors also recorded positive growth compared to the corresponding period in 2017. Meanwhile, new businesses represented by kidswear were carried out in an orderly manner and received positive responses from the market.

Revenue breakdown by product category

	Six months ended 30 June				
	2018		2017		
		% of total revenue		% of total revenue	Revenue Change
	RMB'000		*RMB'000*		*(%)*
Footwear	**2,190,747**	**46.5**	2,016,771	50.5	**8.6**
Apparel	**2,299,615**	**48.8**	1,759,487	44.0	**30.7**
Equipment and accessories	**222,411**	**4.7**	219,793	5.5	**1.2**
Total	4,712,773	100.0	3,996,051	100.0	17.9

Revenue breakdown (in %) by sales channel

	Six months ended 30 June		
	2018	2017	
	% of revenue	% of revenue	Change *(%)*
PRC market			
Sales to franchised distributors	**44.4**	45.9	**(1.5)**
Sales from direct operation	**33.2**	33.6	**(0.4)**
Sales from e-commerce channel	**20.8**	18.2	**2.6**
International markets	**1.6**	2.3	**(0.7)**
Total	100.0	100.0	

Revenue breakdown by geographical location

		Six months ended 30 June				
		2018		2017		
	Note	*RMB'000*	% of revenue	*RMB'000*	% of revenue	Revenue change (%)
PRC market						
Northern region	*1*	**2,570,602**	**54.5**	2,110,762	52.8	**21.8**
Southern region	*2*	**2,068,531**	**43.9**	1,793,821	44.9	**15.3**
International markets		**73,640**	**1.6**	91,468	2.3	**-19.5**
Total		**4,712,773**	**100.0**	3,996,051	100.0	**17.9**

Notes:

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

2. The Southern region includes provinces, municipalities and autonomous regions covering 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 2018, the overall cost of sales of the Group amounted to RMB2,418,906,000 (2017: RMB2,091,882,000), and the overall gross profit margin was 48.7% (2017: 47.7%). During the period, the proportion of higher-margin e-commerce channel business was increased; and there was improvement in sales of new products of retail channel; the tag-cost-ratio of new products also improved (partially due to the increase of tag price). The aforesaid factors contributed to the increase of 1.0 percentage point in gross profit margin compared to the corresponding period last year.

Distribution Expenses

For the six months ended 30 June 2018, the Group's overall distribution expenses amounted to RMB1,735,145,000 (2017: RMB1,501,996,000), accounting for 36.8% (2017: 37.6%) of the Group's total revenue.

Due to the Group's reasonable control over advertising and marketing expenses during the period, the percentage of distribution expenses to revenue dropped significantly by 0.8 percentage point. However, distribution expenses increased as compared to the same period last year, which is mainly attributable to: (1) along with the development of the Group's business, both logistics expenses directly related to sales and license fees that are linked to part of the income of particular products have been increased; (2) the Group continued to focus on exploring users' shopping experience and launching large-scale stores with brand influence, resulting in the increase of the relevant staff costs and corresponding depreciation on the asset investment of points of sales ("POSs"); and (3) during the period, the Group tried various marketing activities and participated in New York and Paris Fashion Week, and also increased its online promotion expenses, all of which have received positive feedbacks from the public.

Administrative Expenses

For the six months ended 30 June 2018, the Group's overall administrative expenses amounted to RMB297,106,000 (2017: RMB229,355,000), accounting for 6.3% (2017: 5.7%) of the Group's total revenue with a year-on-year increase of 0.6 percentage point. Administrative expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes and other miscellaneous daily expenses.

During the period, the Group recorded substantial increase in labor costs, which is mainly attributable to the Group's greater effort in product design, employment of experts in related field and provision of incentives to personnel from key positions in the second half of last year. Consequently, the Group's administrative expenses and its percentage to revenue increased year-on-year.

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

For the six months ended 30 June 2018, the Group's EBITDA amounted to RMB527,482,000 (2017: RMB415,626,000), representing a year-on-year increase of 26.9%. This was mainly attributable to the increase in revenue and gross profit margin.

Finance Income

For the six months ended 30 June 2018, the Group's net finance income amounted to RMB1,496,000 (2017: RMB8,268,000), accounting for 0.0% (2017: 0.2%) of the Group's total revenue. The decrease in net finance income was mainly due to the investment of wealth management products with floating interest rate by the Group, and its income was classified as other income and other gains instead of bank deposit interest income during the period. For the six months ended 30 June 2017, the net interest impact of convertible bonds was an income amounting to RMB6,986,000.

Income Tax Expense

For the six months ended 30 June 2018, the income tax expense of the Group amounted to RMB58,854,000 (2017: RMB55,736,000) and the effective tax rate was 18.0% (2017: 22.8%). The lower effective tax rate is due to the utilization of tax losses of prior years for some subsidiaries of the Group, and recognition of certain deferred income tax assets.

Overall Profitability Indicators

The sales revenue and gross profit margin of the Group were both improved, and other income and other gains increased during the period, thus the overall profitability indicators of the Group for the six months ended 30 June 2018 improved accordingly. During the period, the Group's profit attributable to equity holders amounted to RMB268,569,000 (2017: RMB189,170,000), representing a year-on-year increase of 42.0%; the margin of profit attributable to equity holders was 5.7% (2017: 4.7%); return on equity attributable to equity holders was 5.1% (2017: 4.3%).

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2018 was the same as that in 2017. Inventories of the Group are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy to be adequate in ensuring appropriate provision for inventories is made by the Group.

As at 30 June 2018, the accumulated provision for inventories was RMB134,473,000 (31 December 2017: RMB130,352,000). During the period, the gross value of inventories increased slightly and the Group increased the balance of the provision for inventories accordingly.

Provision for Doubtful Debts

The Group adjusted the policy in respect of provision of doubtful debts for the first half of 2018 under requirements of IFRS 9 effective since 1 January 2018. The provision of doubtful debts was recorded at an amount equal to the lifetime expected credit losses of the trade receivables that do not contain a significant financing component.

As at 30 June 2018, the accumulated provision for doubtful debts was RMB397,680,000 (31 December 2017: RMB401,845,000). As the operating conditions of our channel distributors improved steadily, 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 2018 amounted to RMB660,199,000 (2017: RMB588,718,000). As at 30 June 2018, 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 RMB2,692,546,000 (excluding RMB109,176,000 of short-term deposits and RMB250,849,000 of wealth management products), representing a net increase of RMB163,324,000 as compared with the position as at 31 December 2017. The increase was due to the following items:

	Unaudited Six months ended 30 June 2018 *RMB'000*
Item	
Operating activities:	
Net cash from operating activities	660,199
Investing activities (excluding payment for short-term deposits and wealth management products):	
Net capital expenditure	(187,419)
Net cash from other investing activities	20,004
Financing activities:	
Net cash from financing activities	21,356
Add: Exchange gains on cash and cash equivalents	8,360
Subtotal	**522,500**
Payment for short-term deposits	(109,176)
Net payment for wealth management products	(250,000)
Net increase in cash and cash equivalents	**163,324**

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

As at 30 June 2018, the Group's banking facilities amounted to RMB1,065,000,000, without outstanding borrowings.

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

Foreign Exchange Risk

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

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

Pledge of Assets

As at 30 June 2018 and 31 December 2017, the Group had no pledged assets.

Contingent Liabilities

As at 30 June 2018, the Group had no significant contingent liabilities.

Business Review

Driven by favorable national policies and continual steady growth of macro sports demands, domestic sports market sustained its robust growth momentum. Meanwhile, the enhanced consumption structure resulted in more sophisticated demands in the sports market. The Company continued to focus on creating and enhancing LI-NING's experience value, including sport experience, product experience and shopping experience, and improving online and offline sales efficiency through digitalization strategy to cater to the growingly explicit and mature consumer demands. Digitalization also enabled the Company to bring our brand closer to the young consumer groups, stay abreast of hot topics and offer flexible and diversified interactive experience, thereby consolidating our brand image and brand value. During the period, key operational indicators have been optimized continuously, the Group's revenue maintained steady growth and profitability have been continuously improved.

During the period, we continued to create LI-NING's experience value in full swing through three major pillars, namely the enhanced products, channels and retail capability. Professional sports remained the main-theme and positioning of the branded products. Our innate sports DNA has impelled us to place more emphasis on sports research and investment in product research and development (R&D) to constantly launch new professional products for athletes and sports enthusiasts. Meanwhile, imagination is driving LI-NING brand to be more fashionable and trendy, therefore creating more professional and stylish products and sports experience for those who enjoy life. During the period, the brand demonstrated its product competitiveness on the international stage through the two Fashion Week shows, thus gaining positive feedbacks and good reputation from the market and further consolidating the brand's influence among consumers as well as the influence of domestic brands on the international stage. During the period, we continued to close down the loss-making stores and renovate the inefficient stores, expand the coverage of our sales network, and actively optimize the structure of sales channels. We have segmented high- and low-end market based on the regional difference of consumer demands, providing versatile and diverse sports experience and shopping experience with regards to attributes of different sports categories, and efficiency of sales channels continued to be enhanced. During the period, the overall retail sell-through registered a mid-teens growth, and the contribution from new products sales to total sell-through continued to improve.

Latest trade fair orders and operational update

In terms of tag price, trade fair orders for LI-NING brand products (excluding LI-NING YOUNG) from franchised distributors registered a year-on-year growth for nineteen consecutive quarters. The orders from the latest trade fair for the first quarter of 2019, held in June 2018 registered a high-single-digit growth on a year-on-year basis.

For the second quarter ended 30 June 2018, in respect of LI-NING POS which have been in operation since the beginning of the same quarter last year, the same-store-sales for the overall platform registered a high-single digit growth on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a high-single-digit growth, wholesale (franchised distributors) channel registered a low-single-digit increase, while the e-commerce virtual stores business registered a mid-thirties growth on a year-on-year basis.

For the second quarter ended 30 June 2018, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform increased by low-teens. In terms of channels, offline channel (including retail and wholesale) registered a high-single-digit growth, with retail increased by mid-teens and wholesale increased by mid-single-digit, while the e-commerce virtual stores business registered a high-thirties growth on a year-on-year basis.

As at 30 June 2018, the total number of LI-NING POS (including LI-NING YOUNG) in China amounted to 6,898, representing a net increase of 168 POS since the end of previous quarter and a net increase of 463 POS since the beginning of this year. Among the net increase of 463 POS, direct retail accounts for a net decrease of 39 POS, and wholesale accounts for a net increase of 44 POS. LI-NING YOUNG business recorded a net increase of 458 POS (Took over 361 POS from distributors of the third party on 1 January 2018).

Products and Marketing

Integrating functional technology with creative culture to raise product competitiveness

During the period, in order to enhance the brand influence, we continued to focus on products related to five core categories, namely basketball, running, training, badminton and sports casual. We set professionalism and functionalism as the foundation, and emphasized on the brand's feature of professional sports, while constantly explore the room for integration of sports with fashion, entertainment and leisure in our various products based on its differentiated features, in order to create more advanced product experience.

For professional products, we continued to accumulate the knowledge of sports during the period and further enhanced the exploration and application of new technology and materials. With the application of such knowledge to our product design, we offered exclusive and highly professional experience to sports players in tandem with the more customized products to fit the sports demand, thereby creating the brand value and enhancing LI-NING brand's competitiveness with more contribution and engagement in mainstream mass sports in China.

