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LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

FINANCIAL HIGHLIGHTS

- Net Profit attributable to equity holders of the Company reached RMB113 million, improved from losses of RMB29 million in the corresponding period last year:
 - Revenue increased by 13% to RMB3,596 million
 - Gross profit margin increased by 1.5 percentage points
 - Rationalized cost structure, particularly without provision impact
- Operating cash flow doubled to RMB346 million.
- Significant improvements in working capital:
 - Gross working capital still improved (decreased) by 8% while revenue increased on a year-on year basis.
 - Cash conversion cycle improved (shortened) by 15 days (2015: 90 days/2016: 75 days)

OPERATIONAL HIGHLIGHTS

- Low-teens growth for total platform retail sales, including online and offline channels.
- Overall Same-Store-Sales in the first half of 2016 grew mid-single digit.
- New product sell-out rate improvement continued, up 2 percentage points.
- Discount rate improved over 2 percentage points driven by higher new product mix, particularly in direct retail platform.

INTERIM RESULTS

The board of directors (the “Board”) of Li Ning Company Limited (the “Company” or “Li Ning Company”) hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2016, together with comparative figures, as follows:

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As at 30 June 2016 RMB'000	Audited As at 31 December 2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		782,322	740,305
Land use rights		78,837	79,788
Intangible assets		260,636	265,570
Deferred income tax assets		228,687	230,868
Available-for-sale financial assets		14,000	26,000
Investments accounted for using the equity method		33,219	27,796
Other receivables and prepayments		<u>65,341</u>	<u>43,615</u>
Total non-current assets		<u>1,463,042</u>	<u>1,413,942</u>
Current assets			
Inventories	4	1,028,603	959,652
Trade receivables	5	1,406,384	1,439,513
Other receivables and prepayments – current portion		324,012	309,389
Restricted bank deposits		855	495
Cash and cash equivalents		<u>1,544,570</u>	<u>1,812,572</u>
		<u>4,304,424</u>	<u>4,521,621</u>
Assets of disposal group classified as held for sale	12	<u>1,070,012</u>	<u>961,895</u>
Total current assets		<u>5,374,436</u>	<u>5,483,516</u>
Total assets		<u>6,837,478</u>	<u>6,897,458</u>

	<i>Note</i>	Unaudited As at 30 June 2016 <i>RMB'000</i>	Audited As at 31 December 2015 <i>RMB'000</i>
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		177,492	177,492
Share premium		2,170,335	2,168,867
Shares held for Restricted Share Award Scheme		(7,449)	(2,084)
Other reserves		1,336,255	1,308,230
Accumulated deficit		<u>(382,994)</u>	<u>(472,602)</u>
		3,293,639	3,179,903
Non-controlling interests in equity		<u>262,921</u>	<u>230,637</u>
Total equity		<u>3,556,560</u>	<u>3,410,540</u>
LIABILITIES			
Non-current liabilities			
License fees payable		24,846	27,886
Borrowings		200,000	200,000
Convertible bonds		728,436	710,033
Deferred income tax liabilities		8,724	11,503
Deferred income		<u>59,843</u>	<u>65,710</u>
Total non-current liabilities		<u>1,021,849</u>	<u>1,015,132</u>
Current liabilities			
Trade payables	6	995,136	997,473
Other payables and accruals		825,857	696,168
License fees payable – current portion		45,183	63,357
Current income tax liabilities		6,671	3,777
Borrowings		10,000	366,499
Convertible bonds – interest payable		<u>12,500</u>	<u>12,500</u>
		<u>1,895,347</u>	<u>2,139,774</u>
Liabilities of disposal group classified as held for sale	12	<u>363,722</u>	<u>332,012</u>
Total current liabilities		<u>2,259,069</u>	<u>2,471,786</u>
Total liabilities		<u>3,280,918</u>	<u>3,486,918</u>
Total equity and liabilities		<u>6,837,478</u>	<u>6,897,458</u>

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
Continuing operations			
Revenue	3	3,595,635	3,186,507
Cost of sales	7	<u>(1,918,094)</u>	<u>(1,745,259)</u>
Gross profit		1,677,541	1,441,248
Distribution expenses	7	(1,355,081)	(1,243,733)
Administrative expenses	7	(202,996)	(157,674)
Other income and other gains – net	8	<u>33,183</u>	<u>17,362</u>
Operating profit		152,647	57,203
Finance income	9	4,343	13,943
Finance expenses	9	<u>(71,825)</u>	<u>(76,359)</u>
Finance expenses – net	9	(67,482)	(62,416)
Share of profit of investments accounted for using the equity method		<u>3,423</u>	<u>3,325</u>
Profit/(Loss) before income tax		88,588	(1,888)
Income tax expense	10	<u>(20,279)</u>	<u>(61,558)</u>
Profit/(Loss) for the period from continuing operations		68,309	(63,446)
Discontinued operations			
Profit for the period from discontinued operations	12	<u>80,018</u>	<u>63,204</u>
Profit/(Loss) for the period		<u>148,327</u>	<u>(242)</u>
Attributable to:			
Equity holders of the Company		113,421	(29,407)
Non-controlling interests		<u>34,906</u>	<u>29,165</u>
		<u>148,327</u>	<u>(242)</u>

		Unaudited	
		Six months ended 30 June	
<i>Note</i>		2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
Profit/(Loss) attributable to equity holders of the Company arises from:			
	Continuing operations	68,309	(63,446)
	Discontinued operations	<u>12</u> 45,112	<u>34,039</u>
		<u>113,421</u>	<u>(29,407)</u>
Earnings/(Losses) per share attributable to equity holders of the Company (RMB cents)			
Basic earnings/(losses) per share			
	From continuing operations	3.11	(3.35)
	From discontinued operations	<u>2.05</u>	<u>1.80</u>
		<u>5.16</u>	<u>(1.55)</u>
Diluted earnings/(losses) per share			
	From continuing operations	3.11	(3.35)
	From discontinued operations	<u>2.05</u>	<u>1.80</u>
		<u>5.16</u>	<u>(1.55)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Profit/(Loss) for the period	148,327	(242)
Other comprehensive income:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>292</u>	<u>5</u>
Total comprehensive income/(loss) for the period	<u>148,619</u>	<u>(237)</u>
Attributable to:		
Equity holders of the Company	113,713	(29,402)
Non-controlling interests	<u>34,906</u>	<u>29,165</u>
	<u>148,619</u>	<u>(237)</u>
Total comprehensive income/(loss) attributable to equity holders of the Company arises from:		
Continuing operations	68,601	(63,441)
Discontinued operations	<u>45,112</u>	<u>34,039</u>
	<u>113,713</u>	<u>(29,402)</u>

Notes:

1. General Information

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

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

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

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board on 10 August 2016.

This condensed consolidated interim financial information has not been audited.

2. Basis of preparation and significant accounting policies

This condensed consolidated interim financial information for the six months ended 30 June 2016 has been prepared in accordance with International Accounting Standard (“IAS”) 34, ‘Interim Financial Reporting’. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

(a) Amendments to IFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

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

(i) IFRS 9 Financial instruments

IFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group is currently assessing whether it should adopt IFRS 9 before its mandatory date.

(ii) IFRS 15 Revenue from contracts with customers

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Management is currently assessing the effects of applying the new standard on the Group’s financial statements.