– "SONIC VI" (音速VI) products adopted LI-NING Cloud technology, which offers seamless weaving shoe face and delicately-designed shoe laces system, thereby comprehensively enhanced the sport experience of the product. The product also fully capitalizes the marketing campaigns with NBA players and CBA regular/playoff, and delivers the professional reputation of LI-NING basketball shoes to consumers.

– Featured products were created based on different regional characteristics, such that basketball uniforms, apparel and culture costume for fans were frequently exposed throughout the CBA seasons. We have developed "metal wire" fabric for basketball games, which is anti-bacterial and more breathable and can thus provide better protection for the body. Meanwhile, we have sponsored the China University Basketball Association (CUBA) League. The intense competition between major universities helped enhance the recognition of LI-NING basketball products among young people. During the period, CBA All-Star products hit the New York Fashion Week and received overwhelming response.

– "Super Light 15th" (超輕十五代) is inspired by the story of "Fish-turned Dragon"* (魚化龍). The product adopted super light flat knit shoe face technology, which is lighter than the traditional seamless weaving shoe face and more breathable. Meanwhile, cordula fiber with ultra-high intensity was added to the soft weaving shoe face to enhance strength and tightness. The lite midsole of LI-NING Cloud combined light materials with shock-absorbing functions, foster a better feeling of well-fitting footwear.

– In term of training gears, with regards to seasonal climate changes and sports requirement, we have created gears with stronger sport attributes. The main theme of the first quarter is the "Protective functions + Eco-friendly fluorine-free". Targeting the characteristics of outdoor sport, we have developed waterproof and windproof gears. An "Icy" product series has been established during the second quarter. Light ice yarn fabric and visual ventilation window are used to improve air circulation, which is an innovative technology integrating the perfect appearance with functionality.

– "Shadow Pro" (鋒影Pro) is an innovative LI-NING badminton shoe product, the brand new shoe face design was inspired by warrior armor, with the latest parametric design adopted for the outsoles. The success and promotion of the "RANGER" products has aroused great interest in the unique design of LI-NING badminton shoe products in the consumer market.

– In the first half of 2018, we further improved the "All-in-one Weaving Design" of LI-NING badminton apparel. On top of enhancing the overall comfortability of the products, preservatives were added to the yarns as effective antibacterial and deodorizing agents. The functional areas of yarns can be modified based on sport functions, thereby meeting the moisture-wicking requirement of different body parts. The undercut design on the back collar of game apparel help to minimizes the discomfort brought by friction during sport exercises. With extensive exposure of game apparel of the national team at 2018 Thomas Cup and Uber Cup as well as the debut of LI-NING products at New York Fashion Week, LI-NING's badminton apparel was one of the hot items in the badminton industry in 2018.

In addition to developing professional products, we also reflected and proactively sought ways to enable our professional products to be more closely linked with cultural life. During the period, we continued to cooperate with sports stars, while delivering and integrating elements of their personality and lifestyle into the product designs. Meanwhile, we focused more on the trends amongst young consumers in order to keep up with the current fashion trend. We have aroused new focuses, attracted more attention from young consumers and increased our brand competitiveness through 2018 Fall/Winter New York International Fashion Week, 2019 Spring/Summer Paris International Fashion Week and the collaboration with the DISNEY Company.

– In respect of basketball culture footwear¸ we rode on the opportunity of the New York Fashion Week to showcase the original designs of LI-NING products. "Essence" (悟道) and "Reburn" (重燃) were the hottest fashion items in the first half of 2018. LI-NING brand integrated its interpretation of fashion trends into those products through different design styles. In respect of integrated marketing, LI-NING brand successfully entered into the channel of trendy freestanding boutiques, which allowed LI-NING brand to extend its reach to more target consumers.

– The apparel products of WADE series continued to focus on quality, high street sports and basketball style that combines functionality and fashion. We draw on celebrity resonance with Wade fans and features high level of workmanship, fashionable fitting and the mix and match of trendy colors in order to create trendy basketball products. "BADFIVE" apparel products focused on the pragmatism of street basketball in China. We provided a diversified street chic style for consumers through creation of unique China street basketball apparel which incorporates Chinese culture, street fashion and basketball attitude.

– "Butterfly 2018" (蝴蝶2018) which created the breathtaking debut in New York International Fashion Week, is a classic remake of the original LI-NING sport fashion and became the new focus in the domestic mainstream Sneaker culture group. "Butterfly 2018" has become one of the hottest topics during New York Fashion Week. Integrating the trendiest fashion element, the re-designed classic LI-NING 90s style, as represented by "Aurora Skywalk" (極光天行) and "001 R-I" (001 啓程), shone brightly on the runway of Paris Fashion Week as the hot topics.

– In the first half of 2018, we continued to work closely with the Disney brand. On the basis of the four major IPs, namely "Star War", "Mickey Family", "Toy Story" and "The Incredibles", we launched collaborative packaged products that attracted the attention of young consumers and the market, while further enriching our product lines.

– In collaboration with four Russian artists, namely Alexey Butakov, Natalia Dzhola, Marina Okhromenko, Ostap and SELFMADECREW, we launched a series of packaged products under the theme of Russian culture and the FIFA World Cup, in order to integrate the hot topics related to "2018 Russia FIFA World Cup". Their artworks demonstrated their understandings of Russian culture with their own illustration styles and fully integrated the traditions of Russia with art, promoting the culture of Russia and the FIFA World Cup.

Comprehensive marketing through resource planning for professional sports and fashion trends

During the period, our strategy of resources investment remained focused on the five major categories, including basketball, running, training, badminton and sports casual. We adhered to more precisely oriented consumer demand and allocate both sports and fashion resources to different areas based on category features. Our marketing coverage has been expanded from international events to grassroots leagues as well as fully captures the trendy hot elements. We thereby consolidated our brand image in all domains. Meanwhile, by establishing the connection and resonation with consumers both emotionally and through content sharing using digital marketing, we utilized multiple approaches to constantly explore new consumer groups while further reinforcing the brand recognition of existing consumers.

Consolidate professional brand image by integrating with resources of professional sports events

– LI-NING basketball integrated resources from events, such as CBA, CUBA, and players, and launched the promotion theme of "Basketball and LI-NING in China" (中國籃球 中國李寧), which ignited the national pride of Chinese consumers and created emotional resonance. Moreover, during the playoff games, the promotion theme of "Kickoff" (開幹) was launched by capitalizing the excitement of the games, and received positive feedback from the fans. On the NBA front, we continued to explore the promotion value of outstanding players, such as C.J. McCollum, as the endorser for a series of professional basketball products, such as "Speed" (閃擊), "Power" (空襲) and "Sonic" (音速). We also cooperated with Tencent Sports, the NBA live streaming platform, through which our professional basketball products have been made known and loved by more NBA fans. Meanwhile, the LI-NING basketball segment exclusively organized "3+1" street basketball league, attracting more teenage basketball lovers to participate in and experience the unique basketball culture that is absolutely of street chic style and creating opportunities for product experience.

– LI-NING brand first launched the top-notch running shoes series, "Wind Chaser"* (追風) and "Battle Axe"* (戰斧), which assisted the athletes to achieve good results at Wuxi Marathon, a Gold Babel marathon event in China during the first half of the year. Subsequently, we also helped the top Chinese runners to win the championship and second runner-up of half marathon at Dongying International Marathon, as well as first runner-up and second runner-up of women's group at Shanghai Half Marathon by providing them with strong gears. All of these outstanding results have significantly enhanced the influence and recognition of LI-NING professional running products among runners.

– In respect of badminton resources, LI-NING brand continued to work diligently towards the goal of internationalization, with focuses on sports marketing and product endorsement with tournaments as the key marketing platform to realize high-frequency and high-quality exposure of products. At the 2018 Thailand Thomas Cup and Uber Cup, LI-NING helped the China national badminton team to recapture the championship and back to the top; while the Indonesia men's team sponsored by us ranked second runner-up, both of which has further enhanced the professionalism and authority of LI-NING in badminton as well as the brand's global influence. In 2018, the uniform for All England Open Badminton Championships, Thomas Cup and Uber Cup, Sonic Boom (音爆) shoes, Chameleon Ranger professional competition shoes as well as Dragon Wing Blade 900 (湛龍風刃 900) series rackets, Zhang Nan Blast 7000 (張楠風動 7000) rackets, Li Junhui N7 II (李俊慧 N7 II) ultra-light version were taken as product story pack. Through players' performance and via CCTV-5 broadcast, reports by top 4 web portals and reproduction by other media, we have achieved outstanding propagation effect of over hundreds of million times. Meanwhile, we gained more exposure through product reviews, online events, offline competitions, etc. During the Thomas Cup and Uber Cup, we continued to organize online live events, arrange world champion Xu Chen (徐晨) to launch online World Championship live broadcast and offline watching game activities on the cooperation platform, during which we ran product placement such as the World Championship competition uniforms and China LI-NING, and the peak number of viewers during the period exceeded 5 million.

Integrating with fashionable trends to create topics and enhance brand recognition

– In respect of LI-NING basketball marketing, we crossover with IPs including "Chinese Culture", "GAI (the Great Wall)", "LI-NING's street skateboard", sponsor activities such as "3+1" street basketball, "Hot Blood Dance Crew" (熱血街舞團) and our products were launched in trendy freestanding boutiques, which has aroused heated discussion among young consumers. At Fall/Winter 2018 New York Fashion Week, LI NING products debut under the theme of "Essence" (悟道), which combines the ancient Chinese elements with contemporary Western fittings and remakes the 90s retro fashion as a tribute to the classic series. At 2019 Spring/Summer Paris Fashion Week, we adopted the theme of "China LI-NING"* (中國李寧), as inspired by the legendary athlete career of Mr. Li Ning, and integrated modern sports fashion with classical vintage culture that inherited by our brand, demonstrating a well integration of LI-NING's legend with our national pride.

– During the period, 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 key opinion leaders (KOL), which in turn effectively explored more potential customers. By making our brand more fashionable, we provided existing users with more fashionable product choices. With the influence of the Fashion Week, the scope of cooperative artists has been expanded rapidly. The famous artists such as Jolin Tsai (蔡依林), Vic Chou (周渝民), Huang Jingyu (黃景瑜), Joe Chen (陳喬恩), Angela Chang (張韶涵), Qi Wei (戚薇), Li Chen (李晨), Dylan Xiong (熊梓淇), He Jie (何潔), Kan Qingzi (闞清子), Liu Chang (劉暢), Guo Junchen (郭俊臣) wore our products during shooting or their daily lives. Our products also received positive feedbacks from cooperative media, artists and fans.

– We strived to make our brand more fashionable and trendy via cross-sector collaboration, through which we have boosted the product sales by leveraging the influence of the cooperative brand(s) and our own brand. We also cooperated with Disney IP to launch crossover products under different themes. Moreover, we integrated online and offline marketing to explore more potential customers via the IPs. We joined hands with BWM X2 to launch crossover products under the "Wu Kong" (悟空) series by adopting the theme of "There is Rationale to Run Counter to the Current of the Times" (反之亦有道，逆向而行). Marketing activities were conducted by integrating hot issues and product features to increase the product competitiveness.

– For the "Super Light 15th" running shoes, we maximized the marketing effect by integrating existing resources and used the storytelling marketing approach with the concept of "The Lighter, The Better" (勢輕天下) to maximize exposure of the "Super Light 15th" products. Reputation of the products accumulated rapidly through the exposure during the Ultra-light Vertical Running Activity held at Shanghai Center and live events with KOL/artists. At the same time, we launched online running activity via cross-over collaboration with running APPs, which has attracted more than 100,000 participants. We also completed member registration and conversion of direct sales through free gifts activity at stores, which simultaneously advanced the sales efficiency of both online and offline platforms.

Sales Channel Expansion and Management

During the first half of 2018, the Company continued its closure of loss-making stores and reform of inefficient stores, strengthened its sales network coverage. As at 30 June 2018, the number of major distributors of LI-NING Core Brand was 31, representing a net decrease of 1 as compared to 31 December 2017. During the period, the Company developed retail supporting platform for wholesale channel, so as to accelerate product turnover of the distributors, as well as improve products efficiency and profitability of the whole LI-NING platform.

As at 30 June 2018, the number of conventional stores, flagship stores, factory outlets and discount stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 6,898 (LI-NING YOUNG took over 361 stores from distributors of the third party on 1 January 2018), representing a net increase of 463 POS as compared to 31 December 2017. The number of POS breakdown as at 30 June 2018 is as follows:

Number of LI-NING Brand POS

LI-NING Core Brand	30 June 2018	31 December 2017	Change
Franchised	**4,765**	4,721	**0.9%**
Directly-operated retail	**1,502**	1,541	**-2.5%**
LI-NING YOUNG	**631**	173	**264.7%**
Total	**6,898**	6,435	**7.2%**

Number of POS by geographical location

Regions	30 June 2018			31 December 2017			Change
	LI-NING Core Brand	LI-NING YOUNG	Total	LI-NING Core Brand	LI-NING YOUNG	Total	
Northern Region *(Note 1)*	3,170	444	3,614	3,110	110	3,220	12.2%
Southern Region *(Note 2)*	3,097	187	3,284	3,152	63	3,215	2.1%
Total	6,267	631	6,898	6,262	173	6,435	7.2%

Notes:

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

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

Transformation of Product Operation Model

In the first half of 2018, the Company continued to push forward the transformation of its product operation model, improve product supply efficiency, strengthen the rapid replenishment of popular products, and respond more flexibly to market demand. The Company also rapidly apply various supply models on the new materials and technology platform to meet terminal sales requirements, respond more accurately to market changes, and seize more business opportunities.

We continued to deepen the single store order management, established a single store order model based on consumers' demand, and gradually established intelligent single store order mode and tool to cultivate order capability of the ordering personnel and utilize the systematic single store order tool to establish standard order management.

Strengthening Construction of Logistics Supporting Capacity

In the first half of 2018, the Company continued to focus on enhancing its wholesale, retail and omni-channel logistics supporting capabilities, optimising the warehousing and distribution network, as well as improving the operating capacity of the central warehouse and the response capability to the terminal requirements.

The Company continued to establish a "Precise + Swift" logistics supporting system, achieved direct delivery from the central warehouse to stores and rolling replenishment for stores with high store productivity and shortened the time of delivery of products to stores. We also support the pre-sale of key products and various product launching activities in stores, rapidly collect and deal with unsaleable products of the season, speed up the allocation and replenishment time according to the demand of stores, support high-speed and efficient circulation of products in different channels, and improve the inventory efficiency. The Company supported omni-channel business development with all warehouses equipped with the operation capacity for B2B and B2C models, and provided comprehensive courier service support for self-operated stores, in order to continuously enhance the service capability to consumers and provide a fast and convenient shopping experience.

Enhancing Retail Operation Capacity and Improving Operation Efficiency of Stores

In the first half of 2018, the Company continued to focus on enhancing its retail terminal operation capability and improving the operation efficiency of stores. The specific measures include:

– Improve the standard process of store operation services according to the store type and consumer experience of various business districts to serve more young and fashionable consumers, and provide online and offline integration training coverage through "LI-NING School" (寧學堂) training system, so as to enhance the customer service standard of store staff with "China LI-NING Service +" and improve product experience of its customers;

– For full category stores, the Company has refined the operation service standards, strengthened the service training for sports consultants and fashion consultants to provide more professional sports experience to its consumers. The Company also strengthened the interconnection between the brand and sports enthusiasts to improve customer loyalty through social interactions, such as running groups and basketball activities;

– Continuously improve the execution capability of store management and support the implementation of standard store operations through upgrading of the store management system.

Enhancing Visual Presentation and Store Image

During the first half of 2018, the Company developed different types of "Sports Casual Oriented Stores" in the high-level and low-level markets according to the consumption upgrading trend of various markets and the structural changes of the urban business districts, enhanced the brand image by utilizing China LI-NING's fashionable elements to further improve the matrix of the store image and meet the consumption demand of more young groups in sports fashion, so as to attract young customers with stronger consuming ability.

In respect of terminal store display, the Company focused on the professional characteristics of basketball, running and training products, such as sense of technology and functionality, to enhance the customers' understanding of its professional sports products. In the fashion zone at store, the terminal marketing of China LI-NING series products was conducted with extension of the theme at New York Fashion Week and Paris Fashion Week to enhance the shopping experience of sports fashion products. The Company optimised its store layout and changed the category display methods according to the environment of large stores and business districts to meet the consumption preferences of customers from different patterns such as shopping malls and commercial centers.

Enhancing Omni-channel Service Experience

During the first half of 2018, the Company continued to improve the online and offline integrated operation model, and continued to enhance the omni-channel coverage of directly-operated retail system and certain wholesale network. The consumer shopping orders responsivity, precise delivery and logistics delivery satisfaction were significantly improved. Meanwhile, the Company made more efficient use of the omni-channel platform, empowered the store's assortment and customer service, enhanced inventory utilization, and continued to enable consumers to experience LI-NING omni-channel services on all categories and channels at all time.

E-Commerce

During the first half of 2018, the e-commerce of Li Ning Company further attained steady growth and enhancement in terms of revenue and profitability.

The e-commerce of Li Ning Company continued to improve the data analysis and forecast system, strengthened classification of different customer base, and newly opened such online stores as Tmall running flagship store and Tmall basketball flagship store for professional sports group.

Meanwhile, the e-commerce of Li Ning Company has invested more resources in content marketing and event marketing. The front-end operation covers packaging of live broadcast, interview video, product stories and traditional culture, such as New York Fashion Week event, Paris Fashion Week event marketing, Tmall Day with the theme of "China Fresh Youth" (中國新輕年), and deep exploration of stories and culture at spiritual level of certain core topical products and e-commerce specific offerings of the Group, such as "Essence" (悟道). For user experience, the WeChat applet platform was launched to facilitate the circulation of event marketing and rapid purchase by users.

Looking forward, the e-commerce of Li Ning Company will continue to improve the supporting capacity of the supply chain, while further exploring the front-end hot content, so as to achieve sustained and steady growth of the e-commerce business.

Supply Chain Management

During the first half of 2018, the Company continued to enhance the management of product quality with a focus on enhancing product workmanship and details and improving wearing comfortability to enhance wearing experience of products. In respect of cost management, the Company implemented stringent cost control measures and practiced the concept of cost management on all areas ranging from product design and development to various production stages, through which the procurement costs have been effectively controlled. As such, consumers are directly benefited with products of enhanced cost-effectiveness.

In response to the Company's change of operation mindset from wholesale to retail, the Company improved the responsiveness and elasticity of supply chain, and strengthened the rapid replenishment of existing stock of products/rapid development and production of popular products to meet consumer demand for the Company's popular products and explore business opportunities. Regarding supply chain development, the Company continued to tighten the requirements on labour, career health and environmental protection to ensure sustainable development.

NEW BUSINESS

LI-NING YOUNG

The year 2018 is the year for LI-NING YOUNG business to set up systems in respect of various aspects such as products, channel and marketing. The work of each project was conducted under continuous exploration and improvement. The main achievements for the first half of 2018 are as follows:

– For products, we further improved the product mix structure of shoes and apparel products and continued to improve product design. The fashion products initiated by New York Fashion Week were gradually included to the product line this year, enabling LI-NING YOUNG to become the leader of domestic kid's sports fashion footwear and apparel under the general fashionable trend of kidswear. In the meantime, we leveraged the traditional advantages and brand assets of LI-NING main brand as an important advantage of LI-NING YOUNG products, and the IP series products launched with Disney and Wade series products have been fully recognized in the market. For supply chain system, we continued to integrate and improve the kidswear supply chain system, and introduced exclusive kidswear finished product and material suppliers.

– For expansion of business channels, we continued to improve store management of grading system, store image upgrading and establishment of benchmark store projects. We have established such benchmark store projects as brand experience store in The River Mall in Shanghai in the first half of the year, and will launch more benchmark store projects in the second half of the year by entering and displaying at key shopping malls or shopping centers selected in various regions to stimulate and influence consumers' perception and recognition of LI-NING kidswear brand.

– For marketing, we invested more marketing resources to create more topics and stories for our products and brands, and continued to enhance our product premium. We invited well-known bloggers, star moms and world champions to experience new products and lead the sports kidswear fashion in China; built an official We Media matrix including WeChat, Weibo and Douyin (抖音) to release product and brand developments and strengthen interaction and viscosity with target audiences; cooperated with Disney to create popular products by using such Internationally renowned IPs as Mickey, Star Wars, Toy Story and Wreck-It Ralph, bringing high quality, more professional and fashionable product experience to Chinese teenagers. We lead the sports kidswear fashion in China through product experience and promotion of Star Baby (明星寶貝).

As of 30 June 2018, LI-NING YOUNG business covered 29 provinces with a total of 631 stores. The competition for domestic kidswear market is still intense. Looking forward, we will keep on the steady development with single store profitability as the key, continue to develop a retail business model with products satisfying consumer needs as the core, driven by retail profitability and maintaining sound development whilst creating values in terms of product experience, shopping experience and sports experience.

DANSKIN Brand

In October 2016, Li Ning Company announced the cooperation with Danskin, a professional dance sports brand in the United States, for the exclusive licensing right to operate the brand's businesses in the Mainland China and Macao region. Established in New York in 1882, Danskin brand is a professional dancewear brand for women in the United States and emphasises the pursuit of lifestyle and cherishes the elegant and healthy attitude to life.

In China, the sportswear market is huge and the consumer base is broad. Excluding the sectors relating to sports competition, there is still enormous potential to be explored in the female-themed fitness market. With the continual penetration of healthcare concept and the upgrade of middle-class consumption, the sports market will be showing a tendency of segmentation, and the women's sports market shall become the new growth driver of the sports market.

Danskin Brand is positioned as a high-end women fashion sports brand in China. It has opened 10 stores by the end of June 2018, all of which adopted directly-operated retail model. These stores are located in different regions in North, Central and South China, mainly in the first-tier cities, and stationed in local landmark department stores, shopping malls and etc., so as to widely reach different types of consumers. The Danskin Brand has explored product series and main categories applicable to the brand development, and has conducted a round of selection and matching of suppliers to ensure the professionalism and quality of its products.