On 23 October 2015, and 4 December 2015, the Group’s management and shareholders have respectively approved the disposal of 10% equity interest in Shanghai Double Happiness Co., Ltd. (“Double Happiness”), a 57.5% owned subsidiary of the Company. Accordingly, Double Happiness has been treated as discontinued operation. The related revenue, expenses, and other operating results are presented as a single amount in the income statement as “profit for the period from discontinued operations”. Comparative figures are also reclassified for consistent presentation purpose. The assets and liabilities related to Double Happiness have been presented as “held for sale” on the balance sheet.

3. Revenue and segment information

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

Management considers the business from a brand perspective. During the six months ended 30 June 2015, the Group had three reportable segments as follows: LI-NING brand, Double Happiness brand and all other brand segments. During the year ended 31 December 2015, the Group decided to dispose of 10% equity interest in Shanghai Double Happiness Co., Ltd. (“Double Happiness”) and announced its disposal plan on 23 October 2015. Upon the completion of the disposal transaction the Group will no longer consolidate Double Happiness and account for it as an associate company, thus it will not be a reportable segment of the Group in the future. Double Happiness was classified as held-for-sale and discontinued operations as at and for the six months ended 30 June 2016.

Management assesses the performance of the operating segments based on operating profit/(loss). Segment information provided to Management for decision-making is measured in a manner consistent with that in this financial information.

Revenue consists of sales from LI-NING brand, all other brands from continuing operations and Double Happiness brand from discontinued operations, which are RMB3,552,656,000, RMB42,979,000 and RMB409,455,000 for the six months ended 30 June 2016 and RMB3,127,276,000, RMB59,231,000 and RMB454,161,000 for the six months ended 30 June 2015, respectively.

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

The segment information provided to Management for the reportable segments for the six months ended 30 June 2016 and 2015 is as follows:

	Unaudited				Total RMB'000
	LI-NING brand RMB'000	Continuing All other brands RMB'000	Subtotal RMB'000	Discontinued Double Happiness brand* RMB'000	
Six months ended 30 June 2016					
Total revenue	3,552,656	58,358	3,611,014	409,455	4,020,469
Inter-segment revenue	-	(15,379)	(15,379)	-	(15,379)
Revenue from external customers	3,552,656	42,979	3,595,635	409,455	4,005,090
Operating profit	138,515	14,132	152,647	103,291	255,938
Distribution and administrative expenses	1,552,528	5,549	1,558,077	81,562	1,639,639
Depreciation and amortisation	149,097	2,413	151,510	-	151,510
Six months ended 30 June 2015					
Total revenue	3,127,276	75,802	3,203,078	454,173	3,657,251
Inter-segment revenue	-	(16,571)	(16,571)	(12)	(16,583)
Revenue from external customers	3,127,276	59,231	3,186,507	454,161	3,640,668
Operating profit	42,376	14,827	57,203	84,373	141,576
Distribution and administrative expenses	1,391,315	10,092	1,401,407	111,763	1,513,170
Depreciation and amortisation	97,542	5,082	102,624	12,121	114,745

* *Double Happiness brand has been classified as discontinued operation, and the related revenue, expenses and tax are presented as a single amount in the interim condensed consolidated income statement as “profit for the period from discontinued operations”.*

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

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Operating profit from continuing operations	152,647	57,203
Finance income	4,343	13,943
Finance expenses	(71,825)	(76,359)
Share of profit of investments accounted for using the equity method	<u>3,423</u>	<u>3,325</u>
Profit/(Loss) before income tax from continuing operations	<u>88,588</u>	<u>(1,888)</u>
Operating profit from discontinued operations	103,291	84,373
Finance income	1,043	447
Finance expenses	<u>(79)</u>	<u>(869)</u>
Profit before income tax from discontinued operations	<u>104,255</u>	<u>83,951</u>

Geographical information of revenue

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Continuing operations		
The PRC (including the Hong Kong Special Administrative Region)	3,512,229	3,120,632
Other regions	<u>83,406</u>	<u>65,875</u>
Revenue from continuing operations	<u>3,595,635</u>	<u>3,186,507</u>
Discontinued operations		
The PRC (including the Hong Kong Special Administrative Region)	387,416	427,081
Other regions	<u>22,039</u>	<u>27,080</u>
Revenue from discontinued operations	<u>409,455</u>	<u>454,161</u>
Total	<u>4,005,090</u>	<u>3,640,668</u>

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 2016 and 2015, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Inventories

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Raw materials	1,645	1,319
Work in progress	2,990	3,172
Finished goods	<u>1,200,807</u>	<u>1,124,858</u>
	1,205,442	1,129,349
Less: provision for write-down of inventories to net realisable value	<u>(176,839)</u>	<u>(169,697)</u>
	<u>1,028,603</u>	<u>959,652</u>

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB1,871,053,000 for the six months ended 30 June 2016 (30 June 2015: RMB1,685,055,000). 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 2016 and 2015.

5. Trade receivables

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Accounts receivable	1,872,220	1,889,870
Notes receivable	<u>6,538</u>	<u>25,400</u>
	1,878,758	1,915,270
Less: allowance for impairment of trade receivables	<u>(472,374)</u>	<u>(475,757)</u>
	<u>1,406,384</u>	<u>1,439,513</u>

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

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
0 – 30 days	418,445	539,433
31 – 60 days	237,163	242,387
61 – 90 days	319,405	251,607
91 – 180 days	431,371	509,786
Over 180 days	<u>472,374</u>	<u>372,057</u>
	<u>1,878,758</u>	<u>1,915,270</u>

Customers are normally granted credit terms within 90 days. As at 30 June 2016, trade receivables of RMB903,745,000 (31 December 2015: RMB881,843,000) were past due. The Company's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, ageing of the trade receivable, and the latest communication with individual customers. Management have been closely monitoring the credit risk of each customer and actively pursue collection of those receivables until all efforts are exhausted. An allowance for impairment of RMB472,374,000 has been made as at 30 June 2016 (31 December 2015: RMB475,757,000).

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

As of 30 June 2016, trade receivables of RMB431,371,000 (31 December 2015: RMB406,086,000) were past due but not impaired. These relate to a number of independent customers which do not have significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
91 – 180 days	<u>431,371</u>	<u>406,086</u>

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

	Unaudited Six months ended 30 June 2016 RMB'000	2015 RMB'000
As at 1 January	475,757	596,766
Reversal of provision for impairment of trade receivables	(3,241)	(50,941)
Trade receivables written off during the period as uncollectible	<u>(142)</u>	<u>(169)</u>
As at 30 June	<u>472,374</u>	<u>545,656</u>

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

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

6. Trade payables

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

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
0 – 30 days	547,698	665,265
31 – 60 days	349,338	240,779
61 – 90 days	83,058	82,316
91 – 180 days	9,109	4,708
181 – 365 days	2,369	1,935
Over 365 days	<u>3,564</u>	<u>2,470</u>
	<u>995,136</u>	<u>997,473</u>

7. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories recognised as expenses included in cost of sales	1,871,053	1,685,055
Depreciation on property, plant and equipment (<i>Note a</i>)	128,853	77,748
Amortisation of land use rights and intangible assets	22,657	24,876
Advertising and marketing expenses	433,918	471,797
Commission and trade fair related expenses	50,664	23,478
Staff costs, including directors' emoluments	351,745	321,440
Operating lease rentals and related expenses in respect of land and buildings	370,181	381,749
Research and product development expenses (<i>Note a</i>)	58,819	71,687
Transportation and logistics expenses	135,445	119,817
Reversal of provision for impairment of trade receivables	(3,241)	(50,941)
Auditor's remuneration	2,840	2,610
– Audit services	2,500	2,400
– Non-audit services	340	210
Management consulting expenses	22,018	23,475
Travelling and entertainment expenses	16,879	15,082

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.

8. Other income and other gains – net

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	22,725	10,911
License fees income	8,980	6,451
Profit on disposal of Available-for-sale financial assets	1,478	–
	<u>33,183</u>	<u>17,362</u>

9. Finance income and expenses

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Finance income		
Interest income on bank balances and deposits	4,343	3,127
Net foreign currency exchange gain	—	10,816
	<u>4,343</u>	<u>13,943</u>
Finance expenses		
Amortisation of discount – license fees payable	(3,894)	(6,893)
Interest expense on bank and other borrowings	(10,173)	(20,561)
Interest expense on convertible bonds	(33,403)	(31,806)
Net foreign currency exchange loss	(4,081)	—
Others	(20,274)	(17,099)
	<u>(71,825)</u>	<u>(76,359)</u>
Finance expenses – net	<u>(67,482)</u>	<u>(62,416)</u>

10. Income tax expense

	Unaudited	
	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current income tax		
– Hong Kong profits tax	2,677	2,016
– PRC corporate income tax	15,209	777
– Withholding income tax on interest income from subsidiaries in PRC	2,991	1,687
	<u>20,877</u>	<u>4,480</u>
Deferred income tax	(598)	57,078
Income tax expense	<u>20,279</u>	<u>61,558</u>

11. Dividends

The Board did not propose interim dividend for the six months ended 30 June 2016 and 2015.

12. Non-current assets held-for-sale and discontinued operations

The assets and liabilities related to Double Happiness have been presented as held for sale following the approval of the Group's Management and shareholders to dispose of 10% equity interest in Double Happiness to Viva China Holdings Limited ("Viva China") at a consideration of RMB124,992,000 on 23 October 2015 and 4 December 2015, respectively. Given that Double Happiness is classified as discontinued operation, a single amount is presented in the income statement, and comparative figures are also reclassified for consistent presentation purpose. The disposal transaction is expected to be completed during the second half of 2016.

(a) *Assets of disposal group classified as held for sale*

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Property, plant and equipment/Land use rights	482,994	470,884
Intangible assets	159,808	159,808
Deferred income tax assets	17,908	16,173
Inventories	107,878	123,842
Trade receivables	95,092	10,894
Other receivables and prepayments	2,063	3,601
Cash and cash equivalents	204,269	176,693
Total	1,070,012	961,895

(b) *Liabilities of disposal group classified as held for sale*

	Unaudited 30 June 2016 RMB'000	Audited 31 December 2015 RMB'000
Deferred income tax liabilities	60,009	60,009
Trade payables	124,061	76,792
Other payables and accruals	168,670	184,694
Current income tax liabilities	10,982	10,517
Total	363,722	332,012

Analysis of the result of discontinued operations is as follows:

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Revenue	409,455	454,161
Expenses	(305,200)	(370,210)
Profit before tax	104,255	83,951
Income tax expense	(24,237)	(20,747)
Profit for the period from discontinued operations	80,018	63,204
Attributable to:		
– Equity holders of the Company	45,112	34,039
– Non-controlling interests	34,906	29,165
Profit for the period from discontinued operations	80,018	63,204

(c) *Cash flows*

	Unaudited Six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Cash flows from operating activities	41,925	81,595
Cash flows from investing activities	(12,529)	(2,790)
Cash flows from financing activities	(2,623)	(2,603)
Net increase in cash and cash equivalents	26,773	76,202

INTERIM DIVIDENDS

The Board resolved not to distribute any interim dividend for the six months ended 30 June 2016 (2015: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the six months ended 30 June 2016 are set out below:

	Unaudited Six months ended 30 June		Change (%)
	2016	2015	
Income statement items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue	3,595,635	3,186,507	12.8
Gross profit	1,677,541	1,441,248	16.4
Operating profit	152,647	57,203	166.9
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 1)	307,580	163,152	88.5
Profit/(Loss) attributable to equity holders (Note 2)	113,421	(29,407)	(485.7)
Basic earnings/(losses) per share (RMB cents) (Note 3)	5.16	(1.55)	(432.9)
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	46.7	45.2	
Operating profit margin (%)	4.2	1.8	
Effective tax rate (%)	22.9	(3,260.5)	
Margin of profit/(loss) attributable to equity holders (%)	3.2	(0.9)	
Return on equity attributable to equity holders (%)	3.5	(1.2)	
Expenses to revenue ratios			
Staff costs (%)	9.8	10.1	
Advertising and marketing expenses (%)	12.1	14.8	
Research and product development expenses (%)	1.6	2.2	
Asset efficiency			
Average inventory turnover (days) (Note 4)	94	112	
Average trade receivables turnover (days) (Note 5)	72	71	
Average trade payables turnover (days) (Note 6)	91	93	
	Unaudited	Audited	
	30 June	31 December	
	2016	2015	
Asset ratios			
Debt-to-equity ratio (%) (Note 7)	99.6	109.7	
Interest-bearing debt-to-equity ratio (%) (Note 8)	28.9	40.5	
Net asset value per share (RMB cents)	188.85	180.91	

Notes:

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of profit/(loss) for the period from continuing operations, income tax expense, finance expenses – net, depreciation on property, plant and equipment, and amortisation of land use rights and intangible assets.
 2. Including profit attributable to equity holders for the period from 1 January to 31 March 2016: RMB41,495,000.
 3. The calculation of basic earnings/(losses) per share is based on the profit/(loss) attributable to equity holders of the Company for the period, divided by the weighted average number of ordinary shares in issue less ordinary shares held for Restricted Share Award Scheme.
 4. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances of the period (excluding Double Happiness), divided by cost of sales and multiplied by the number of days in the period.
 5. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables of the period (excluding Double Happiness), divided by revenue and multiplied by the number of days in the period.
 6. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables of the period (excluding Double Happiness), divided by total purchases and multiplied by the 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 2016 amounted to RMB3,595,635,000, representing an increase of 12.8% as compared to the corresponding period of 2015.

Revenue breakdown by brand and product category

	Six months ended 30 June				Revenue Change (%)
	2016	% of total revenue	2015	% of total revenue	
	RMB'000		RMB'000		
LI-NING brand					
Footwear	1,827,921	50.8	1,585,214	49.7	15.3
Apparel	1,538,450	42.8	1,345,443	42.2	14.3
Equipment/accessories	186,285	5.2	196,619	6.2	(5.3)
Total	3,552,656	98.8	3,127,276	98.1	13.6
Other brands*					
Total	42,979	1.2	59,231	1.9	(27.4)
Total	3,595,635	100.0	3,186,507	100.0	12.8

* Including Lotto, Kason and Aigle.

The Group's core brand, LI-NING brand, recorded revenue of RMB3,552,656,000, which accounted for 98.8% of the Group's total revenue, representing a year-on-year increase of 13.6%. The business of the Group has entered a phase of steady growth due to the following factors: (a) the five key categories of the Company have received market recognition, particularly for running, basketball and fitness training products which show significant sales growth. With gradually improved distributors' confidence, the revenue from sales to franchised distributors recorded a year-on-year increase; (b) the Company made continuous efforts in developing mobile internet services, fostering rapid development of e-commerce channel with a more than doubled year-on-year sales growth; and (c) same-store sales of self-operated points of sales ("POS") also registered growth. All of the above factors have contributed to the Group's steady growth in revenue.