For the second half of 2018, the brand will continue to further improve product mix and enhance shopping experience, and it is expected that its sales channel will expand to 15-20 stores by the end of 2018.

HUMAN RESOURCES

During the first half of 2018, based on its strategic focus, the Company continued to improve the organisation, incentive and talent management system, provided support to strategic transformation of the Company and continued to strengthen the organisation capacity building.

– Regarding organisational optimisation, the Company refined and divided supply organisations to enhance the synergies between front-end business and supply chain. The Company also enhanced the operating efficiency of various product categories through their organisational segmentation.

– In terms of talent management, the Company continued to implement the retail and product talents development system, and allocated more human resources in design resources, product innovation, retail management and new business development.

– In terms of remuneration package, the Company continued to optimize the incentive mechanism for retail front and various business units and improve the assessment incentive model based on product categories. We also implemented long-term incentive schemes for our senior management team and core personnel so as to motivate core talents and enhance the market competitiveness of core talents' remuneration.

– Regarding the brand-building of employer side, an official WeChat account "LI-NING Recruitment" was launched as a window to showcase the Company's results in this area through a series of events organised or participated in by it.

In the future, pursuing the goal of establishing efficient operation system, we will continue to accomplish the goal of better product experience, sports experience and shopping experience as well as new business development goals in strengthening our management on the organisational performance and our talent team building. We will effectively manage the human resources, while continuing to strengthen our organisation capacity and enhance the overall performance of staff in order to give full support to the Company's strategic goal and develop the organisation capacity and talent team supporting the change of the Company.

As at 30 June 2018, the Group had 2,256 employees in total (31 December 2017: 2,182 employees), including 2,074 employees at the Group's headquarters and retail subsidiaries (31 December 2017: 2,008 employees), and 182 employees at the Group's other subsidiaries (31 December 2017: 174 employees). The Group's total staff costs (including directors' emoluments) amounted to approximately RMB539,950,000 for the six months ended 30 June 2018 (2017: RMB428,585,000).

OUTLOOK

Looking forward, on the basis of our major tasks which were accomplished in the first half of 2018, we will continue to strengthen and improve the following core business focuses, strengthen LI-NING's experience value, and focus on enhancing efficiency in order to achieve healthy and sustainable profit growth for the Company in the future:

– In respect of products, we will continue to integrate professional sports with fashion, entertainment and leisure to enhance product competitiveness. Through our knowledge on sports, we will have more attempts in the professional fields such as applied technologies, materials and ergonomics. Meanwhile, application of innovative culture elements in our sporting goods is also very important. By integrating professional sports with fashion which is supported with sports resources, capitalizing on the hot trends, as well as creating and driving topics, we will create a more unique products experience value through enhancing the interactive experience with consumers by way of innovative approaches;

– In terms of channels, we will constantly improve the efficiency and image of LI-NING's channels. We will strengthen the attributes of our specialty stores and conduct effective reforms for the key stores by taking a retail-efficiency approach. Moreover, we will continue to close down or reform inefficient stores and open or revamp big stores with high efficiency;

– Continuous establishment and optimization of retail operation-supported platform will remain as one of our major tasks. We will aim for a more precise commodity planning and supply and continuously optimize the retail experience in store(s). The retail efficiency of our stores will be improved and enhanced with the support of data technology platform. We will uplift the operation standards of stores and strengthen the coverage of construction of end-user training system;

– We will continue to promote the development of digitalization strategy so as to further enhance the efficiency of both online and offline sales. In respect of different hot topics, we will enhance our brand's influence and product competitiveness among consumers by using flexible online and offline marketing approaches. We will also explore and consolidate sales opportunities through the interaction between influence of different channels;

– In respect of new business, we will continue to reasonably and prudently use 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 impact of urban development and consumption upgrade, the consumption structure of consumers will be shifted to a more refined and mature dimension. This will be accompanied by challenges against the brand influence and brand value attribution of various brands. In order to accommodate the changing market environment and strengthening brand value, developing LI-NING brand value through experience will remain as the theme of the Company's long-term development so as to inject more vitality and creativity to the brand. In the future, we will continue to devote main resources into gaining sports knowledge, technological research and development and development of LI-NING brand experience, and proactively explore and broaden room for business development.

* *For identification purpose only*

STANDING OUT


WADE
CHINA
DAY
WADE

Interim Condensed Consolidated Balance Sheet

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	*8*	784,414	838,185
Land use rights	*9*	75,035	75,986
Intangible assets	*10*	237,166	257,947
Deferred income tax assets		251,537	234,327
Other assets	*12*	6,654	–
Available-for-sale financial assets		–	14,000
Financial assets at fair value through other comprehensive income		14,000	–
Investments accounted for using the equity method		721,199	689,071
Other receivables	*14*	92,843	–
Other receivables and prepayments	*14*	–	101,451
Total non-current assets		2,182,848	2,210,967
Current assets			
Inventories	*11*	1,159,389	1,102,538
Other assets – current portion	*12*	551,884	–
Trade receivables	*13*	1,043,284	1,138,034
Other receivables – current portion	*14*	47,750	–
Other receivables and prepayments – current portion	*14*	–	339,867
Financial assets at fair value through profit or loss	*15*	250,849	–
Restricted bank deposits		200	721
Short-term deposits		109,176	–
Cash and cash equivalents		2,692,546	2,529,222
Total current assets		5,855,078	5,110,382
Total assets		8,037,926	7,321,349

Interim Condensed Consolidated Balance Sheet (Continued)

	Note	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares	16	203,963	203,347
Share premium	16	3,221,519	3,189,792
Shares held for Restricted Share Award Scheme	16	(56,067)	(69,600)
Other reserves	17	1,108,426	1,086,613
Retained earnings	17	929,464	660,895
		5,407,305	5,071,047
Non-controlling interests in equity		2,550	2,550
Total equity		5,409,855	5,073,597
LIABILITIES			
Non-current liabilities			
License fees payable	20	33,925	39,203
Derivative financial instruments		13,740	5,584
Deferred income tax liabilities		24,344	18,323
Deferred income	22	52,719	56,832
Total non-current liabilities		124,728	119,942
Current liabilities			
Trade payables	18	1,104,298	1,145,113
Contract liabilities		109,169	–
Other payables and accruals	19	1,156,512	929,263
License fees payable – current portion	20	49,634	33,392
Current income tax liabilities		83,730	20,042
Total current liabilities		2,503,343	2,127,810
Total liabilities		2,628,071	2,247,752
Total equity and liabilities		8,037,926	7,321,349

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

Interim Condensed Consolidated Income Statement

	Note	Unaudited Six months ended 30 June 2018 RMB'000	2017 RMB'000
Revenue	7	4,712,773	3,996,051
Cost of sales		(2,418,906)	(2,091,882)
Gross profit		2,293,867	1,904,169
Distribution expenses		(1,735,145)	(1,501,996)
Administrative expenses		(297,106)	(229,355)
Reversal of impairment losses on financial assets – net		1,062	9,319
Other income and other gains – net	24	31,121	19,639
Operating profit		293,799	201,776
Finance income	25	8,546	24,851
Finance expenses	25	(7,050)	(16,583)
Finance income – net		1,496	8,268
Share of profit of investments accounted for using the equity method		32,128	34,862
Profit before income tax		327,423	244,906
Income tax expense	26	(58,854)	(55,736)
Profit for the period		268,569	189,170
Attributable to:			
Equity holders of the Company		268,569	189,170
Non-controlling interests		–	–
		268,569	189,170
Earnings per share for profit attributable to equity holders of the Company for the period (expressed in RMB cents per share)			
Basic earnings per share	27	11.10	7.93
Diluted earnings per share	27	10.98	7.50

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

Interim Condensed Consolidated Statement of Comprehensive Income

	Note	Unaudited Six months ended 30 June 2018 RMB'000	 2017 RMB'000
Profit for the period		268,569	189,170
Other comprehensive loss:			
Items that may be reclassified to profit or loss			
Currency translation differences		(873)	(1,848)
Total comprehensive income for the period		267,696	187,322
Attributable to:			
Equity holders of the Company		267,696	187,322
Non-controlling interests		–	–
Total comprehensive income for the period		267,696	187,322

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

Interim Condensed Consolidated Statement of Changes in Equity

	Unaudited							
	Ordinary shares RMB'000 (Note 16)	Share premium RMB'000 (Note 16)	Shares held for Restricted Share Award Scheme RMB'000 (Note 16)	Other reserves RMB'000 (Note 17)	Retained earnings RMB'000 (Note 17)	Subtotal RMB'000	Non-controlling interests in equity RMB'000	Total equity RMB'000
As at 1 January 2018	203,347	3,189,792	(69,600)	1,086,613	660,895	5,071,047	2,550	5,073,597
Total comprehensive income for the period	–	–	–	(873)	268,569	267,696	–	267,696
Transactions with owners:								
Net proceeds from share issuance pursuant to share option schemes	616	27,057	–	–	–	27,673	–	27,673
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	–	47,206	–	47,206	–	47,206
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	4,664	–	(4,664)	–	–	–	–
Shares converted from convertible securities	–	6	–	(6)	–	–	–	–
Shares vested under Restricted Share Award Scheme	–	–	19,850	(19,850)	–	–	–	–
Shares purchased for Restricted Share Award Scheme	–	–	(6,317)	–	–	(6,317)	–	(6,317)
As at 30 June 2018	203,963	3,221,519	(56,067)	1,108,426	929,464	5,407,305	2,550	5,409,855

Interim Condensed Consolidated Statement of Changes in Equity

(Continued)

	Unaudited							
	Ordinary shares RMB'000 *(Note 16)*	Share premium RMB'000 *(Note 16)*	Shares held for Restricted Share Award Scheme RMB'000 *(Note 16)*	Other reserves RMB'000 *(Note 17)*	Retained earnings RMB'000 *(Note 17)*	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

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

Interim Condensed Consolidated Statement of Cash Flows

	Unaudited Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Cash flows from operating activities		
Cash generated from operations	666,554	596,201
Income tax paid	(6,355)	(7,483)
Net cash generated from operating activities	660,199	588,718
Cash flows from investing activities:		
– purchases of property, plant and equipment	(174,724)	(148,795)
– purchases of intangible assets	(14,042)	(16,136)
– proceeds on disposal of property, plant and equipment	1,347	1,098
– interest received	4,560	10,762
– proceeds on disposal of financial assets at fair value through profit or loss	15,444	–
– payment for the disposal of available-for-sale financial assets and partial disposal of a subsidiary	–	(444)
– purchases of short-term deposits	(109,176)	(15,000)
– payments for financial assets at fair value through profit or loss	(250,000)	–
Net cash used in investing activities	(526,591)	(168,515)
Cash flows from financing activities:		
– proceeds from issuance of ordinary shares	27,673	12,230
– shares purchased for Restricted Share Award Scheme	(6,317)	(15,168)
– proceeds from bank borrowings	–	2,000
– interest paid	–	(5,586)
Net cash from/(used in) financing activities	21,356	(6,524)
Net increase in cash and cash equivalents	154,964	413,679
Cash and cash equivalents at beginning of period	2,529,222	1,953,588
Exchange gains/(losses) on cash and cash equivalents	8,360	(2,757)
Cash and cash equivalents at end of period	2,692,546	2,364,510

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

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 2018.