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

	Six months ended 30 June		Change (%)
	2016 % of revenue of LI-NING brand	2015 % of revenue of LI-NING brand	
LI-NING brand			
PRC market			
Sales to franchised distributors	49.4	51.3	(1.9)
Sales from direct operation	35.5	39.6	(4.1)
Sales from e-commerce channel	12.8	7.0	5.8
International markets	2.3	2.1	0.2
Total	100.0	100.0	

Revenue breakdown of LI-NING brand by geographical location

	Note	Six months ended 30 June		Revenue Change (%)
		2016 % of revenue of LI-NING brand	2015 % of revenue of LI-NING brand	
		RMB'000	RMB'000	
LI-NING brand				
PRC market				
Northern region	2	1,837,120	1,671,767	9.9
Southern region	3	1,632,130	1,389,634	17.5
International markets		83,406	65,875	26.6
Total		3,552,656	3,127,276	13.6

Notes:

- In 2016, the Group restructured and adjusted its sales system and related organizational structure to re-classify the original geographical locations into two sub-regions, namely the Northern region and Southern region of the PRC. The purpose of this was to further facilitate the transformation into a retail business model, which will enhance the product operation and production efficiency, as well as the quality and profitability of single-store operation. Comparative figures have also been restated for consistent presentation purpose.
- The Northern region includes Beijing, Tianjin, Shanxi, Shandong, Hebei, Inner Mongolia, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Gansu, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region and Qinghai.
- The Southern region includes Guangdong, Guangxi, Fujian, Hainan, Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing, Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei and Anhui.

Compared with the corresponding period last year, the Southern region and International markets recorded relatively significant growth while the growth in the Northern region slowed down.

Cost of Sales and Gross Profit

For the six months ended 30 June 2016, overall cost of sales of the Group amounted to RMB1,918,094,000 (2015: RMB1,745,259,000), and overall gross profit margin was 46.7% (2015: 45.2%). Gross profit margin for the period increased mainly due to the increase in the proportion of sales of new products with higher gross profit margin.

Cost of sales of LI-NING brand amounted to RMB1,894,796,000 (2015: RMB1,710,947,000), with gross profit margin of 46.7% (2015: 45.3%). During the period, the tag-cost-ratio was improved as the Company exercised effective control on procurement costs. Meanwhile, the structure of the sales of new and old retail and wholesale products was improved. The significant growth in e-commerce services also had positive effect on the gross profit margin. However, certain positive impacts were offset as the inventory balance increased compared to what it was in the beginning of the year, leading to the additional inventory provision for the period: this is in comparison to the corresponding period last year when the provision was reversed with the clearance of obsolete inventory. Taking into account all the above factors, LI-NING brand's gross profit margin still represented a year-on-year increase of 1.4 percentage points in the first half of 2016.

Distribution Expenses

For the six months ended 30 June 2016, the Group's overall distribution expenses amounted to RMB1,355,081,000 (2015: RMB1,243,733,000), accounting for 37.7% (2015: 39.0%) of the Group's total revenue.

Distribution expenses of LI-NING brand amounted to RMB1,352,335,000 (2015: RMB1,239,504,000), accounting for 38.1% (2015: 39.6%) of LI-NING brand's revenue. During the period, as the Group invested its resources mainly in channel expansion, the number of self-operated POS significantly increased year-on-year, leading to a corresponding increase in staff costs, operation and maintenance costs and asset depreciation charges of POS. E-commerce channel developed rapidly, leading to a significant increase in the relevant commission fees. In addition, the sales growth resulted in the increase in logistics expenses. However, at the same time, the Group placed stringent control on the relevant advertising and marketing expenses. Taking into account all the above factors, although LI-NING brand's distribution expenses increased year-on-year, its percentage to revenue decreased by 1.5 percentage points.

Administrative Expenses

For the six months ended 30 June 2016, the Group's overall administrative expenses amounted to RMB202,996,000 (2015: RMB157,674,000), accounting for 5.6% (2015: 4.9%) of the Group's total revenue.

Administrative expenses of LI-NING brand amounted to RMB200,193,000 (2015: RMB151,811,000), accounting for 5.6% of LI-NING brand's revenue, or 0.7 percentage points higher than the 4.9% for the corresponding period in 2015. These expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses. The increase in administrative expenses during the period was mainly due to the impact of provision for impairment of trade receivables. As the distributors' business was stable during the period, provisions for impairment of trade receivables remained stable compared with the beginning of the period. However, during the corresponding period last year, provisions for impairment were significantly reversed following the improvement of the distributors' business. Therefore, LI-NING brand's administrative expenses increased year-on-year.

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

For the six months ended 30 June 2016, the Group's EBITDA amounted to RMB307,580,000 (2015: RMB163,152,000), representing a year-on-year increase of 88.5%. This was mainly attributable to the improved performance of LI-NING brand.

EBITDA of LI-NING brand amounted to RMB287,565,000 (2015: RMB139,918,000). This was mainly attributable to the increase in revenue and gross profit of the Company and the decrease in expense ratio resulting from control of various expenses.

Finance Expenses

For the six months ended 30 June 2016, the Group's net finance expenses amounted to RMB67,482,000 (2015: RMB62,416,000), representing 1.9% (2015: 2.0%) of the Group's total revenue. The net finance expenses included the interest expense of convertible bonds amounting to RMB33,403,000 (2015: RMB31,806,000).

Income Tax Expense

For the six months ended 30 June 2016, income tax expense of the Group amounted to RMB20,279,000 (2015: RMB61,558,000) and the effective tax rate was 22.9% (2015: -3,260.5%, primarily deferred income tax expense arising from the reversal of deferred income tax assets).

Profit for the Period of Discontinued Operations

On 23 October 2015, the Group and Viva China entered into a share transfer agreement, pursuant to which the Group agreed to sell 10% of the equity interest in Double Happiness to Viva China at a consideration of RMB124,992,000. Upon completion of the equity transfer, the Group will indirectly hold 47.5% of the equity interest in Double Happiness while Viva China will indirectly hold 10% of the equity interest in Double Happiness, and Double Happiness will cease to be a subsidiary of the Group.

According to IFRS 5: Non-current Assets Held for Sale and Discontinued Operations, for the purpose of the Group, Double Happiness is qualified for classification as assets held for sale and discontinued operation. The net profit from Double Happiness, which is principally engaged in the operation of Double Happiness brand, was thus classified as profit for the period from discontinued operations. During the six months ended 30 June 2016, net profit from Double Happiness amounted to RMB80,018,000 (2015: RMB63,204,000), which was mainly attributable to the effective control of distribution and administrative expenses.

Overall Profitability Indicators

The overall profitability indicators of the Group improved during the six months ended 30 June 2016, which was attributable to the increase in both sales revenue and gross profit, and the decrease in expense ratios of the Group during the period. The Group's profit attributable to equity holders amounted to RMB113,421,000 (2015: loss attributable to equity holders of RMB29,407,000). The corresponding margin of profit attributable to equity holders for the period was 3.2% (2015: -0.9%), representing a year-on-year increase of 4.1 percentage points. Return on equity attributable to equity holders was 3.5% (2015: -1.2%), representing a year-on-year increase of 4.7 percentage points.

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2016 was the same as that in 2015. Inventories are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy to be adequate in ensuring appropriate provision for inventories is made by the Group.

As at 30 June 2016, the accumulated provision for inventories was RMB176,839,000 (31 December 2015: RMB169,697,000). As at the end of the period, there was an increase in the gross value of inventories as compared with that as at 31 December 2015, with a slight increase in the balance of the overall provision for inventories.

Provision for Doubtful Debts

The Group's accounting policy in respect of provision for doubtful debts for the first half of 2016 was the same as that in 2015.

As at 30 June 2016, the accumulated provision for doubtful debts was RMB472,374,000 (31 December 2015: RMB475,757,000). As the business of our channel distributors was in steady condition during the period, the balance of provision for doubtful debts remained stable accordingly.

Liquidity and Financial Resource

The Group's net cash inflow from operating activities for the six months ended 30 June 2016 amounted to RMB345,869,000 (2015: RMB166,642,000). As at 30 June 2016, cash and cash equivalents (including cash at banks and in hand, and fixed deposits held at banks with original maturity of no more than three months) amounted to RMB1,544,570,000, representing a net decrease of RMB268,002,000 as compared with the position as at 31 December 2015. The decrease was due to the following items:

	Unaudited Six months ended 30 June 2016 RMB'000
Item	
Operating activities:	
Net cash from operating activities	345,869
Investing activities:	
Net capital expenditure	(205,101)
Proceeds from the disposal of available-for-sale financial assets	13,478
Payment for investment in associates	(2,000)
Loan repayments from joint venture	5,238
Net cash from other investing activities	4,582
Financing activities:	
Net repayment of borrowings	(354,819)
Net cash used in other financing activities	(50,881)
	<u>(243,634)</u>
Add: Exchange gain on cash and cash equivalents	3,208
Less: Net increase in cash classified as held for sale	<u>27,576</u>
Net increase in cash and cash equivalents	<u>(268,002)</u>

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

On 17 December 2014, the Company published an announcement on the implementation of the Equity Fund Raising Plan. On 30 January 2015, the Company completed the fund raising and the net proceeds from the open offer amounted to HK\$1,515,030,000, equivalent to a net price of HK\$2.54 per offer security. As of 30 June 2016, the Company has applied 37% of the net proceeds for paying down the Group's debts, 44% for store network expansion and retail capabilities optimization and 16% for product research and development. The remaining balance has been applied for general working capital.

As at 30 June 2016, the Group's available banking facilities amounted to RMB700,000,000, amongst which outstanding borrowings amounted to RMB210,000,000. As at the end of the period, the ratio of outstanding borrowings and convertible bonds to equity attributable to equity holders (i.e. the gearing ratio) was 28.9% (31 December 2015: 40.5%).

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

Foreign Exchange Risk

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

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

Pledge of Assets

As at 30 June 2016, buildings and land use rights with net book value of RMB377,919,000 (31 December 2015: RMB386,548,000) and RMB78,733,000 (31 December 2015: RMB79,661,000) respectively were secured for acquiring the Group's borrowings.

Contingent Liabilities

As at 30 June 2016, the Group had no significant contingent liabilities.

BUSINESS REVIEW

In 2016, the sporting goods industry in China continued to gain support from national policies, consumers' pursuit of healthy lifestyles and the increasing participation and passion for sports amongst the public. Meanwhile, challenges arising from various factors, such as the sluggishness of macro economy, still cannot be neglected. Based on the various initiatives implemented in 2015, Li Ning Company will continue to seize market opportunities and consolidate our results. During the first half of 2016, we mainly focused on nurturing brand loyalty. To achieve this, we leveraged our brand influence to improve user experience across various channels and platforms.

During the first half of 2016, our products remained one of our core development areas. In respect of sports and leisure products, we integrated popular elements into our products so as to cater to the ever-changing preferences and demands of consumers. In terms of professional sports products, we continued to follow the unique sports functionality of LI-NING brand, and continued to optimise and upgrade our products. For example, we integrated smart technology into the "LI-NING Cloud III Running Shoes" in the first quarter, receiving positive feedback from the market on the combination of tradition and innovation. Furthermore, we incorporated the popular "all-in-one weaving" technique with our classic lightweight features in the "Super Light 13th Running Shoes", also making it available with multi-color solutions so as to attract customers' interest. With regard to sales channels, we continued to implement brand refinement policies and maintain our annual growth targets. Meanwhile, the Company will continue to strengthen merchandising, sales operation and store retailing to constantly secure and strengthen our retail capacity.

LI-NING BRAND

Basketball

Functional basketball shoes specially designed for CBA players: “Phantom”

The “Phantom”, which was launched in the first quarter of 2016, applied our upgraded “LI-NING Cloud III” midsole technology with significantly improved cushioning and rebounding features. The shoes were made available in various color themes, including a red-and-gold series for Chinese New Year, a black-and-white series featuring Chinese ink wash paintings, and a colorful Hawaiian series.

Signature shoes driving fans and retailers crazy: “Wade 4” All-Star limited edition

Featuring the “All-Star” theme, the “Wade 4” was limited to 100 pairs worldwide. Market pre-heat with online gossip among fans before its launch and limited sales in Toronto, Miami and various locations throughout China contributed to an unprecedented hot sales for this product. Attracting immediate publicity and the attention of various major media outlets online and in the press, the campaign has fostered significant media value for the shoes.

Leading Chinese-style design: CBA All-Star Apparel

In 2016, Chinese calligraphy elements were added to the uniform and apparel of CBA All-Star teams. The uniforms were printed with the Chinese characters of “South” and “North” in Seal Script, combined with a pixelated camouflage design. This product was well received by consumers.

Innovative sales model: Customised Wade T-shirt and “Green Phantom”(綠幽靈) sneakers

The basketball segment under LI-NING brand attempted various innovative sales models in 2016, including direct cooperation with Wade’s fans to customise Wade T-shirts and the partnership with Taobao for exclusive sales of “Green Phantom” (綠幽靈) sneakers on its Juhuasuan (聚划算) platform. Capitalizing on the high popularity of the All-Star Game, we designed customised Wade T-shirts in cooperation with Wade’s fans. Great success was achieved in the online pre-sale, averaging 800 sales orders a week until complete clearance of our inventory. Additionally, cooperation with our partner Taobao to sell the wildfire-inspired “Green Phantom” (綠幽靈) sneakers exclusively on Juhuasuan (聚划算) allowed us to achieve sales of 2,000 pairs on the first day of launch.

Grassroots Basketball Marketing: Summer League “Shot to Fame”

The LI-NING basketball segment held the Summer League “Shot to Fame” in the second quarter of 2016. We searched for elite grassroots basketball players from over a hundred basketball courts in 14 cities. Players were selected to compete for the “Shot to Fame” championship by going through three stages (Search – Battle – Championship). As of the end of May, we had approached over 15,000 players on site and news of this championship had attracted more than two million viewers on Weibo. Wade’s visit to China in July was the highlight of this event and the champion was crowned.

Badminton

Distribution of LI-NING badminton products in China has long been carried out mainly through professional channels. During the first half of 2016, when we established our e-commerce platform for badminton products, we were still exploring modes of cooperation with our offline channel partners. This contributed to negative impacts on our sell-through volume and revenue.

The following solutions have eliminated such negative impacts during the second half of 2016:

- To improve the management of our e-commerce platform, we formed strategies relating to product distribution as well as the management and control of retail prices in our e-commerce channel. The goal was to achieve fair competition and to further develop our sales presence among different channels;
- We strategically allocated staff from sales, marketing, and channel management departments according to the level of importance attributed to each of the nation's business districts. This initiative allowed us to provide professional support tailored to each business district relating to products, marketing approach, and service quality. Its further benefits include contributing to the prompt resolution of issues raised by customers on the retail frontline, as well as assisting offline stores in improving sales techniques and accelerating retail turnover. Meanwhile, we have directly contacted influential badminton amateurs from different professional clubs and consumer groups to improve sales and to conduct effective marketing promotion.