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 2018 has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2017, 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 2017, 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 2018.

(a) New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies and make retrospective adjustments, if applicable, as a result of adopting the following standards:

- IFRS 9 *Financial Instruments*, and
- IFRS 15 *Revenue from Contracts with Customers.*

The impact of the adoption of these standards and the new accounting policies are disclosed in Note 4 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

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

3. Accounting policies *(continued)*

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

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 RMB775,830,000. 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. The Group does not intend to adopt the standard before its effective date.

4. Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

(a) *Impact on the financial statements*

IFRS 9 was generally adopted without restating comparative information. IFRS 15 was adopted using the modified retrospective approach that comparatives information was not restated. The reclassifications are not reflected in the restated balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

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

4. Changes in accounting policies *(continued)*

(a) *Impact on the financial statements (continued)*

Balance sheet (extract)	31 December 2017 as originally presented RMB'000	IFRS 9 RMB'000	IFRS 15 RMB'000	1 January 2018 Restated RMB'000
Non-current assets				
Other assets	–	13,159	–	13,159
Available-for-sale financial assets	14,000	(14,000)	–	–
Financial assets at fair value through other comprehensive income	–	14,000	–	14,000
Other receivables	–	88,292	–	88,292
Other receivables and prepayments	101,451	(101,451)	–	–
Current assets				
Other assets – current portion	–	277,618	189,143	466,761
Other receivables – current portion	–	62,249	–	62,249
Other receivables and prepayments – current portion	339,867	(339,867)	–	–
Total assets	455,318	–	189,143	644,461
Non-current liabilities				
Deferred income	56,832	–	(3,566)	53,266
Current liabilities				
Contract liabilities	–	–	59,213	59,213
Other payable and accruals	929,263	–	133,496	1,062,759
Total liabilities	986,095	–	189,143	1,175,238
Net assets	(530,777)	–	–	(530,777)

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

4. Changes in accounting policies *(continued)*

(b) IFRS 9 Financial Instruments – Impact of adoption

IFRS 9 replaces the provisions of International Accounting Standard 39 ("IAS 39") that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The Group has adopted IFRS 9 *Financial Instruments* from 1 January 2018. In accordance with the transitional provisions in IFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated. The new accounting policies are set out in note 4(c) below.

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets into the appropriate IFRS 9 categories, the majority of the Group's financial assets include:

- investments in unlisted companies previously classified as available-for-sale financial assets was reclassified to financial assets at fair value through other comprehensive income ("FVOCI") under IFRS 9;

- loans and receivables previously measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9; and

- wealth management products was currently classified as at fair value through profit or loss ("FVPL") as a whole under IFRS 9.

The Group has two types of financial assets that are subject to IFRS 9's new expected credit loss model:

- trade receivables for sales of goods or provision of services; and

- other receivables.

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets. The new impairment model requires the recognition of impairment provisions based on expected credit losses model rather than only incurred credit losses model as is the case under IAS 39. The impact of the change in impairment methodology on the Group's retained earnings as at 1 January 2018 was immaterial.

While cash and cash equivalents are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

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

4. Changes in accounting policies *(continued)*

(c) IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018

(i) Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income ("OCI"), or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other income and other gains, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

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

4. Changes in accounting policies *(continued)*

(c) *IFRS 9 Financial Instruments – Accounting policies applied from 1 January 2018 (continued)*

(iii) Measurement (continued)

Debt instruments (continued)

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other income and other gains. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other income and other gains and impairment expenses are presented as separate line item in the statement of profit or loss.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income and other gains in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income and other gains in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iv) Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

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

4. Changes in accounting policies *(continued)*

(d) IFRS 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. The Group has adopted the modified retrospective approach and the comparatives were not restated. The impact of the adoption of IFRS 15 was immaterial and there was no adjustments in retained earnings as at 1 January 2018.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following areas that has been affected:

Accounting for the customer loyalty programme – In previous reporting periods, the consideration received from the sale of goods was allocated to the points and the goods sold using the residual method. Under this method, a part of the consideration equalling the fair value of the points was allocated to the points. The residual part of the consideration was allocated to the goods sold. Under IFRS 15, the total consideration must be allocated to the points and goods based on the relative stand-alone selling prices. Using this new method, the amounts allocated to the goods sold are, on average, higher than the amounts allocated under the residual value method. After Group's management remeasurement, the impact was immaterial and there was no adjustments in retained earnings as at 1 January 2018.

Accounting for refunds – When the customer has a right to return the faulty product within a given period, the Group is obliged to refund the purchase price. The Group previously recognised a provision for returns which was measured on a net basis at the margin on the sale. Revenue was adjusted for the expected value of the returns and cost of sales were adjusted for the value of the corresponding goods expected to be returned. Under IFRS 15, a refund liability for the expected refunds to customers is recognised as adjustment to revenue in other payables and accruals. At the same time, the Group has a right to recover the product from the customer where the customer exercises his right of return and recognises an asset and a corresponding adjustment to cost of sales. The asset is recognised in other assets and measured by reference to the former carrying amount of the product. The costs to recover the products are not material because the customer usually returns the product in a saleable condition at the store.

The Group has changed the presentation of certain amounts in the balance sheet to reflect the terminology of IFRS 15 and IFRS 9:

- Contract liabilities in relation to advances from customers were previously included in other payables and accruals.
- Contract liabilities in relation to the customer loyalty programme were previously presented as deferred income.
- Prepayments were previously presented together with other receivables as other receivables and prepayments are now presented as other receivables (receivables) and other assets (prepayments) in the balance sheet, to reflect their different nature.

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

4. Changes in accounting policies *(continued)*

(e) *IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018*

(i) *Sale of goods – wholesale*

For wholesale business, sales of goods are recognised when control of the products has transferred, being when the products are delivered to the wholesaler, the wholesaler has full discretion over the channel and price to sell the products, and there is no unfulfilled obligation that could affect the wholesaler's acceptance of the products. Delivery occurs when the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the wholesaler, and either the wholesaler has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group has objective evidence that all criteria for acceptance have been satisfied.

The products of the Group are often sold with sales discounts. Revenue from these sales are recognised based on the price specified in the sales contracts, net of the estimated sales discounts at the time of sale. The sales discounts are estimated based on the terms of agreements. No element of financing is deemed present as the sales are made with a credit term of 90 days, which is consistent with the market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

(ii) *Sale of goods – retail*

For retail business, sales of goods are recognised when a group entity sells a product to the customer. Retail sales are usually in cash or by credit card.

(iii) *Sale of goods – internet*

Revenue from the sale of goods on the internet is recognised when the control of the products has transferred to the customer, which is the point of dispatch. Transactions are settled by credit or payment card or through on-line payment platforms.

(iv) *Sale of goods – refunds*

Customers have a right to return products within certain days, the Group is obliged to refund the purchases price. Therefore, a refund liability (included in other payables and accruals) and a right to the returned goods (included in other assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

Notes to Condensed Consolidated Interim Financial Information (Continued)

4. Changes in accounting policies *(continued)*

(e) IFRS 15 Revenue from Contracts with Customers – Accounting policies applied from 1 January 2018 (continued)

(v) Sale of goods – customer loyalty programme

The Group operates a loyalty programme where retail customers accumulate points for purchases made which entitle them to discount on future purchases. Revenue from the award points is recognised when the points are redeemed or when they expire at the end of the next year after the initial sale.

A contract liability is recognised until the points are redeemed or expire.

5. Estimates

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

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017.

6. Financial risk management

6.1 Financial risk factors

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

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

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

6.2 Liquidity risk

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

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

6. Financial risk management *(continued)*

6.3 Fair value estimation

(a) Fair value hierarchy

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

The following table presents the Group's financial assets and financial liabilities measured and recognised at fair value at 30 June 2018 and 31 December 2017 on a recurring basis:

At 30 June 2018	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through other comprehensive income				
Unlisted equity investments	–	–	14,000	14,000
Financial assets at fair value through profit or loss				
Wealth management products	–	–	250,849	250,849
Total financial assets	–	–	264,849	264,849
Financial liabilities				
Derivative financial instruments	–	–	13,740	13,740
Total financial liabilities	–	–	13,740	13,740

At 31 December 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Available-for-sale financial assets				
Unlisted equity investments	–	–	14,000	14,000
Total financial assets	–	–	14,000	14,000
Financial liabilities				
Derivative financial instruments	–	–	5,584	5,584
Total financial liabilities	–	–	5,584	5,584

Notes to Condensed Consolidated Interim Financial Information (Continued)

6. Financial risk management *(continued)*

6.3 Fair value estimation (continued)

(a) Fair value hierarchy (continued)

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

The Group did not measure any financial assets or financial liabilities at fair value on a non-recurring basis as at 30 June 2018.

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

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

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

(b) Valuation techniques used to determine fair values

Specific valuation techniques used to value financial instruments include:

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

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

6. Financial risk management *(continued)*

6.3 Fair value estimation *(continued)*

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

The following table presents the changes in level 3 instruments for the six months ended 30 June 2018:

	Wealth management products RMB'000	Unlisted equity investments RMB'000	Derivative financial instruments RMB'000	Total RMB'000
As at 1 January 2018	–	14,000	(5,584)	8,416
Additions	2,822,500	–	–	2,822,500
Settlements	(2,587,944)	–	–	(2,587,944)
Changes in fair value	16,293	–	(8,156)	8,137
As at 30 June 2018	250,849	14,000	(13,740)	251,109
Changes in unrealised gains or losses for the period included in profit or loss for assets held at the end of the six months ended 30 June 2018	849	–	(8,156)	(7,307)

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

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

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

Notes to Condensed Consolidated Interim Financial Information (Continued)

7. Segment information and revenue

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

Management considered the business from a brand perspective, which included LI-NING brand and all other brands for the year ended 31 December 2017.

For the year ended 31 December 2017, the revenue from LI-NING brand and all other brands were RMB8,819,188,000 and RMB54,724,000 respectively. The revenue from all other brands was less than one percent of total revenue. From 1 January 2018, no segment information was presented for the Group's business segment as the Group was principally engaged in a single line of business of sporting goods.

Revenue breakdown by product category is as follows:

	Unaudited Six months ended 30 June 2018 RMB'000	 2017 RMB'000
Footwear	2,190,747	2,016,771
Apparel	2,299,615	1,759,487
Equipment and accessories	222,411	219,793
Total	4,712,773	3,996,051

Geographical information of revenue

	Unaudited Six months ended 30 June 2018 RMB'000	 2017 RMB'000
The PRC (including the Hong Kong Special Administrative Region)	4,639,133	3,904,583
Other regions	73,640	91,468
Total	4,712,773	3,996,051

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 2018 and 2017, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

Notes to Condensed Consolidated Interim Financial Information (Continued)

8. 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	Construction-in-progress RMB'000	Total RMB'000
Six months ended 30 June 2018							
As at 1 January 2018	363,899	333,078	49,171	46,245	45,792	–	838,185
Additions	–	119,469	8,989	2,456	4,410	732	136,056
Disposals	(98)	(11,360)	(293)	(94)	(603)	–	(12,448)
Depreciation charge	(9,259)	(141,504)	(15,128)	(5,119)	(6,369)	–	(177,379)
As at 30 June 2018	354,542	299,683	42,739	43,488	43,230	732	784,414
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

Depreciation expenses of RMB16,045,000 (30 June 2017: RMB13,898,000) has been charged to cost of sales, RMB151,342,000 (30 June 2017: RMB132,571,000) to distribution expenses and RMB9,992,000 (30 June 2017: RMB8,692,000) to administrative expenses.