During the first half of 2016, LI-NING badminton business continued enhancing research and development of new products to bolster its brand influence. This strategy was conducted alongside our event promotion efforts and by taking advantage of our sponsorship resources. Major initiatives include:

- We continued to develop LI-NING badminton rackets and launch new products in the first half of 2016 on the basis of the "LI-NING badminton technology platform", maintaining the market awareness and sales momentum of high-end products. Meanwhile, N99, the tailor-made racket for world champion Chen Long, and N80 II, a newly sponsored product, were launched. Through certain promotional campaigns, both the N99 and N80 II were widely accepted by badminton fans.
- In May 2016, due to our product exposure during the Thomas & Uber Cup tournament, a top badminton event held in Kunshan, our innovatively designed apparel and footwear gained wide recognition in the market, achieving outstanding sales performance in the high-end apparel segment. This also boosted the market reputation and sales of our mid-range classic products, which have always performed steadily in the market.
- With WeChat and Weibo as the core communication platform, our digital marketing continued to enhance the professionalism of the LI-NING badminton brand. Our key products include the new racket N99 under the Air Stream technology platform, the uniform of the National Badminton Team for All England and Thomas & Uber Cup, the sponsored competition shoes for players and the sponsored racket bags for the National Badminton Team. As Thomas & Uber Cup received significant attention on social media, our official WeChat account attracted over 500 thousand viewers whereas our official Weibo attracted more than ten million views.
- In April 2016, LI-NING signed up with Bao Chunlai, the world champion and former national team player. This further diversified the resources of the badminton segment under LI-NING brand. Immediately upon signing, Bao Chunlai participated in a promotional campaign for the Thomas & Uber Cup tournament. Leveraging his personal influence, LI-NING's new products release for Thomas & Uber Cup has gained more than ten thousand views on social media.

Kason, a well-known badminton equipment brand with over 20 years of history, is an important and integral part of the Group's badminton segment. During the first half of 2016, the business of the Kason brand remained stable. Kason continued to maintain its reputation as a "classic" brand among consumers through optimizing its product mix, launching retro-style racket models, reducing production costs and enhancing the cost-effectiveness of its products. The retro-style racket models continued to sell well, while newly developed apparel and footwear products remained competitive in terms of product design and pricing.

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

Running

Star products for professional runners

- “LI-NING Cloud III”

The product was launched in the first quarter of 2016. It was the first product of our “LI-NING Cloud” that adopted smart technology. The midsole chipping can effectively record running data, assisting runners to enhance their performance in sports. This upgraded LI-NING Cloud model achieves better cushioning and rebounding, thus reducing the likelihood of sport injuries.

- “Super Light 13th”

This product was launched in the second quarter of 2016. Inspired by oriental tapestry, the product combines flexible yarn and breathable MONO yarn to create a masterpiece of remarkably light weight. In addition, the ultra-light midsole model, known as FoamEVALite, further enhances athletic agility. The product has achieved a sales volume of approximately 500,000 pairs within three months since its launch.

- Cool Style (酷風)

The product was launched in the second quarter of 2016. Featuring the Cool Shell technology and the integration of 360-degree breathable sole structure and ice yarn within the shoe, the product offers runners a cool summer experience.

Running Culture Star Products

- Heather

This product features a fashionable one-piece design using two-color mesh fabric. Multiple colors are available to cater to the needs of various consumers in different occasions.

- Easy City

These running shoes are designed to be trendy in style. The IP midsole and Bubble 108° cushion underneath the heel together create spring support to offer a cozy wearing experience. The design with breathable mesh also makes it suitable for summer wear.

Innovative Marketing Approach

We aim to re-build LI-NING’s professional image by drawing on both our existing product matrix and smart ecosystem. This strategy will be supplemented by effectively applying an integrated marketing approach to our online and offline channels in pursuit of wider recognition of LI-NING running products.

- We have seen remarkable results in the implementation of an integrated marketing approach for core products. For the launch of the “Super Light 13th” running shoes, we combined innovative advertising techniques with promotion on WeChat “Moments” to reach out to approximately 14 million potential consumers, a base identified through big data analysis. The promotional video accumulated a total of approximately 45.14 million views. This exemplified effective application of an integrated marketing approach as it connected online and offline channels to maximize return on investment;

- The division continued to develop the LI-NING Smart Running Ecosystem by integrating smart products, professional physical experience channels, communications based on mobile internet as well as users' big data. As of now, there are already over 700,000 runners using the smart running shoes and interacting through various online and offline channels;
- The division also continued to strengthen and expand the LI-NING China 10K Running League and jointly hosted the LI-NING 10K Online Running League with multiple brands, thus enhancing our influence and involvement. Furthermore, the division effectively generated sales by drawing runners directly into online stores through online marketing activities.

Innovative experience


The division continued to promote Running Corners in Flagship Stores, the LI-NING iRun Club, and the LI-NING running product specialty shops, while supporting the multi-store tactic of Sales Department in implementing targeted product planning and assortment. Until now, two iRun Clubs have been opened in Beijing and Shanghai to offer professional courses, physical training, foot shape analysis, meet-ups of running groups and a platform for finding running partners to tens of thousands of runners. The first LI-NING running product specialty shop was opened in Shanghai. The store provides integrated services such as professional running facilities, running posture assessments, and social networking opportunities among fellow athletes. By bringing professional services to runners, the aim is to develop it into a major landmark for Shanghai runners.

Sports Life

 "label

The brand is positioned to be a fast fashion brand featuring sports and leisure attire. Its sales channels are predominantly central business districts and shopping malls in the second-tier and third-tier markets. By providing casual sportswear that are convenient and comfortable to put on, the brand aims to introduce the pleasurable experience through creating a wide variety of styles simply by matching pieces of apparel.

As of the end of June 2016, the brand has opened POS in more than 30 cities including Beijing, Shanghai, Shenzhen, Hefei, Nanning, Chongqing and Wuhan. During the first half of 2016, the number of POS recorded a net increase of 19.

As one of the new businesses being developed by the Group,  "label was still under the testing stage for its operation model. For the second half of 2016, we will continue to prudently maintain our channel expansion plan, where our priority focus will be on testing on the basis of newly opened POS, our products, channels, as well as coordination between LI-NING label POS.

LNG

Characterizing itself as a fashionable, dynamic and stylish brand, the LNG brand targets urban white-collar executives by providing trendily-designed sportswear. The brand is mainly anchored on the fashion floors of large shopping malls and mid-to-high end shopping arcades in metropolitan cities, including Beijing, Shanghai, Guangzhou and Shenzhen, and first-tier cities, including Chengdu and Zhengzhou.

LNG mainly offers fashionable leisure sports products inspired by the needs of outdoor and high-end sports such as golf. The Korean designer team allows LNG to offer the trendiest styles and cuts. The high-quality, fashionable and comfortable products keep sports elites young, energetic and creative, as well as manifest their individual tastes while maintaining intimacy and comfort.

As of the end of June 2016, LNG POS have been opened in more than 30 cities including Beijing, Tianjin, Shanghai, Chengdu, Nanjing, Shenyang, and the brand is widely popular among young adults in those cities. During the first half of 2016, the number of LNG POS recorded a net increase of 21. Looking forward, the Company will continue to refine the LNG brand, strengthen marketing and promotion, enhance operation capabilities and increase store efficiency.

Fitness Training

Apparel products

We continued to launch functional products, to fully satisfy the functional requirements of beginners, amateurs and fitness professionals.

– Indoor Fitness Training

The indoor professional tights line was the highlighted launch of the first and second quarter of 2016 and was well received in the market. The Company launched products of diversified grades (such as Power Shell 1.0, 2.0) catering to different sports and intensity levels. At the same time, leggings, short-sleeved T-shirts, vests and bras are launched seasonally.

– Outdoor Fitness Training

The outdoor water-proof jacket line features a water-proof, stain-proof and oil-proof layer with good breathability. Combining state-of-the-art sewing techniques, drizzle proof function, and a decent upright silhouette and 3D fit, it has become a core model for fitness training and won high market recognition with positive sales performance.

Footwear products

Our fitness training shoes focus on fitness for all. The design is light weight and comfort oriented, with a colorful or versatile style. They are made of materials in accordance with seasonality, motifs and details, hence suitable for various occasions.

– Fitness shoes

This range combines the functions of walking, jogging, light aerobic exercises into one and is characterized by light weight and suppleness; the design also incorporates high-quality, fashionable one piece knitting with flowery prints. With its trendy, high-tech appearance, the range was released to be appealing to all in terms of price and style.

– Female fitness training shoes

Adorned with fine feminine details, this range caters to the desire of female customers to look fashionable for every occasion. The shoes provide both attractiveness and foot protection.

Walking shoes

Focused on developing the most professional domestic walking shoes, we enhanced technological functionalities as well as appearance and design. We aim to produce healthy and comfortable professional walking shoes and present products highlighting for end users our consistent commitment to the concept of professional walking.

– Professional walking shoes


They are built on our self-developed Air-Fluid soles, adopting “light breathing” technology and featuring built-in ventilation ducts and a dual-layer, dual-density design. Every step enables the feet to feel the flow of air inside, bringing a cool, comfortable and flexible sensation.

Outdoor products

– Jacket

LI-NING Outdoor has launched a jacket with a waterproof index of 5000 or above 5000, which makes it indispensable for outdoor activities. The jacket is made with complete taping technology and renders effective protection against showers. In addition, the jacket is made of tear-resistant polyester and features a waterproof cap brim and a zip front with enhanced storage function.

Sales Channel Expansion and Management

As at 30 June 2016, the number of LI-NING brand (including LNG and ““ label) conventional stores, flagship stores, factory outlets and discount stores amounted to a total of 6,169, representing a net increase of 36 POS as compared to 31 December 2015. The number of distributors was 50, representing a net decrease of 6 from 31 December 2015. POS breakdown as at 30 June 2016 is as follows:

Number of franchised and directly-operated POS

LI-NING Brand	30 June 2016	31 December 2015	Change
Franchised	4,671	4,618	1.1%
Directly-operated retail	1,498	1,515	(1.1%)
Total	6,169	6,133	0.6%

Number of POS by geographical location

LI-NING Brand	30 June 2016	31 December 2015	Change
Northern Region (Note 1)	3,082	2,999	2.8%
Southern Region (Note 2)	3,087	3,134	(1.5%)
Total	6,169	6,133	0.6%

Notes:

1. The Northern region includes Beijing, Hebei, Henan, Tianjin, Shanxi, Inner Mongolia, Liaoning, Gansu, Ningxia Hui Autonomous Region, Qinghai, Shaanxi, Xinjiang Uygur Autonomous Region, Jilin, Heilongjiang, Shandong.
2. The Southern region includes Guangdong, Guangxi, Fujian, Hainan, Yunnan, Sichuan, Chongqing, Tibet, Guizhou, Jiangxi, Shanghai, Zhejiang, Jiangsu, Anhui, Hunan, Hubei.

Visual Identity

We adopted a new approach to channel identification and single store product assortment to distinguish the visual identity of different stores, which is more aligned to the positioning of the business circles, consumer base features, and product characteristics. Meanwhile, by establishing flagship stores, experience stores, Wade Stores and running specialty stores, we segmented markets and consumers to focus on developing an interactive platform for consumer experience towards products, functional technology and shopping experience. The overall goal is to establish and maintain LI-NING brand's overall market image.

Visual Merchandising

We streamlined and integrated the marketing processes and established communication channels between the stores and the product categories through a product decision platform. The aim was to integrate marketing resources for all product categories to the largest extent and distribute them effectively amongst our outlets. At the same time, we flexibly and effectively formed guidelines specializing how product assortment, marketing approach, and window displays should vary in accordance with the image and class of the store. This is to highlight the themes, colors, series and matchup, which will optimize the sales of new products.

In terms of tag price, trade fair orders for LI-NING brand products from franchised distributors registered a year-on-year growth for eleven consecutive quarters. The orders from the latest trade fair, which are for the first quarter of 2017, registered a high-single digit growth on a year-on-year basis.

Promotions and Establishment of Membership Platform

We completed the integration of online and offline membership. By doing so, and by actively seeking cross-sector collaboration in various channels, we introduced more new marketing resources and fashionable elements. We further designed more flexible and interesting promotion plans that are aligned to the market, and offered a more interactive experience for consumers, aiming to promote communication between the retail POS and consumers, and boost sales and sell-out rates for new products.

Retail Training

We re-defined the responsibilities and significance of sales training. While strengthening product knowledge and basic service skills, we placed greater emphasis on offering courses and materials on training of services, sales and management skills. We also continued to enhance mentoring capabilities and retail management through replicating TTT courses so as to improve the operating standards of our stores.

Enhancing Store Operating Standard and Strengthening Execution Capability

- The Company formulates assessment criteria for its subsidiaries. It conducts assessment on monthly and quarterly basis and eliminates the least competent based on assessment results. Meanwhile, the Company enhanced the execution capability in, and placed greater significance on the assessments of the manufacturers. The building of a complete examination and assessment system will further enhance the operating standard of our stores;
- Through trainings, the Company shall regulate the management approach and standardize the management process adopted by the subsidiaries for regional heads, and by the regional heads for store managers. The goal is to constantly improve the operational capacity of our stores;
- The Company formulates operating standards for different types of stores according to different channel identification;
- In the first half of 2016 the sales efficiency at the company was effectively improved. In respect of LI-NING brand POS which have been operating since the beginning of the second quarter last year, the same-store-sales growth of LI-NING brand products for the overall platform (including e-commerce business) increased by high-single digit on a year-on-year basis for the quarter ended 30 June 2016. In terms of channels, the retail (direct operation) and wholesale (franchisee) channels both increased by mid-single digits on a year-on-year basis while the e-commerce virtual stores business registered a low-seventies growth on a year-on-year basis.

Trial Operation of Omni-channel Strategy

Through the development of the all-in-one and all-channel O2O inventory system, the Company can realize the business model of “purchase online and deliver through Regional Distribution Center (RDC), National Distribution Center (NDC) or physical stores” and “purchase offline through one store and deliver through another store or RDC, NDC”, which together removes the inventory barriers and changes the classification of goods from being location-based to sales-based. This business model has significant effect on the improvement of the Company’s inventory structure and stock-to-sales ratio, as well as the enhancement of product turnover rate and operating efficiency. Meanwhile, it can also realize standardised online and offline brand marketing campaigns in the future through the integration of merchandise management and marketing campaigns, which will enhance the overall influence of our brand.

Inventory Clearance

While the Company optimized overall inventory levels during the first half of 2016, there was significant improvement in sales of new products, contributing to the growth of gross profit margin. While enhancing efficiency in product lines and manpower, there was also improvement in product structure and cash flow.

E-Commerce

In 2016, the e-commerce business of Li Ning is not merely an online sales and marketing channel. It is also a tool for the exploration and practice of digital operations.

Our e-commerce team is gradually exploring and building a system based on the analysis of market trends. Through digital analysis of business operations, we are able to decide strategies for our product direction and business operations.

Meanwhile, the year of 2016 is a key breakthrough for Li Ning’s omni-channel business, which commenced operation in the first half of the year. It has remained stable throughout the trial operation period and it is expected that this will help enhance the Group’s overall operational efficiency in the future.