Notes to Condensed Consolidated Interim Financial Information (Continued)

9. Land use rights

	Unaudited RMB'000
Six months ended 30 June 2018	
As at 1 January 2018	75,986
Amortisation charge	(951)
As at 30 June 2018	75,035
Six months ended 30 June 2017	
As at 1 January 2017	77,887
Amortisation charge	(951)
As at 30 June 2017	76,936

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

Amortisation of RMB951,000 (30 June 2017: RMB951,000) has been charged to administrative expenses.

10. 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 2018						
As at 1 January 2018	139,474	12,351	47,823	50,094	8,205	257,947
Additions	–	–	2,444	–	–	2,444
Amortisation charge	–	(650)	(9,926)	(9,225)	(3,424)	(23,225)
As at 30 June 2018	139,474	11,701	40,341	40,869	4,781	237,166
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

Amortisation of RMB9,225,000 (30 June 2017: RMB8,529,000) has been charged to distribution expenses and RMB14,000,000 (30 June 2017: RMB14,347,000) to administrative expenses.

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

11. Inventories

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Raw materials	1,737	1,270
Work in progress	3,162	3,134
Finished goods	1,288,963	1,228,486
	1,293,862	1,232,890
Less: provision for write-down of inventories to net realisable value	(134,473)	(130,352)
	1,159,389	1,102,538

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB2,366,250,000 for the six months ended 30 June 2018 (30 June 2017: RMB2,047,932,000).

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 2018 and 2017.

12. Other assets

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Prepaid rentals and other deposits	181,564	–
Advances to suppliers	28,917	–
Prepayment for advertising expenses	1,826	–
Prepayment to related parties *(Note 30)*	63,505	–
Other assets in relation to refunds	218,545	–
Others	64,181	–
	558,538	–
Less: non-current portion	(6,654)	–
Current portion	551,884	–

Notes to Condensed Consolidated Interim Financial Information (Continued)

13. Trade receivables

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Accounts receivable	1,436,884	1,530,779
Notes receivable	4,080	9,100
	1,440,964	1,539,879
Less: allowance for impairment of trade receivables	(397,680)	(401,845)
	1,043,284	1,138,034

Customers are normally granted credit terms within 90 days. At 30 June 2018 and 31 December 2017, ageing analysis of trade receivables based on invoice date are as follows:

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
0 – 30 days	477,349	671,736
31 – 60 days	179,321	229,891
61 – 90 days	226,208	176,579
91 – 180 days	185,314	118,219
Over 180 days	372,772	343,454
	1,440,964	1,539,879

Notes to Condensed Consolidated Interim Financial Information (Continued)

14. Other receivables

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Deposits	99,412	98,221
Loans to a joint venture *(Note a)*	16,443	17,322
License fees receivable	5,250	10,563
Staff advances and other payments for employees	887	1,333
Prepaid rentals	–	180,505
Advances to suppliers	–	9,526
Prepayment for advertising expenses	–	3,453
Others	18,601	120,395
	140,593	441,318
Less: non-current portion	(92,843)	(101,451)
Current portion	47,750	339,867

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

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

(a) As at 30 June 2018, 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)*

15. Financial assets at fair value through profit or loss

The financial assets at fair value through profit or loss are wealth management products, denominated in RMB, with expected rates of return ranging from 1.55% to 4.85% per annum for the six months ended 30 June 2018. The returns on all of these wealth management products are not guaranteed, hence their contractual cash flows do not qualify for solely payments of principal and interest. Therefore they are measured at fair value through profit or loss. None of these investments are past due.

The fair values are based on cash flow discounted using the expected return based on management judgement and are within level 3 of the fair value hierarchy.

16. 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 2018 and 31 December 2017	10,000,000	1,000,000

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

16. Ordinary shares, share premium and shares held for Restricted Share Award Scheme *(continued)*

Issued and fully paid

	Unaudited				
	Number of share of HK$0.10 each (Thousands)	Ordinary shares RMB'000	Share premium RMB'000	Shares held for Restricted Share Award Scheme RMB'000	Total RMB'000
As at 1 January 2018	2,162,159	203,347	3,189,792	(69,600)	3,323,539
Net proceeds from shares issued pursuant to share option schemes *(Note a)*	7,563	616	27,057	–	27,673
Shares converted from convertible securities *(Note 17)*	3	–	6	–	6
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	4,664	–	4,664
Shares vested under Restricted Share Award Scheme	4,792	–	–	19,850	19,850
Shares purchased for Restricted Share Award Scheme	(911)	–	–	(6,317)	(6,317)
As at 30 June 2018	2,173,606	203,963	3,221,519	(56,067)	3,369,415
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 *(Note 21)*	168,629	14,937	630,882	–	645,819
Shares converted from convertible securities *(Note 17)*	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

(a) During the six months ended 30 June 2018, certain directors and employees of the Group exercised their options pursuant to the Company's 2004 and 2014 Share Option Scheme. Hence the Company issued 7,563,000 shares (2017: 3,143,000 shares) to them at weighted-average exercise price of HK$4.49 (2017: HK$4.47) per share (Note 28).

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

17. 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 RMB'000	Total RMB'000
As at 1 January 2018	140,926	310,450	77,006	–	557,445	786	1,086,613	660,895	1,747,508
Profit for the period	–	–	–	–	–	–	–	268,569	268,569
Value of services provided under share option schemes and Restricted Share Award Scheme	–	–	47,206	–	–	–	47,206	–	47,206
Share options lapsed	544	–	(544)	–	–	–	–	–	–
Transfer of fair value of share options exercised and Restricted Share Award Scheme vested to share premium	–	–	(4,664)	–	–	–	(4,664)	–	(4,664)
Shares converted from convertible securities *(Note)*	–	–	–	–	(6)	–	(6)	–	(6)
Shares vested under Restricted Share Award Scheme	–	–	(19,850)	–	–	–	(19,850)	–	(19,850)
Translation difference of foreign currency financial statements	–	–	–	–	–	(873)	(873)	–	(873)
As at 30 June 2018	141,470	310,450	99,154	–	557,439	(87)	1,108,426	929,464	2,037,890
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 21)*	–	–	–	(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

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

17. Reserves *(continued)*

Note:

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

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

(c) The 2013 CS and 2015 CS (collectively referred to as "CS") cannot be redeemed unless the Company exercises the pre-emption right (but shall not be obliged) to redeem (or procure the purchase of) all or part of the principal amount of the CS.

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

(d) As at 30 June 2018, CS with carrying value of HK$1,459,023,000 (equivalent to approximately RMB1,177,480,000) had been converted into ordinary shares of the Company, amongst which carrying value of HK$8,000 (equivalent to approximate RMB6,000) were converted into 3,000 ordinary shares of the Company during the six months ended 30 June 2018 (Note 16).

Notes to Condensed Consolidated Interim Financial Information (Continued)

18. 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 2018 RMB'000	Audited 31 December 2017 RMB'000
0 – 30 days	710,348	852,855
31 – 60 days	329,253	258,212
61 – 90 days	48,211	15,238
91 – 180 days	7,836	7,059
181 – 365 days	4,101	6,621
Over 365 days	4,549	5,128
	1,104,298	1,145,113

19. Other payables and accruals

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Accrued sales and marketing expenses	356,416	267,930
Wages and welfare payables	96,260	128,375
Advances from customers	–	55,647
Other tax payables	60,749	116,950
Payable for property, plant and equipment	14,041	6,726
Others	629,046	353,635
	1,156,512	929,263

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

20. 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 2018	
As at 1 January 2018	72,595
Additions	20,013
Payment of license fees	(11,598)
Amortisation of discount *(Note 25)*	2,160
Adjustment for exchange difference	389
As at 30 June 2018	83,559
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 25)*	2,896
Adjustment for exchange difference	(910)
As at 30 June 2017	72,804

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Analysis of license fees payable:		
Non-current		
– the second to fifth year	22,098	25,280
– more than five years	11,827	13,923
Current	49,634	33,392
	83,559	72,595

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

20. License fees payable *(continued)*

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

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

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Less than 1 year	50,518	34,217
Between 1 and 5 years	27,104	30,601
Over 5 years	23,000	27,000
	100,622	91,818

21. 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.

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

21. Convertible bonds *(continued)*

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

	Unaudited RMB'000
Liability component as at 1 January 2017	567,986
Payment of interest	–
Interest expenses	4,234
Reversal of accrued interest expenses upon conversion	(11,220)
Conversion into ordinary shares and share premium	(561,000)
Liability component as at 30 June 2017	–

22. Deferred income

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

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

23. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Cost of inventories recognised as expenses included in cost of sales	**2,366,250**	2,047,932
Depreciation on property, plant and equipment *(Note a)*	**177,379**	155,161
Amortisation of land use rights and intangible assets	**24,176**	23,827
Advertising and marketing expenses	**492,733**	449,888
Commission and trade fair related expenses	**75,494**	64,460
Staff costs, including directors' emoluments *(Note a)*	**539,950**	428,585
Operating lease rentals and related expenses in respect of land and buildings	**443,861**	405,388
Research and product development expenses *(Note a)*	**61,632**	55,561
Transportation and logistics expenses	**175,672**	140,731
Auditor's remuneration	**2,707**	2,982
– Audit services	**2,500**	2,500
– Non-audit services	**207**	482
Management consulting expenses	**23,612**	14,842
Travelling and entertainment expenses	**23,995**	18,283

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.

24. Other income and other gains – net

	Unaudited	
	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
Government grants	**15,088**	10,845
License fees income	**7,896**	8,794
Fair value gains on financial assets at fair value through profit or loss	**16,293**	–
Fair value losses on derivative financial instruments at fair value through profit or loss	**(8,156)**	–
	31,121	19,639

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

25. Finance income and expenses

	Unaudited Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Finance income		
– Interest income on bank balances and deposits	4,560	10,762
– Net foreign currency exchange gain	3,986	2,869
– Reversal of accrued interest expenses on convertible bonds	–	11,220
	8,546	24,851
Finance expenses		
– Amortisation of discount – license fees payable *(Note 20)*	(2,160)	(2,896)
– Interest expense on bank and other borrowings	–	(5,006)
– Interest expense on convertible bonds	–	(4,234)
– Others	(4,890)	(4,447)
	(7,050)	(16,583)
Finance income – net	1,496	8,268

26. Income tax expense

	Unaudited Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Current income tax		
– Hong Kong profits tax	1,057	660
– PRC corporate income tax	68,504	19,670
– Withholding income tax on interest income from subsidiaries in PRC	482	–
	70,043	20,330
Deferred income tax	(11,189)	35,406
Income tax expense	58,854	55,736

Notes to Condensed Consolidated Interim Financial Information (Continued)

27. 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 57,689,000 ordinary shares (30 June 2017: 57,691,000 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	
	2018 RMB'000	2017 RMB'000
Profit attributable to equity holders of the Company	268,569	189,170
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (in thousands)	2,418,896	2,386,214
Basic earnings per share (RMB cents)	11.10	7.93

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

27. 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 shares issued under share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	Unaudited Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**268,569**	182,184
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (in thousands)	**2,418,896**	2,386,214
Adjustment for the restricted shares (in thousands)	**14,345**	11,645
Adjustment for the share options schemes (in thousands)	**12,926**	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)	**2,446,167**	2,430,134
Diluted earnings per share (RMB cents)	**10.98**	7.50

As at 30 June 2018, there were 53 million share options that could potentially have a dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2018. As at 30 June 2017, there were 6 million share options that could potentially have a dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2017.

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

28. Share-based compensation

(a) *2004 Share Option Scheme*

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

	Unaudited Six months ended 30 June			
	2018		2017	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	5.316	10,682	5.551	14,306
Exercised	4.584	(2,544)	4.519	(1,299)
Lapsed	–	–	5.779	(400)
As at 30 June	5.544	8,138	5.650	12,607
Exercisable as at 30 June	5.535	7,762	5.795	10,418

Share options outstanding under this scheme as at 30 June 2018 and 31 December 2017 have the following expiry date and exercise price:

	Unaudited 30 June 2018		Audited 31 December 2017	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
31 December 2018	4.470	2,745	4.470	4,680
31 December 2018	6.350	1,509	6.350	1,509
30 September 2019	6.350	2,148	6.350	2,148
31 December 2019	4.600	696	4.600	1,184
31 December 2020	6.350	935	6.350	1,056
31 December 2020	4.630	105	4.630	105
		8,138		10,682

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

28. Share-based compensation *(continued)*

(b) *2014 Share Option Scheme*

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

	Unaudited Six months ended 30 June			
	2018		2017	
	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)	Weighted average exercise price (per share) HK$	Outstanding options (Thousands)
As at 1 January	5.554	77,482	4.319	28,300
Granted	9.090	390	–	–
Exercised	4.440	(5,019)	4.440	(1,844)
Lapsed	6.120	(884)	4.440	(1,233)
As at 30 June	5.644	71,969	4.304	25,223
Exercisable as at 30 June	4.314	18,037	4.366	15,456

Share options outstanding under this scheme as at 30 June 2018 and 31 December 2017 have the following expiry date and exercise price:

	Unaudited 30 June 2018		Audited 31 December 2017	
Expiry date	Exercise price (per share) HK$	Share options (Thousands)	Exercise price (per share) HK$	Share options (Thousands)
31 December 2020	4.440	16,037	4.440	21,056
07 June 2026	3.300	3,000	3.300	3,000
31 December 2022	6.120	52,542	6.120	53,426
31 December 2023	9.090	390	–	–
		71,969		77,482

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

28. Share-based compensation *(continued)*

(b) 2014 Share Option Scheme *(continued)*

The fair value of the options granted under the 2014 Share Option Scheme during the six months ended 30 June 2018 determined by using Black-Scholes valuation model was RMB1,139,000 (30 June 2017: nil).

Significant inputs into the model were as follows:

	Unaudited Six months ended 30 June 2018
The 2014 Share Option Scheme	
Weighted average share price (HK$)	8.900
Weighted average exercise price (HK$)	8.900
Expected volatility	49.8%
Expected option life (years)	4.03
Weighted average annual risk free interest rate	2.0%
Expected dividend yield	0.0%

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

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

28. Share-based compensation *(continued)*

(c) *2006 Restricted Share Award Scheme*

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

	Unaudited Six months ended 30 June			
	2018		2017	
	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	9,471	3.200	14,484
Vested	3.200	(4,717)	3.200	(4,809)
Lapsed	3.200	(37)	3.200	(129)
As at 30 June	3.200	4,717	3.200	9,546

(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			
	2018		2017	
	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)	Weighted average fair value (per share) HK$	Number of Restricted Shares granted (Thousands)
As at 1 January	6.018	25,990	4.660	225
Granted	8.800	205	–	–
Vested	4.660	(75)	4.660	(75)
Lapsed	6.002	(337)	–	–
As at 30 June	6.044	25,783	4.660	150

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

29. 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 2018 RMB'000	Audited 31 December 2017 RMB'000
Not later than 1 year	344,162	338,664
Later than 1 year and not later than 5 years	426,223	457,126
Later than 5 years	5,445	4,782
	775,830	800,572

30. Related-party transactions

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

(a) Sales of goods to:

	Unaudited Six months ended 30 June	
	2018 RMB'000	2017 RMB'000
Subsidiaries of Viva China Holdings Limited ("Viva China"), being controlled by a substantial shareholder of the Company	1,147	–

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

30. Related-party transactions *(continued)*

(b) *Purchases of goods from:*

	Unaudited Six months ended 30 June 2018 RMB'000	2017 RMB'000
Subsidiary of Li-Ning Aigle Ventures Company Limited ("Li Ning Aigle Ventures"), being controlled by a joint venture of the Group	1,612	5,351
Subsidiaries of Viva China	5	–
	1,617	5,351

(c) *Sales of services to:*

	Unaudited Six months ended 30 June 2018 RMB'000	2017 RMB'000
Tianjin Kuan Mao Mi Children's Products Company Limited ("Tianjin Kuan Mao Mi"), being an associate of the Group	4,953	6,337
Subsidiaries of Viva China	721	651
Subsidiary of Li-Ning Aigle Ventures	415	324
	6,089	7,312

(d) *Purchases of services from:*

	Unaudited Six months ended 30 June 2018 RMB'000	2017 RMB'000
Subsidiaries of Viva China	141,094	36,329
Double Happiness (an associate of the Group)	3,129	2,760
Elite Holiday (Beijing) Sports Development Co., Ltd., has significant influence by a substantial shareholder of the Company	1,132	–
	145,355	39,089

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

30. Related-party transactions *(continued)*

(d) Purchases of services from: (continued)

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

(e) Key management compensation

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

	Unaudited Six months ended 30 June 2018 RMB'000	 2017 RMB'000
Employee share schemes for value of services provided	24,476	6,500
Salaries and other benefits	6,348	6,403
Contribution to retirement benefit scheme	238	219
	31,062	13,122

(f) Period-end/year-end balances

	Unaudited 30 June 2018 RMB'000	Audited 31 December 2017 RMB'000
Receivables from related parties:		
Prepayments to subsidiaries of Viva China	63,505	37,011
Tianjin Kuan Mao Mi	5,250	10,500
Subsidiaries of Viva China	522	–
	69,277	47,511
Payables to related parties:		
Subsidiaries of Viva China	8,160	11,900

Other Information

INTERIM DIVIDEND

The Board does not recommend to declare an interim dividend in respect of the six months ended 30 June 2018 (2017: 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 2018 entitled the holders to subscribe for 8,137,952 Shares. Details of movements of the options granted under the 2004 Share Option Scheme for the six months ended 30 June 2018 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 01/01/2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30/06/2018	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 *(Note 4)*	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	344,743 *(Note 3(a))*	–	–	–	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Independent non-executive Directors											
Koo Fook Sun, Louis	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	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	344,743 *(Note 3(b))*	–	–	–	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
Chan Chung Bun, Bunny	20/12/2012	4.92 *(Note 1)*	4.47	344,743	–	344,743 *(Note 3(c))*	–	–	–	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
Employees of the Group											
In aggregate	20/12/2012	4.92 *(Note 1)*	4.47	2,954,942	–	900,729 *(Note 3(d))*	–	–	2,054,213	21/12/2013 – 21/12/2017	21/12/2013 – 31/12/2018
In aggregate	13/08/2013	5.07	4.60	1,061,333	–	487,756 *(Note 3(e))*	–	–	573,577	31/03/2014 – 14/08/2018	31/03/2014 – 31/12/2019
In aggregate	17/01/2014	7.00	6.35	1,019,422	–	120,973 *(Note 3(f))*	–	–	898,449	18/01/2015 – 31/03/2019	18/01/2015 – 31/12/2020
In aggregate	04/04/2014	5.10	4.63	104,566	–	–	–	–	104,566	05/04/2015 – 05/04/2019	05/04/2015 – 31/12/2020

Grantees	Date of grant	Exercise price per Share HK$	Adjusted exercise price per Share upon the 2015 Open Offer HK$ (Note 2)	As at 01/01/2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30/06/2018	Vesting Period	Exercise Period
				Number of Shares							
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
				10,681,639	–	2,543,687	–	–	8,137,952		

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$9.08.

   (b) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$9.58.

   (c) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.80.

   (d) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.42.

   (e) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$9.07.

   (f) The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.89.

4. Mr. Chen Yue, Scott resigned as Director with effect from 22 March 2018.

Details of movements of the options granted under the 2014 Share Option Scheme for the six months ended 30 June 2018 are as follows:

Grantees	Date of grant	Exercise price per Share HK$	Number of Shares As at 01/01/2018	Granted during the period	Exercised during the period	Lapsed during the period	Cancelled during the period	As at 30/06/2018	Vesting Period	Exercise Period
Employees of the Group										
In aggregate	01/04/2015	4.44	20,256,000	–	5,019,499 (Note 2)	–	–	15,236,501	01/04/2016 – 01/04/2018	01/04/2016 – 31/12/2020
In aggregate	08/06/2016	3.30	3,000,000	–	–	–	–	3,000,000	08/06/2017 – 08/06/2019	08/06/2017 – 07/06/2026
In aggregate	20/12/2017	6.12	53,425,800	–	–	883,900	–	52,541,900	01/09/2019 – 01/09/2021	01/09/2019 – 31/12/2022
In aggregate	30/05/2018	9.09	–	390,400 (Note 1)	–	–	–	390,400	01/09/2019 – 01/09/2021	01/09/2019 – 31/12/2023
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
			77,481,800	390,400	5,019,499	883,900	–	71,968,801		

Notes:

1. The closing price of the Shares as stated in the Stock Exchange's daily quotations sheets immediately before 30 May 2018 is HK$8.80 per Share.

2. The weighted average closing price of the Shares immediately before the dates on which the options were exercised is HK$8.74.

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 2018, the number of unvested Restricted Shares granted under the 2006 Restricted Share Award Scheme is 4,717,396 Shares. Details of movements of the Restricted Shares granted under the 2006 Restricted Share Award Scheme for the six months ended 30 June 2018 are as follows:

		Number of Restricted Shares					
Date of grant	Fair value per Restricted Share HK$ *(Note)*	As at 01/01/2018	Granted during the period	Vested during the period	Lapsed during the period	As at 30/06/2018	Vesting period
17/06/2016	3.20	9,471,565	–	4,717,302	36,867	4,717,396	01/04/2017 – 01/04/2019
		9,471,565	–	4,717,302	36,867	4,717,396	

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 granted under the 2016 Restricted Share Award Scheme for the six months ended 30 June 2018 are as follows:

		Number of Restricted Shares					
Date of grant	Fair value per Restricted Share HK$ *(Note)*	As at 01/01/2018	Granted during the period	Vested during the period	Lapsed during the period	As at 30/06/2018	Vesting period
15/08/2016	4.66	150,334	–	75,166	–	75,168	01/04/2017 – 01/04/2019
06/09/2017	5.74	6,407,400	–	–	104,400	6,303,000	06/09/2019 – 06/09/2021
23/11/2017	6.18	114,800	–	–	–	114,800	06/09/2019 – 06/09/2021
20/12/2017	6.12	19,317,500	–	–	232,000	19,085,500	01/09/2019 – 01/09/2021
29/05/2018	8.80	–	204,800	–	–	204,800	01/09/2019 – 01/09/2021
		25,990,034	204,800	75,166	336,400	25,783,268	

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 2018, 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	308,415,392	260,791,747	569,207,139 *(Note 1)*	26.04%
Li Qilin	Beneficiary of a discretionary trust and beneficiary of a trust (other than a discretionary trust)	299,374,000	249,827,543	549,201,543 *(Note 3)*	25.12%
Koo Fook Sun, Louis	Personal interest	289,387	344,743 *(Note 2)*	634,130	0.03%
Wang Ya Fei	Personal interest	491,888	–	491,888	0.02%
Chan Chung Bun, Bunny	Personal interest	613,130	–	613,130	0.03%
Su Jing Shyh, Samuel	Personal interest	–	344,743 *(Note 2)*	344,743	0.02%

* The percentage has been calculated based on 2,186,007,349 Shares in issue as at 30 June 2018.

Notes:

1. Mr. Li Ning ("Mr. Li") is interested in 308,415,392 Shares, among which 6,480,272 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 260,791,747 underlying Shares, among which (i) 1,509,470 Shares are share options granted by the Company, (ii) 9,454,734 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. As at 30 June 2018, Viva China is owned as to approximately 18.99% by Victory Mind Assets Limited ("Victory Mind"), approximately 24.10% by Lead Ahead Limited ("Lead Ahead") and approximately 22.61% by Dragon City Management (PTC) Limited ("Dragon City") respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li and 40% by his brother, Mr. Li Chun, a substantial shareholder of the Company, respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor). As a result, by virtue of the SFO, Mr. Li is deemed to be interested in the 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. By virtue of the SFO, 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 a total of 9,454,734 unvested Restricted Shares under the Restricted Share Award Schemes.

2. The underlying Shares are the share options granted by the Company to the respective Directors under the 2004 Share Option Scheme at an exercise price of HK$4.47 each.

3. Mr. Li Qilin is deemed to be interested in 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China by virtue of the SFO. He is the nephew of Mr. Li Ning and the son of Mr. Li Chun, a substantial shareholder of the Company. He is also an executive director of Viva China.

Save as disclosed above, so far as was known to any Director, as at 30 June 2018, 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 2018, 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	308,415,392	260,791,747	569,207,139 *(Note 1)*	26.04%
Li Chun	Interest of controlled corporations	299,374,000	249,827,543	549,201,543 *(Note 2)*	25.12%
Li Qilin	Beneficiary of a discretionary trust and beneficiary of a trust (other than a discretionary trust)	299,374,000	249,827,543	549,201,543 *(Note 3)*	25.12%
Viva China Holdings Limited	Interest of controlled corporation	299,374,000	249,827,543	549,201,543 *(Note 1(a))*	25.12%
Ministry of Finance of the People's Republic of China	Interest of controlled corporations	–	137,796,671	137,796,671 *(Note 4)*	6.30%
Lou Yunli	Interest of controlled corporations	134,583,330	–	134,583,330 *(Note 5)*	6.16%
James Christopher Kralik	Interest of controlled corporations	134,583,330	–	134,583,330 *(Note 5)*	6.16%
FIL Limited	Investment manager	130,735,382	–	130,735,382	5.98%

* The percentage has been calculated based on 2,186,007,349 Shares in issue as at 30 June 2018.

Notes:

1. Mr. Li Ning is interested in 308,415,392 Shares, among which 6,480,272 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 260,791,747 underlying Shares, among which (i) 1,509,470 Shares are share options granted by the Company, (ii) 9,454,734 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. As at 30 June 2018, Viva China is owned as to approximately 18.99% by Victory Mind, approximately 24.10% by Lead Ahead and approximately 22.61% by Dragon City respectively. Mr. Li has personal interest of approximately 0.24% shareholding in Viva China. Each of Lead Ahead and Dragon City is owned as to 60% by Mr. Li and 40% by his brother, Mr. Li Chun respectively. Victory Mind is owned as to 57% by Ace Leader Holdings Limited (which is wholly-owned by a discretionary trust of which Mr. Li is a settlor) and 38% by Jumbo Top Group Limited (which is wholly-owned by a discretionary trust of which Mr. Li Chun is a settlor). As a result, by virtue of the SFO, 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. By virtue of the SFO, 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 a total of 9,454,734 unvested Restricted Shares under the Restricted Share Award Schemes.

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 and the father of Mr. Li Qilin.

3. Mr. Li Qilin is deemed to be interested in 299,374,000 Shares and the 249,827,543 underlying Shares held by Viva China by virtue of the SFO. He is the nephew of Mr. Li Ning and the son of Mr. Li Chun, a substantial shareholder of the Company. He is also an executive director of Viva China.

4. According to the corporate substantial shareholder notice filed on 6 December 2016 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.

5. According to the disclosure of interest notices dated 5 February 2015, 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. By virtue of the SFO, Lou Yunli and James Christopher Kralik is deemed to be interested in the 70,833,330 Shares respectively.

Save as disclosed above, as at 30 June 2018, the Company had not been notified by any person (other than a Director or chief executive of the Company or their respective associate(s)) of any interest and short position in the Shares and underlying Shares which were required to be recorded in the register kept under Section 336 of the SFO.

CONVERTIBLE SECURITIES

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

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

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

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.

On 9 January 2018, the Company cancelled the 2013 Convertible Securities in the principal amount of HK$2.823. During the six months ended 30 June 2018, the 2013 Convertible Securities in an aggregate principal amount of approximately HK$8,743.70 had been converted into 2,747 Shares. As at 30 June 2018, the outstanding 2013 Convertible Securities amounted to approximately HK$402,763,768.16 and the outstanding 2015 Convertible Securities amounted to HK$324,322,031.80 which are convertible into a total of 126,535,899 Shares and 124,739,243 Shares respectively.

Assuming all outstanding convertibles securities were converted into shares as at 30 June 2018, set out below is the shareholding structure of the Company before and after such conversion:

Name of Substantial Shareholder *(Note 1)*	No. of Shares before conversion of outstanding convertible securities	% of holdings	No. of Shares convertible under the convertible securities	No. of Shares after including shares convertible under the outstanding convertible securities	% of holdings
Li Ning	308,415,392 *(Note 2)*	14.11%	249,827,543	558,242,935	22.90%
Public	1,877,591,957	85.89%	1,447,599	1,879,039,556	77.10%
Total	2,186,007,349	100.00%	251,275,142	2,437,282,491	100.00%

Notes:

1. The substantial shareholder has the same meaning ascribed to it under the Listing Rules.

2. Mr. Li Ning is interested in 308,415,392 shares, among which:–

   – 6,480,272 Shares are held as personal interest;

   – 2,561,120 Shares are held by Alpha Talent, which is wholly-owned by Mr. Li Ning; and

   – 299,374,000 Shares are held by Viva China.

   Mr. Li Chun, the brother of Mr. Li Ning and the father of Mr. Li Qilin, is deemed to be interested in the 299,374,000 Shares held by Viva China. Please refer to Notes 1(a) and 2 in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" of this Report for details of his deemed interest.

   Mr. Li Qilin, the nephew of Mr. Li Ning and the son of Mr. Li Chun, is deemed to be interested in the 299,374,000 Shares held by Viva China. Please refer to Notes 1(a) and 3 in the section headed "Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares" of this Report for details of his deemed interest.

As the Company has no contractual obligation to settle the 2013 Convertible Securities and the 2015 Convertible Securities (collectively, the "CS") in cash, it is at the Company's own discretion to determine whether or not to redeem all or part of the principal amount of the CS. The CS holders have substantially the same economic interest as the equity holders (other than voting rights) and the CS are already included in the basic earning per share calculation. For details, please refer to note 27 to the condensed consolidated interim financial information.

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

CHANGES OF DIRECTORS

1. Mr. Chen Yue, Scott resigned as a non-executive Director, a member of the remuneration committee and an authorised representative of the Company with effect from 22 March 2018.

2. Mr. Wu, Jesse Jen-Wei resigned as a non-executive Director with effect from 22 March 2018.

3. Mr. Li Qilin, previously a non-executive Director, has been re-designated as an executive Director with effect from 19 June 2018.

CHANGES IN DIRECTORS' INFORMATION

1. Ms. Wang Ya Fei, an independent non-executive Director, was appointed as an authorised representative of the Company with effect from 22 March 2018.

2. Mr. Li Qilin was appointed as a member of remuneration committee of the Company with effect from 22 March 2018.

3. Subsequent to the re-designation of Mr. Li Qilin from non-executive Director to executive Director, his annual director's fee of RMB215,000 was revised to an annual remuneration of RMB500,000.

4. Dr. Chan Chun Bun, Bunny ceased to be the Vice-Chairperson of the Community Care Fund Task Force of the Commission on Poverty.

Save as disclosed above, there has been no other change in information on the Directors since the date of the annual report of the Company for the year ended 31 December 2017, which is required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its Shares during the six months ended 30 June 2018. On 7 May 2018, based on the Company's instructions, the trustee of the Restricted Share Award Schemes adopted by the Company has purchased a total of 911,000 Shares on the Stock Exchange at a total consideration of HK$7,727,675. Except for the aforesaid purchase of Shares by the trustee 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 2018 to 30 June 2018, 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 2018, Mr. Li Ning, the Executive Chairman and Interim CEO of the Company, assumed the role of chief executive officer of the Company during the period. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles are currently undertaken by Mr. Li Ning. Notwithstanding the above, the Board is of the view that the assumption of the roles of Executive Chairman and Interim CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group's business strategies. The Board also believes that the current arrangement is in the interest of the Company and its Shareholders as a whole.

The Company has adopted the Model Code regarding securities transactions by the Directors. Following specific enquiry by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

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 2018.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2018 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 2018

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 2018: 2,186,007,349 Shares
Market capitalization as at 30 June 2018: approximately HK$18,908,963,569

INTERIM DIVIDEND FOR 2018

Nil

FINANCIAL CALENDAR

Announcement of 2018 interim results: 10 August 2018
Announcement of 2018 annual results: March 2019

CORPORATE WEBSITES

Li Ning Official Website: http://www.lining.com
Li Ning IR Website: http://ir.lining.com

CONTACT FOR INVESTOR RELATIONS

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Glossary

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

"2004 Share Option Scheme"	the share option scheme adopted by the Company on 5 June 2004, amended on 15 May 2009 and 11 October 2012 and terminated on 30 May 2014
"2006 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2006, as amended on 30 April 2009 and 4 July 2012 and expired on 14 July 2016
"2013 Open Offer"	the open offer of convertible securities issued by the Company as set out in the listing document of the Company dated 27 March 2013
"2014 Share Option Scheme"	the share option scheme adopted by the Company on 30 May 2014
"2015 Open Offer"	the open offer of offer securities issued by the Company as set out in the listing document of the Company dated 9 January 2015
"2016 Restricted Share Award Scheme"	the restricted share award scheme adopted by the Company on 14 July 2016
"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 Share Award Schemes"	2006 Restricted Share Award Scheme and 2016 Restricted Share Award Scheme
"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.