Owing to the exploration and practice of the e-commerce business in digital operation, the sales of Li Ning’s e-commerce business sustained rapid growth despite the significant slowdown of the e-commerce industry generally during the first half of 2016. Its sales for the first half of the year achieved a more than doubled growth on a year-on-year basis.

Overall, the e-commerce business will sustain growth in 2016. It is estimated that the e-commerce business will maintain relatively steady growth, and will bring revolutionary changes to the business model of the Group.

Double Happiness Brand

Double Happiness Brand (“Double Happiness”) is principally engaged in the manufacture, research and development, marketing and sales of table tennis equipment and other sports equipment.

Double Happiness continued to adopt “promotion by sports stars and sponsorship of sports events” as its marketing philosophy. In 2016, the brand continued to sign up outstanding table tennis players in China as endorsers for its table tennis equipment, including Wang Hao (王皓), Wang Liqin (王勵勤), Ma Long (馬龍), Ding Ning (丁寧), Li Xiaoxia (李曉霞), Fan Zhendong (樊振東), Fang Bo (方博), Yan An (閔安), Zhu Yuling (朱雨玲) and Chen Meng (陳夢). Meanwhile, the brand also actively sponsored various domestic and international professional tournaments. In 2016, it successfully sponsored and completed the marketing promotion for the World Table Tennis Championships in Malaysia, during which the Chinese National Table Tennis team, comprising Ma Long and Ding Ning as endorsers for Double Happiness, won the team championship title. The brand continued to provide professional equipment for events such as the International Table Tennis Federation (ITTF) World Tour and the Table Tennis World Cup. In the second half of the year, the brand will also provide equipment for the Rio 2016 Olympics.

Besides equipment for professional players, Double Happiness introduced and successfully launched over one hundred new products in 2016, expanding the product line and demonstrating the strong product R&D and design capabilities.

Double Happiness products are mainly distributed via wholesale and sporting goods stores. The brand has adopted a wholesale model for its domestic business, with a relatively stable clientele across nearly 30 provinces and municipalities in China. Double Happiness continued to refine and regulate the management of sales policies in line with customer habits in 2016 and continued the implementation of the “e-commerce expansion” project to develop exclusive e-commerce products, and implement special policies and promotional support for e-commerce business.

Other Brands

AIGLE Brand

In 2016, the retail environment remains challenging along with the downturn of the domestic and international macroeconomic environment. These unfavourable factors have made unprecedented challenges for AIGLE in terms of improving its results and cost management. However, with its precise market positioning, well-planned expansion strategy, high-quality products balancing design and function, and professional retail management, AIGLE continued to maintain its leading position as one of the outdoor and leisure brands in the market.

In the second half of 2016, AIGLE brand will continue to focus on implementing the following major operation strategies with the aim to boost brand recognition and loyalty as well as promote continuous growth of its operating results:

- Continue to open new retail shops under unified global brand image in first-tier cities such as provincial capitals;
- Capture the growth opportunities for shopping malls, outlets and e-commerce markets;
- Closely monitor and follow up on the feedback from distributors to ensure a steadily growing distribution business;
- Enhance customer shopping experience, and focus on customized product functions and interact more with VIPs;
- Practise effective management of the terms of cooperation of different channels and shopping malls in a bid to boost long-term sales profit;
- Increase product procurement efficiency, and continue to upgrade inventory management and improve sell-out ratio;
- Sustain efforts to upgrade retail sales management and training and to improve frontline customer service.

HUMAN RESOURCES

The Company continued the reform into a retail business model in 2016 so as to upgrade product operation and input-output efficiency. Aiming to achieve the business model transformation, improve cash flow and retain core talent, our human resources team joined hands with the operations department to roll out strategic measures to optimize organisational structure, control labor costs, improve the talent structure and boost competitiveness in the market in terms of employees' salaries and wages. The outcome has been encouraging.

Regarding organizational optimization, the Company cut down inefficient roles and positions and exercised optimal labor cost management through internal talent assessment.

Regarding talent management, we built up a core product and retail talent identification, assessment and training system to support the Company's strategic approach in enhancing product and retail capabilities.

Regarding salaries and wages, the Company implemented the performance-linked restrictive share scheme for senior management and core technological professionals to increase the market competitiveness of our remuneration packages for our core talents.

Regarding performance management, the Company set up the performance appraisal, incentive and penalty system for product lines and retail end to enhance product and retail operation efficiency.

Regarding employer brand-building, an official LI-NING WeChat account was set up as a window to vividly showcase the Company's activities and achievements, such as the Company's anniversary celebration and Creativity Competition. In the first half of this year, the Company continued to be elected as one of the Top 100 Best Employers of 2016, cementing its status as a top employer within China's sports attire industry.

Looking ahead, we will stick to the objectives of creating professional and fashionable sports products, enhancing experience value in products and services, and constructively strengthening management and organisational performance. We wish to effectively manage our human resources while continuing to enhance the implementation capacity of the organisation and the performance of its staff, which will in turn improve operational efficiency. We will also enhance the management and operational capacities of each business unit with the full support of the Company's strategic development.

As at 30 June 2016, the Group had 2,890 employees in total (2,962 employees as at 31 December 2015), including 1,770 employees at the Group's headquarters and retail subsidiaries (1,762 employees as at 31 December 2015), and 1,120 employees at the Group's other subsidiaries (1,200 employees as at 31 December 2015).

OUTLOOK

In the future, we will continue to strengthen and consolidate the following aspects based on our various previous major tasks:

- Approach target consumers via a mobile network platform, research and develop specialty products with higher competitiveness, and optimise online and offline shopping experience to improve user experience in various channels and cross-platform;
- Continue to promote the multi-brand development strategy and optimise sales network and channels to follow our planned target for 2016 of net increase of 300 to 500 POS;

- Segment sales channels, product assortment and layout based on differentiated consumer preferences by geographical region. The Company aims to stay close to local consumer demands through professionalised channels with exclusive specialty products to enhance retail capacity;
- Maintain efforts in cost control levels and continue to enhance profitability.

The supportive national policies will continue to facilitate the development of the sporting goods industry. Building the value of LI-NING will remain the primary objective of the Company in the foreseeable future. Looking forward, the Company will enhance its operation capabilities, strive to go beyond the limits posed by the “value-for-money” proposition, and attract sports-loving consumers by providing products with “Performance” and “Functionalities”. With its commitment to sports as the genetic map, the Company will integrate technological, cultural, and other elements into its products to promote the vision that sports is a means toward an educated and happy lifestyle; on this journey the Company strives to facilitate the development of a “Sports +” concept.

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 2016. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company’s shares during the period.

CORPORATE GOVERNANCE

For the period from 1 January 2016 to 30 June 2016, the Company has complied with all the code provisions of the Corporate Governance Code (“Code Provisions”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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”), 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 ended 30 June 2016. 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 of Securities Transactions by Directors of Listed Issuers” (“Model Code”) contained in Appendix 10 to the Listing Rules regarding securities transactions by its directors. Following specific enquiry by the Company, all the directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2016.

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 interim results for the six months ended 30 June 2016.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2016 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 Company Limited
Li Ning
*Executive Chairman and
Interim Chief Executive Officer*

Hong Kong, 10 August 2016

As at the date of this announcement, the executive director of the Company is Mr. Li Ning. The non-executive directors of the Company are Mr. Chen Yue, Scott and Mr. Wu, Jesse Jen-Wei. The independent non-executive directors of the Company are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Dr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel.