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 2015 AND THE OUTLOOK FOR THE FULL YEAR OF 2015

FINANCIAL HIGHLIGHTS AND OPERATIONAL HIGHLIGHTS

- The Group's revenue grew continuously, which increased 16% on a year-on-year basis to RMB3,641 million.
- EBITDA and operating cash flow returned to positive, amounting to RMB260 million and RMB165 million respectively.
- Inventory improved significantly.
- Double-digit retail sell-through growth achieved for core product categories in aggregate.
- In the second quarter of 2015, the same-store-sales in retail and wholesale registered high-teens and high-single-digit year-on-year growth respectively, the entire store network registered low-teens year-on-year growth.
- Resumed store expansion plan, with the number of points of sales increasing to 5,745 in the first half of 2015, and 42% of the newly added points of sales are located in the under-penetrated southern region.

PROSPECTS

- Trade fair orders for the first quarter of 2016 registered a mid-teens growth on a year-on-year basis.
- The newly developed business leveraging on the Internet is already bearing fruits, we will continue to strengthen the investment and development of digital business.
- In the second half of 2015, focusing on a more differentiated market positioning for its products, the Company will implement the market segmentation strategy of "LI-NING" label and "lining" label, targeting sports enthusiasts and Sports Life consumers respectively.
- Driven by market opportunities, we will continue to expand sales network in order to recover profitability, while reasonably controlling inventory at an appropriate level.
- The Company will continuously improve its operating efficiency, step up its control over operating costs and strengthen cash flow management in a bid to drive its annual results for 2015 back to profitability.

INTERIM RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "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 2015, together with comparative figures, as follows:

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2015** *RMB'000*	Audited As at 31 December 2014 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**858,754**	861,173
Land use rights		**367,310**	372,113
Intangible assets		**439,547**	446,399
Deferred income tax assets		**252,392**	311,081
Available-for-sale financial assets		**26,000**	26,000
Investments accounted for using the equity method		**24,173**	20,848
Other receivables and prepayments		**46,225**	39,473
Total non-current assets		**2,014,401**	2,077,087
Current assets			
Inventories	*4*	**1,123,584**	1,289,332
Trade receivables	*5*	**1,313,476**	1,260,131
Other receivables and prepayments – current portion		**390,796**	379,277
Restricted bank deposits		**714**	2,593
Cash and cash equivalents		**1,756,856**	1,031,386
Total current assets		**4,585,426**	3,962,719
Total assets		**6,599,827**	6,039,806
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**177,484**	141,698
Share premium		**2,170,828**	1,298,537
Shares held for Restricted Share Award Scheme		**(3,719)**	(3,719)
Other reserves		**1,302,519**	984,398
Accumulated deficit		**(516,192)**	(469,056)
		3,130,920	1,951,858
Non-controlling interests in equity		**245,088**	217,583
Total Equity		**3,376,008**	2,169,441

	Note	Unaudited As at 30 June 2015 *RMB'000*	Audited As at 31 December 2014 *RMB'000*
LIABILITIES			
Non-current liabilities			
License fees payable		**53,183**	77,434
Borrowings		**297,986**	298,241
Convertible bonds		**693,227**	676,421
Deferred income tax liabilities		**72,369**	76,410
Deferred income		**64,369**	62,718
Total non-current liabilities		**1,181,134**	1,191,224
Current liabilities			
Trade payables	*6*	**874,808**	953,429
Other payables and accruals		**837,589**	1,104,541
License fees payable – current portion		**59,408**	57,880
Current income tax liabilities		**8,380**	9
Borrowings		**250,000**	550,782
Convertible bonds – interest payable		**12,500**	12,500
Total current liabilities		**2,042,685**	2,679,141
Total liabilities		**3,223,819**	3,870,365
Total equities and liabilities		**6,599,827**	6,039,806
Net current assets		**2,542,741**	1,283,578
Total assets less current liabilities		**4,557,142**	3,360,665

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June 2015 RMB'000	2014 RMB'000
Revenue	3	**3,640,668**	3,137,078
Cost of sales	7	**(2,006,784)**	(1,737,467)
Gross Profit		**1,633,884**	1,399,611
Distribution expenses	7	**(1,313,646)**	(1,372,291)
Administrative expenses	7	**(199,524)**	(494,499)
Other income and other gains – net	8	**20,862**	19,009
Operating Profit/(loss)		**141,576**	(448,170)
Finance income	9	**13,607**	5,352
Finance expenses	9	**(76,445)**	(67,727)
Finance expenses – net	9	**(62,838)**	(62,375)
Share of profit of investments accounted for using the equity method		**3,325**	2,442
Profit/(loss) before income tax		**82,063**	(508,103)
Income tax expense	10	**(82,305)**	(54,486)
Loss for the period		**(242)**	(562,589)
Attributable to:			
Equity holders of the Company		**(29,407)**	(585,774)
Non-controlling interests		**29,165**	23,185
		(242)	(562,589)
Losses per share for loss attributable to equity holders of the Company (RMB cents)			
– basic	11	**(1.55)**	(37.72)
– diluted	11	**(1.55)**	(37.72)
Dividends	12	**–**	–

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Loss for the period	**(242)**	(562,589)
Other comprehensive income/(loss):		
Items that may be reclassified to profit or loss		
Currency translation differences	**5**	(257)
Total comprehensive loss for the period	**(237)**	(562,846)
Attributable to:		
Equity holders of the Company	**(29,402)**	(586,031)
Non-controlling interests	**29,165**	23,185
	(237)	(562,846)

Note:

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 12 August 2015.

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 2015 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 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies applied are consistent with those described in the annual financial statements for the year ended 31 December 2014.

Amendments to IFRSs effective for the financial year ending 31 December 2015 do not have a material impact on the Group.

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

3. Revenue and segment information

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

Management considers the business from a brand perspective. The Group has three reportable segments as follows, LI-NING brand, Double Happiness brand and all other brands segments. 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, Double Happiness brand and all other brands, which are RMB3,127,276,000, RMB454,216,000 and RMB59,176,000 for the six months ended 30 June 2015 and RMB2,673,616,000, RMB411,334,000 and RMB52,128,000 for the six months ended 30 June 2014 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 2015 and 2014 is as follows:

	Unaudited			
	LI-NING brand	**Double Happiness brand**	**All other brands**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Six months ended 30 June 2015				
Total revenue	**3,127,276**	**454,228**	**75,747**	**3,657,251**
Inter-segment revenue	**–**	**(12)**	**(16,571)**	**(16,583)**
Revenue from external customers	**3,127,276**	**454,216**	**59,176**	**3,640,668**
Operating profit	**42,376**	**84,422**	**14,778**	**141,576**
Distribution and administrative expenses	**1,391,315**	**111,763**	**10,092**	**1,513,170**
Depreciation and amortisation	**97,542**	**12,121**	**5,082**	**114,745**
Six months ended 30 June 2014				
Total revenue	2,673,616	411,525	62,698	3,147,839
Inter-segment revenue	–	(191)	(10,570)	(10,761)
Revenue from external customers	2,673,616	411,334	52,128	3,137,078
Operating (loss)/profit	(532,156)	69,547	14,439	(448,170)
Distribution and administrative expenses	1,756,564	104,375	5,851	1,866,790
Depreciation and amortisation	82,308	9,423	3,427	95,158

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

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Operating profit/(loss)	**141,576**	(448,170)
Finance income	**13,607**	5,352
Finance expenses	**(76,445)**	(67,727)
Share of profit of investments accounted for using the equity method	**3,325**	2,442
Profit/(loss) before income tax	**82,063**	(508,103)

Geographical information of revenue

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
The PRC (including the Hong Kong Special Administrative Region)	**3,547,713**	3,056,927
Other regions	**92,955**	80,151
Total	**3,640,668**	3,137,078

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 2015 and 2014, 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 2015 *RMB'000*	Audited 31 December 2014 *RMB'000*
Raw materials	**42,867**	39,611
Work in progress	**28,714**	32,930
Finished goods	**1,291,162**	1,481,024
	1,362,743	1,553,565
Less: provision for write-down of inventories to net realisable value	**(239,159)**	(264,233)
	1,123,584	1,289,332

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB1,916,530,000 for the six months ended 30 June 2015 (30 June 2014: RMB1,651,012,000).

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 2015 and 2014.

5. Trade receivables

	Unaudited 30 June 2015 *RMB'000*	Audited 31 December 2014 *RMB'000*
Accounts receivable	**1,853,782**	1,825,483
Notes receivable	**5,350**	31,414
	1,859,132	1,856,897
Less: allowance for impairment of trade receivables	**(545,656)**	(596,766)
	1,313,476	1,260,131

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

	Unaudited 30 June 2015 *RMB'000*	Audited 31 December 2014 *RMB'000*
0 – 30 days	**415,508**	367,794
31 – 60 days	**179,964**	218,264
61 – 90 days	**317,381**	237,383
91 – 180 days	**451,635**	560,231
Over 180 days	**494,644**	473,225
	1,859,132	1,856,897

Customers are normally granted credit terms within 90 days. As at 30 June 2015, trade receivables of RMB946,279,000 (31 December 2014: RMB1,033,456,000) 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 trade receivables, 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 of RMB545,656,000 has been made as at 30 June 2015 (31 December 2014: RMB596,766,000).

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.

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

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
As at 1 January	**596,766**	590,928
(Reversal of provision)/provision for impairment of trade receivables	**(50,941)**	92,148
Trade receivables written off during the period as uncollectible	**(169)**	(88)
As at 30 June	**545,656**	682,988

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	Audited
	30 June	31 December
	2015	2014
	RMB'000	*RMB'000*
0 – 30 days	**610,353**	704,434
31 – 60 days	**188,774**	122,191
61 – 90 days	**36,818**	97,512
91 – 180 days	**17,975**	19,335
181 – 365 days	**17,286**	5,126
Over 365 days	**3,602**	4,831
	874,808	953,429

7. Expenses by nature

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses included in cost of sales	**1,916,530**	1,651,012
Depreciation on property, plant and equipment *(Note a)*	**83,898**	67,796
Amortisation of land use rights and intangible assets	**30,847**	27,362
Advertising and marketing expenses	**521,067**	607,344
Staff costs, including directors' emoluments	**371,897**	432,667
Operating lease rentals and related expenses in respect of land and buildings	**382,348**	357,930
Research and product development expenses *(Note a)*	**79,502**	69,517
Transportation and logistics expenses	**151,846**	134,800
(Reversal of provision)/provision for impairment of trade receivables	**(50,941)**	92,148
Impairment of available-for-sale financial assets	**–**	34,930
Auditor's remuneration	**2,400**	2,100
Management consulting expenses	**26,711**	50,950
Travelling and entertainment expenses	**16,661**	26,222

Note:

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

8. Other income and other gains-net

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Government grants	**14,411**	14,816
License fees income	**6,451**	4,193
	20,862	19,009

9. Finance income and expenses

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Finance income		
Interest income on bank balances and deposits	**3,574**	3,453
Net foreign currency exchange gain	**10,033**	1,899
	13,607	5,352
Finance expenses		
Amortisation of discount – license fees payable	**(6,893)**	(9,021)
Interest expense on bank and other borrowings	**(20,564)**	(16,347)
Interest expense on convertible bonds	**(31,806)**	(30,347)
Others	**(17,182)**	(12,012)
	(76,445)	(67,727)
Finance expenses – net	**(62,838)**	(62,375)

10. Income tax expense

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
Current income tax		
– Hong Kong profits tax	**3,703**	(9)
– PRC corporate income tax	**23,954**	21,144
	27,657	21,135
Deferred income tax	**54,648**	33,351
Income tax expense	**82,305**	54,486

11. Losses per share

Basic

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

In April 2013, the Company completed the issuance of the convertible securities. In January 2015, the Company has completed the issuance of offer securities. The below market subscription price of these two events had effectively resulted in 85,973,000 ordinary shares (30 June 2014: 183,890,000 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 ordinary shares for the purpose of basic losses per share calculation. The shares issued for nil consideration arising from the offer securities have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2014.

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
		(Restated)
Loss attributable to equity holders of the Company	**(29,407)**	(585,774)
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,809,578**	1,369,009
Adjustment for bonus element arising from the issuance of convertible securities and the offer securities *(in thousands)*	**85,973**	183,890
Deemed weighted average number of ordinary shares for basic losses per share *(in thousands)*	**1,895,551**	1,552,899
Basic losses per share *(RMB cents)*	**(1.55)**	(37.72)

Diluted

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

	Unaudited Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
		(Restated)
Loss attributable to equity holders of the Company, used to determine diluted losses per share	**(29,407)**	(585,774)
Weighted average number of ordinary shares in issue less shares held for Restricted Share Award Scheme *(in thousands)*	**1,809,578**	1,369,009
Adjustment for bonus element arising from the issuance of convertible securities and the offer securities *(in thousands)*	**85,973**	183,890
Deemed weighted average number of ordinary shares for diluted losses per share *(in thousands)*	**1,895,551**	1,552,899
Diluted losses per share *(RMB cents)*	**(1.55)**	(37.72)

Note:

(a) For the six months ended 30 June 2015 and 2014, the effect of all potentially dilutive ordinary shares outstanding was anti-dilutive. As at 30 June 2015, there were 81 million share options, 1.8 million restricted shares, 225 million ordinary shares assuming conversion of convertible bonds and 244 million ordinary shares assuming conversion of convertible securities that could potentially have a dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2015 (30 June 2014: 59 million, 2 million, 205 million and 176 million respectively).

12. Dividends

The Board did not propose interim dividend for the six months ended 30 June 2015 and 2014.

INTERIM DIVIDENDS

The Company recorded a loss for the first half of 2015. The Board resolved not to distribute any interim dividend for the six months ended 30 June 2015 (2014: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The key operating and financial performance indicators of the Group for the six months ended 30 June 2015 are set out below:

	Unaudited Six months ended 30 June		Change
	2015	2014	*(%)*
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**3,640,668**	3,137,078	**16.1**
Gross profit	**1,633,884**	1,399,611	**16.7**
Operating profit/(loss)	**141,576**	(448,170)	**(131.6)**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 1)*	**259,646**	(350,570)	**(174.1)**
Loss attributable to equity holders *(Note 2)*	**(29,407)**	(585,774)	**(95.0)**
Basic losses per share *(RMB cents) (Note 3)*	**(1.55)**	(37.72)	**(95.9)**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**44.9**	44.6	
Operating profit/(loss) margin *(%)*	**3.9**	(14.3)	
Effective tax rate *(%)*	**100.3**	(10.7)	
Margin of loss attributable to equity holders *(%)*	**(0.8)**	(18.7)	
Return on equity attributable to equity holders *(%)*	**(1.2)**	(24.3)	
Expenses to revenue ratios			
Staff costs *(%)*	**10.2**	13.8	
Advertising and marketing expenses *(%)*	**14.3**	19.4	
Research and product development expenses *(%)*	**2.2**	2.2	
Asset efficiency			
Average inventory turnover *(days) (Note 4)*	**109**	106	
Average trade receivables turnover *(days) (Note 5)*	**64**	78	
Average trade payables turnover *(days) (Note 6)*	**90**	92	

	Unaudited 30 June 2015	Audited 31 December 2014
Asset ratios		
Debt-to-equity ratio *(%) (Note 7)*	**103.0**	198.3
Interest-bearing debt-to-equity ratio *(%) (Note 8)*	**40.0**	86.4
Net asset value per share *(RMB cents)*	**179.11**	151.34

Notes:

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

2. Including loss attributable to equity holders for the period from 1 January to 31 March 2015: RMB25,316,000.

3. The calculation of basic losses per share is based on the 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 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 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 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 bank 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 2015 amounted to RMB3,640,668,000, representing an increase of 16.1% as compared to the corresponding period last year.

Revenue breakdown by brand and product category

	Six months ended 30 June				
	2015		2014		**Revenue**
		% of total		% of total	**change**
	RMB'000	**revenue**	*RMB'000*	revenue	*(%)*
LI-NING brand					
Footwear	**1,585,214**	**43.5**	1,305,262	41.6	**21.4**
Apparel	**1,345,443**	**37.0**	1,195,759	38.1	**12.5**
Equipment/accessories	**196,619**	**5.4**	172,595	5.5	**13.9**
Total	**3,127,276**	**85.9**	2,673,616	85.2	**17.0**
Double Happiness brand					
Total	**454,216**	**12.5**	411,334	13.1	**10.4**
Other brands*					
Total	**59,176**	**1.6**	52,128	1.7	**13.5**
Total	**3,640,668**	**100.0**	3,137,078	100.0	**16.1**

* *Including Lotto, Kason, Aigle and Z-DO*

The Group's core brand, LI-NING brand, recorded revenue of RMB3,127,276,000, which accounted for 85.9% of the Group's total revenue, representing a year-on-year increase of 17.0%. Since the second half of 2014, the business of the Group has entered into a phase of stable growth. Both the tag price of trade fair orders from distributors and same-store sales of self-operated stores registered a year-on-year growth, contributing to the double digit growth in the revenue of the Group.

Revenue of Double Happiness brand maintained a steady growth rate of 10.4% for the period.

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

	Six months ended 30 June		
	2015	2014	
	% of revenue of LI-NING brand	% of revenue of LI-NING brand	**Change** *(%)*
LI-NING brand			
PRC market			
Sales to franchised distributors	**51.3**	55.7	**(4.4)**
Sales from direct operation	**39.6**	38.3	**1.3**
Sales from E-commerce channel	**7.0**	3.9	**3.1**
International markets	**2.1**	2.1	**0.0**
Total	**100.0**	100.0	

As Management continued to focus on boosting retail operation capability, the weighting of the revenue of sales from direct operation continued to increase during the period. At the same time, the boom of E-commerce in China and the Group's continuous expansion of E-commerce channel contributed to the substantial increase in the weighting of the revenue of sales from E-commerce channel.

Revenue breakdown of LI-NING brand by geographical location

		Six months ended 30 June				
		2015		2014		
	Note	***RMB'000***	**% of revenue of LI-NING brand**	*RMB'000*	% of revenue of LI-NING brand	**Revenue change** *(%)*
LI-NING brand						
PRC market						
Eastern region	*1*	**1,048,677**	**33.5**	867,413	32.4	**20.9**
Northern region	*2*	**1,483,240**	**47.4**	1,267,467	47.4	**17.0**
Southern region	*3*	**529,484**	**17.0**	483,847	18.1	**9.4**
International markets		**65,875**	**2.1**	54,889	2.1	**20.0**
Total		**3,127,276**	**100.0**	2,673,616	100.0	**17.0**

Notes:

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

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

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

Geographically, given the fiercer competition in the southern market, revenue growth was slower when compared with that of the eastern market and northern market, where higher growth was posted.

Cost of Sales and Gross Profit

For the six months ended 30 June 2015, overall cost of sales of the Group amounted to RMB2,006,784,000 (2014: RMB1,737,467,000), and overall gross profit margin was 44.9% (2014: 44.6%). Gross profit margin for the period represented a slight increase year-on-year.

Cost of sales of LI-NING brand amounted to RMB1,710,947,000 (2014: RMB1,467,917,000), with gross profit margin of 45.3% (2014: 45.1%). During the period, the overall procurement cost of the Group increased as labour and material costs increased. However, the increased proportion of high-margin operations such as retail and E-commerce, and the reversal of inventory provision along with the clearance of obsolete inventory, had offset the impact of the increase in procurement cost. Taking into account all the above factors, LI-NING brand's gross profit margin represented a slight increase year-on-year in the first half of 2015. The Group will continue to control costs with a view to further improving its gross profit margin.

Cost of sales of Double Happiness brand amounted to RMB261,532,000 (2014: RMB237,712,000), with gross profit margin of 42.4% (2014: 42.2%), representing an increase of 0.2 percentage point year-on-year, which was mainly due to the decrease in cost as the production of some of the products was transferred to areas with comparatively lower labour cost starting from the period.

Distribution Expenses

For the six months ended 30 June 2015, the Group's overall distribution expenses amounted to RMB1,313,646,000 (2014: RMB1,372,291,000), accounting for 36.1% (2014: 43.7%) of the Group's total revenue.

Distribution expenses of LI-NING brand amounted to RMB1,239,504,000 (2014: RMB1,307,721,000), accounting for 39.6% (2014: 48.9%) of LI-NING brand's revenue. As the Group invested its resources mainly in product development and channel construction, the number of self-operated stores significantly increased year-on-year, leading to a corresponding increase in rental and staff costs for stores. However, at the same time, the Group controlled other distribution expenses, such as substantially reducing investment in advertising. Taking into account all the above factors, LI-NING brand's distribution expenses decreased year-on-year.

Distribution expenses of Double Happiness brand amounted to RMB69,913,000 (2014: RMB61,291,000), accounting for 15.4% of Double Happiness brand's revenue, and 0.5 percentage point higher than the 14.9% recorded in the same period of 2014. This was mainly due to the increase in the settlement price of logistics expenses, leading to a higher rate of increase in logistics expenses than that of revenue.

Administrative Expenses

For the six months ended 30 June 2015, the Group's overall administrative expenses amounted to RMB199,524,000 (2014: RMB494,499,000), accounting for 5.5% (2014: 15.8%) of the Group's total revenue.

Administrative expenses of LI-NING brand amounted to RMB151,811,000 (2014: RMB448,843,000), accounting for 4.9% of LI-NING brand's revenue, and 11.9 percentage points lower than the 16.8% for the same period of 2014. 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 notable decrease in administrative expenses during the period was mainly due to the impact of provision for impairment of trade receivables and staff costs. In the first half of 2014, provisions for impairment of trade receivables increased due to the increase in long-aged trade receivables. As the business of most of the distributors demonstrated a stable trend of growth in the period, collection of receivables improved and provisions for impairment of trade receivables were reversed accordingly. As the same time, the Company adjusted its staff structure and reduced the options granted to senior management personnel, and controlled expenses such as consulting fees. Also no extraordinary and non-recurring expense was recorded during the period. Taking into account all the above factors, LI-NING brand's administrative expenses decreased substantially year-on-year.

Administrative expenses of Double Happiness brand amounted to RMB41,850,000 (2014: RMB43,084,000), accounting for 9.2% of Double Happiness brand's revenue, and 1.3 percentage points lower year-on-year than the 10.5% for the same period of 2014. These expenses comprised of mainly staff costs, depreciation and amortisation charges and other miscellaneous expenses. In the first half of 2014, expenses were incurred for the transformation of the network system and experts' verification and market research on the development of new table tennis materials. As no such expenses were incurred in the period, Double Happiness brand's administrative expenses decreased in the period.

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

For the six months ended 30 June 2015, the Group's EBITDA amounted to RMB259,646,000 (2014: a loss of RMB350,570,000), representing a year-on-year increase of 174.1%, which was mainly attributable to the improved performance of LI-NING brand.

EBITDA of LI-NING brand amounted to RMB139,918,000 (2014: a loss of RMB449,848,000). This was mainly attributable to the increase in revenue and gross profit and decrease in expense ratio due to control of various expenses.

EBITDA of Double Happiness brand amounted to RMB96,543,000 (2014: RMB78,970,000), representing a year-on-year increase of 22.3%. For the period, both the sales revenue and gross profit of the brand increased while the expense ratio decreased, contributing to the increase in EBITDA.

Finance Expenses

For the six months ended 30 June 2015, the Group's net finance expenses amounted to RMB62,838,000 (2014: RMB62,375,000), representing 1.7% (2014: 2.0%) of the Group's total revenue. The net finance expenses included the interest expense of convertible bonds for the period amounting to RMB31,806,000 (2014: RMB30,347,000).

Income Tax Expense

For the six months ended 30 June 2015, income tax expense of the Group amounted to RMB82,305,000 (2014: RMB54,486,000) and the effective tax rate was 100.3% (primarily deferred income tax expense arising from deferred tax assets reversal) (2014: -10.7%).

Overall Profitability Indicators

The overall profitability indicators of the Group significantly increased during the six months ended 30 June 2015, which was attributable to the increase in both the sales revenue and gross profit of the Group in the period, and the decrease in expense ratios. The Group's loss attributable to equity holders amounted to RMB29,407,000 (2014: loss attributable to equity holders of RMB585,774,000), representing a year-on-year increase of 95.0%. The corresponding margin of loss attributable to equity holders for the period was -0.8% (2014: -18.7%), representing a year-on-year increase of 17.9 percentage points. Return on equity attributable to equity holders was -1.2% (2014: -24.3%), representing a year-on-year increase of 23.1 percentage points.

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2015 was the same as that in 2014. Inventories are stated at 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 sufficient in ensuring appropriate provision for inventories made by the Group.

As at 30 June 2015, the accumulated provision for inventories was RMB239,159,000 (31 December 2014: RMB264,233,000). As at the end of the period, LI-NING brand witnessed a decrease in the gross value of inventories as compared with that as at 31 December 2014, with a decrease 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 2015 was the same as that in 2014.

As at 30 June 2015, the accumulated provision for doubtful debts was RMB545,656,000 (31 December 2014: RMB596,766,000). As the business of our channel distributors improved, the balance of long aged trade receivables gradually decreased, the Group therefore reversed certain provision for doubtful debts during the period.

Liquidity and Financial Resource

The Group's net cash inflow from operating activities for the six months ended 30 June 2015 amounted to RMB164,763,000 (2014: net cash outflow of RMB319,249,000). As at 30 June 2015, 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 RMB1,756,856,000, representing a net increase of RMB725,470,000 as compared with the position as at 31 December 2014. The increase was due to the following items:

	Unaudited Six months ended 30 June 2015 *RMB'000*
Items	
Net cash from operating activities	164,763
Net capital expenditure	(141,692)
Net repayment of borrowings	(449,157)
Proceeds from the open offer of securities	1,206,729
Other net cash outflow	(55,173)
Net increase in cash and cash equivalents	725,470

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

On 17 December 2014, the Company published an announcement on the implementation of the proposed equity fund raising by way of open offer. 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 net price of HK$2.54 per offer security. The Company has applied 38% of the net proceeds for paying down the Group's debts, and 8% for store network expansion and retail capabilities optimization. The Company will gradually utilise the remaining proceeds as planned.

As at 30 June 2015, the Group's available banking facilities amounted to RMB727,986,000, amongst which outstanding bank borrowings amounted to RMB547,986,000. As at the end of the period, the ratio of outstanding bank borrowings and convertible bonds to equity attributable to equity holders (i.e. the gearing ratio) was 40.0% (31 December 2014: 86.4%).

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 the United States use South Korean Won and United States 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 Hong Kong Dollars.

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

Pledge of Assets

As at 30 June 2015, buildings and land use rights with net book value of RMB395,160,000 (31 December 2014: RMB403,819,000) and RMB80,590,000 (31 December 2014: RMB81,518,000) respectively were secured for acquiring the Group's borrowings.

Contingent Liabilities

As at 30 June 2015, the Group had no significant contingent liabilities.

BUSINESS REVIEW

In 2015, with the support of national policies and the increasing importance attached to healthy lifestyles by the public, the passion for sports participation remained unabated among Chinese consumers and continued to drive overall market demand. Meeting the needs for better fashion style in everyday life is the main driving force behind the consumption. Nevertheless, competition in the sports life mass market is intense.

Compared to the professional sports market which is characterised by more preference to product functionality and stable brand loyalty, the mass market is commonly characterised by higher price sensitivity and lower brand loyalty, where demands are less predictable and purchases are more random. The brand needs to highlight its competitive edge in products with low price and high price-performance ratio in order to consolidate and expand its market share. Meanwhile, the consumption pattern is also shifting from traditional demand-driven in-store purchase to a spending habit that is inspired by the social networks and lifestyle which the consumers rely on and are most familiar with.

To further meet the changing market environment, on the basis of our core foundation focusing on China, on sports and on LI-NING brand, we adhered to our unique sports value DNA and culture in the pursuit of development and innovation, "making professionals more professional and making life more congenial". We adopted a strategic initiative to expand the low-price mass market share while creating opportunities for cross-sector collaboration and e-business through the Internet+ platform, the most popular and influential platform for consumers. During the first half of 2015, the Company made good progress in terms of products, channels and retail capabilities, and laid a solid foundation for our business to return to the growth path.

LI-NING BRAND

Basketball

Functional basketball shoes specially designed for professional players: LI-NING BB Lite Sonic 4

Carrying over the core "carbon fiber midsole cushioning" technology, LI-NING BB Lite Sonic 4 are paired with multi-layer exquisite crafting that gives its vamp an utterly stylish outlook, making it a pair of professional basketball shoes that excels in both comfortability and aesthetics. Meanwhile, in collaboration with Marvel's The Avengers, the Company launched unique color series with both LI-NING and Marvel branding on it.

A perfect combination of fan culture and sales model: CBA Championship T-shirt

As a stylistic breakthrough from the tag- or logo-oriented designs for the Chinese Basketball Association (CBA) championship T-shirts, the LI-NING basketball segment integrated the calligraphy of the Chinese character "cow" (牛), the buzzword of basketball fans in the CBA championship city Beijing, into the design of its 2015 championship T-shirt. The design not only exhilarated the fan base but also went on to become one of the hottest media events, helping LI-NING to strengthen its brand image and inject a sense of commitment among the fans.

Innovative customer interaction and sales model: "Make Your Own WOW" Global Design Competition

To enhance customers' interactive experience with LI-NING, the LI-NING basketball segment launched the "Make Your Own WOW" Global Design Competition in April 2015, inviting grassroots designers from all over the world who are passionate about the WOW series to submit their creative artworks. In a more groundbreaking manner, we provided an opportunity for the selected design to be put into mass production. Over 1,000 artworks were collected in one month, recording over 360 million views and over 3 million online interactions including comments, votes and shares. We also initiated a brand new marketing approach for the release of the CBA championship basketball shoes by preselling the championship T-shirts with red pocket giveaways. The amount given away would increase if the number of purchasers increased. Such initiative not only attracted more customers, but also help confirm orders for the CBA championship basketball shoes in advance, incorporating customers who made pre-orders into the proactive marketing mechanism.

Leveraging the wealth of top domestic basketball resources to create a sports experience centering around matches, players, city teams, fans and youth on campus

– Chinese Basketball Association League (CBA)

    - Effectively publicised the professional functions of our products and increased brand exposure through product sponsorship;

    - Collaboratively organised events with Jingdong Mall, including online store, championship guessing game and fans party;

    - Become the official on-court basketball provider of CBA in the 2014-15 season;

    - Signed Beijing team star player Sun Yue for the 2014-15 season to solidify our presence in the market of CBA championship teams;

    - He Tianju of Liaoning team, under contract with LI-NING, was invited by the NBA New Orleans Pelicans to attend the NBA Summer League in Las Vegas in July because of his superb performance in the CBA championship finals;

- In 2015, LI-NING set up a basketball intensive training base in the US to provide professional training for future CBA stars. After receiving a series of intensive training, Zhao Jiwei of Liaoning team was admitted to the national team for training in June. He Tianju will also receive a one-month training series in the US base to get ready for the NBA Summer League.

– To establish a communication channel targeting students and teenagers and enhance LI-NING's familiarity and popularity through sponsorship of four levels of domestic basketball student leagues: China Junior & High School Basketball Leagues, Chinese University Basketball Association League (CUBA) and Chinese University Basketball Super League (CUBS).

- In 2015, the China Junior & High School Basketball Leagues attracted more than 4,970 players from 355 teams in 19 zones. A total of 1,037 games were played and 50,000 onsite views were recorded.

Badminton

In the first half of 2015, the badminton segment under LI-NING brand adjusted the pricing policy for its channels, which not only increased the profitability of channel distributors, but was also more viable in boosting the sales of LI-NING brand badminton products by small and medium distributors. In the first half of 2015, various categories such as rackets, apparel, footwear and accessories registered decent sales growth, and the rise in sales of apparel and footwear was particularly evident.

– As the core of the LI-NING badminton segment, LI-NING badminton rackets continued to develop and launch new products in the first half of 2015 on the basis of the "LI-NING badminton technology platform", maintaining the sales momentum of high-end products with a focus on promoting the sales of mid-range products.

– In the first half of 2015, leveraging the product exposure during the Sudirman Cup, a top badminton event held in Dongguan, the innovatively designed LI-NING badminton apparel and footwear products quickly gained wide recognition from the market. Meanwhile, the market reputation and sales of mid-range classic products, which have continuously commanded a ready sale in the market, were further boosted. The popularity of mid-range and high-end products increased the average customer transaction price of LI-NING badminton apparel and footwear products.

– In May 2015, the Sudirman Cup kicked off in Dongguan, Guangdong. By sponsoring this top event, LI-NING brand once again demonstrated its edges in product development and sports resources. The event attracted in total 51 coverages by 29 print media to reach an audience of approximately 195 million and 24 coverages by television media to reach an audience of approximately 526 million. As the exciting event progressed, LI-NING brand continued to strengthen the connection between the brand and the sport of badminton, top events, top athletes and athletic teams through television, social media, interactive activities inside and outside the stadium and field sales; and shared images and videos related to the event with the physical stores along its distribution channels across the country in a timely manner, so as to disseminate the promotional effects of the event across the country.

– In the first half of 2015, the establishment of the micro e-commerce system was completed as part of the development of the badminton segment, with badminton opinion leaders having close interaction with LI-NING brand to take up the major role in implementing micro e-commerce. By making full play of their edges in the areas of product expertise and influence in badminton circles, they will carry out promotional initiatives for LI-NING brand badminton products via this new channel.

- 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. In the first half of 2015, the business of Kason brand remained stable. During the reporting period, Kason brand continued to strengthen its "classic" brand positioning perceived by consumers through product mix optimisation, launching retro classic racket models, as well as reduction of production costs and enhancement of value proposition of products. The retro classic racket models of Kason brand continued to sell well, while newly developed apparel and footwear products remained competitive in terms of product design and pricing.

- Through differentiated brand positioning between LI-NING brand and Kason brand, the Group will continue to enhance product competitiveness and rationally utilise the brands' superior sports marketing resources to increase its market share in the badminton category.

Running

Since its establishment in early 2015, the Running Division has achieved radical innovation and breakthrough in product development, marketing approach and sales channels.

- Product Innovation: The Division spearheaded two product streams, namely For Run and For Fun, with the former focusing on technology and function and the latter comfortability and fashion, targeting professional runners and general consumers respectively. Key products launched in the first two quarters of 2015 were well received by consumers. We enhanced efforts in the planning and investment in products within the RMB250 to RMB400 price range, with notable progress achieved for products at RMB300 level.

- Channel Innovation: The Division actively promoted the setup of Running Corners in Flagship Stores, the Li-Ning iRun Club and Li-Ning running product specialty shops alongside targeted product planning and assortment in support of the Sales Department's multi-store tactic. The Division also leveraged the opportunity of promoting high-profile running events to facilitate the integration of online and offline channels, paving the way for the Company's O2O transition.

- Innovative Marketing Approach: The Division initiated the development of Li-Ning Smart Running Ecosystem and established a new way to interact with consumers and generate sales by integrating professional apparel and footwear, digital devices, mobile internet and big data analysis. Collaborating with Huami Inc., which forms part of the Xiaomi ecosystem, two models of smart running shoes have been launched in July 2015. Scrutinizing the output ratio of each investment and focusing on boosting the popularity and reputation of key products and technologies, the Division allocated resources in online marketing as well as direct marketing channels in regional markets (including outdoor advertisements). Additional capital has been injected in direct and terminal sales related aspects such as staff equipment and training. The Division also continued to strengthen and expand Li-Ning China 10K Running League and jointly hosted Li-Ning 10K Online Running League with Xiaomi sports APP in order to boost the number of participants and draw runners directly into the stores through virtual runs.

Sports Life

The Company launched a major project in collaboration with Marvel Studios for the first time. Leveraging the Marvel movie's release, the products were a massive draw to young consumers.

The year 2015 marks the 25th anniversary of the Company, and a series of products featured by a young, energetic style inspired by the 25th anniversary was released under the sports and lifestyle category during the first and second quarters of the year, generating a sales volume of two hundred and fifty thousand items. Shoe products, with classic designs as the key selling point, proved to be popular and up to nine hundred thousand pairs were sold in merely three months.

The Company also ventured into new business areas by collaborating with famed professional athletes to gain exposure to parents and kids products through numerous TV reality-variety shows including Dad is Back so as to extend the influence of LI-NING brand.

It is evident that sports is playing a more crucial role in our lives, which is a steadily-growing trend; and the level of recognition for the values upheld by LI-NING brand, such as health, enthusiasm, community, interaction, recognition, etc., has been on a stable rise. In this context, consumers are developing a stronger-than-ever demand for Li Ning’s sports and lifestyle products to serve as a medium to help them freely express their personality, trendiness and personal style. For the sports and lifestyle category, content is king, and customer communications is critical to its success; the product line positions itself has been the iconic choice for consumers aimed at displaying their unique sense of style.

From the second half of the year up to 2016, an opportunity to drive business growth lies in adapting to the growing sports and lifestyle market by product segmentation based on mass consumers’ taste and demand. Supported by strategic product planning in the first half of the year, sports and lifestyle products with different types of positioning and corresponding labels were released to the market in July and August. The sports and lifestyle category is being further classified as the popular and classic sports and lifestyle label, the young and energetic “lining” label.

The targets for the popular and classic sports and lifestyle label are the generation of consumers who have grown up with and are under the charm of Mr. Li Ning and the golden age of sports in China. They have witnessed the heyday of a sports empire and are well versed in and fond of how Mr. Li Ning became world champions time and again. They share common streaks in character and lifestyle: they become steadfast supporters of Li Ning’s products due to a deep bond with the story of LI-LING brand; they have a stable income, a settled way of life and a sane and moderate character. For the style of its products, the label provides consumers with classic products in an everlasting style, while new materials, craft techniques and trendy colours will be employed to cater to their demands for new elements. It is the brand’s sustained mission to cater to customers’ expectations by producing quality and comfortable products that fit well into their lifestyle, aided by brilliant sales stories.

The young and energetic “lining” label caters to the needs of the new generation of consumers who have grown up with the Internet and are now in their 20s. They are information-savvy and are eager to broaden their horizons, pursue a better quality of life and showcase their personal style. They aspire to get a taste of different products and brands. Their shopping channels are vastly diversified with plazas, malls or online stores among their lists; they are primarily attracted to products with distinctive designs, which can in turn symbolize the owners’ personalities and uniqueness. These are the powerful forces driving our new label, presenting a huge opportunity for it to gain a foothold in the market. For this label with new elements, we will usher in a fresh style that truly sets it apart from others and is satisfying to customers. Product planning and brand building for the young and energetic lining label are currently underway.

Training

We continued to launch functional products under our training items category, for fully meeting the functional requirements of beginners, amateurs and fitness professionals.

Training apparel products include professional tights with emphasis on its wrapping and recovering capability for a more comfortable wearing experience and improved athletic performance. Our water repellent jackets are water-proof, stain-proof and oil-proof. Another two functional products include icy sensation functional and AT Dry Fast technology products, with both adopting our self-developed technology. The former make use of AT Dry Freeze technology, with hygroscopic, perspiration and icy sensation functions, and together with 3D functional cutting, provide convenience for exercises while giving a better wearing experience during the summer. Our AT Dry Fast technology products adopt patented AT Dry Fast technology materials for quick moisture absorption and perspiration. With its material of cotton feel preferred by consumers, this type of products is softer to the skin.

Our training shoes focus on fitness for all, built on lightweight and comfort, and matched by a colourful or versatile style, they are suitable for various occasions and a number of light aerobic exercises. Our fitness shoes combine the functions of walking, jogging, light aerobic exercises into one, with lightweight, soft and resilient features targeted for the technology trend, and price and style friendly to all. Indoor fitness shoes are also launched during the period, with the design striking a balance between sports trendiness and protection. The cutting of the soles meets the diverse needs of aerobic exercises and strength training.

Our urban light exercise collection focuses on developing professional walking shoes and enhancing the technological functionalities as well as appearance and design for walking. With health and comfort as its main features, the shoes meet the needs for walking exercise of the middle-aged and the elderly. We used both online and offline marketing and promotion, and for this year's Father's Day, we used both our official website and official weibo for promotion of special editions, with the theme "bringing health and comfort to father".

Our urban light exercise collection is mainly comprised of two collections: shoes for walking exercise and comfort shoes for sports. Our professional shoes for walking exercise are built on our self-developed soles, with its Air-Fluid adopting "light breathing" technology and featuring built-in ventilation duct and dual-layer dual-density design, every step enabling the feet to feel the air inside flowing, bringing a cool, comfortable and flexible feel. Our comfort shoes for sports have two types of daily walking shoes in the market: Dynamic and Soft-fit, with the former design featuring mixed use of classic lines and seamless weaving, combining both trendiness and functionality. The materials of seamless weaving wrap well, and with diffusive and gradual distribution, Dynamic is simple and smooth, and suitable for various age groups. As for Soft-fit, its soles are flexible and elastic, matching the natural contour of the walking feet.

Sales Channel Expansion and Management

As at 30 June 2015, the number of LI-NING brand conventional stores, flagship stores, factory outlets and discount stores amounted to a total of 5,745, representing a net increase of 119 points of sales as compared to 31 December 2014. The number of distributors was 49, representing a net decrease of 2 from 31 December 2014. Points of sales breakdown as at 30 June 2015 is as follows:

Number of franchised and directly-operated retail points of sales

	30 June 2015	31 December 2014	**Change**
LI-NING Brand			
Franchised retail	**4,453**	4,424	**0.7%**
Directly-operated retail	**1,292**	1,202	**7.5%**
Total	**5,745**	5,626	**2.1%**

Number of retail points of sales by geographical location

	30 June 2015	31 December 2014	**Change**
LI-NING Brand			
Eastern Region *(Note 1)*	**1,999**	2,026	**(1.3%)**
Northern Region *(Note 2)*	**2,375**	2,278	**4.3%**
Southern Region *(Note 3)*	**1,371**	1,322	**3.7%**
Total	**5,745**	5,626	**2.1%**

Notes:

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

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

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

During the first half of 2015, we remained committed to enhancing our operational capacity in terms of product execution, sales channels and retail functions, strengthening management and reform in areas including management of new product launch, clearance of obsolete inventory, development of innovative sales channels and organization optimization, boosting overall operational efficiency and retail performance.

For management of new product launch, we established a department for product integration and a support platform for business management of product assortment for shoes, apparel, accessories and business unit items. To continue enhancing our capacity in product assortment planning, we formulated guidelines for quarterly order mix planning, differentiated product assortment planning based on different points of sales clusters, set key product sales targets for stores and criteria of single store ordering for individual stores. Trade fair orders in terms of tag price, for LI-NING brand products from franchised distributors registered a year-on-year growth for seven consecutive quarters. The orders from the latest trade fair, which are for the first quarter of 2016, registered a mid-teens growth on a year-on-year basis. We also strengthened the execution of our new product launch by establishing a sales management system based on product contribution rates and sell-through rates, and performed weekly, monthly, quarterly and promotional period sales performance tracking analysis, so as to provide tailor-made sales strategy guidelines and achieve optimized management of sales profits for seasonal products. Meanwhile, the leveraging of business opportunities in various channels, together with the instruction platform for differentiated pricing and the synergy between the headquarters and regional offices, promoted our sales through rational movements of products of various ages and inventories, particularly for product management, optimization of cash flow and gross profits targeted at the factory stores channel. For the first half of the year, the retail efficiency of the Company was effectively improved. For the quarter ended 30 June 2015, in respect of LI-NING brand stores which have been in operation since the beginning of the same quarter last year, the same-store-sales growth of LI-NING brand products for the overall platform increased by low-teens on a year-on-year basis. In terms of channels, the retail (direct operation) and wholesale (franchisee) channels registered high-teens and high-single-digit growth respectively.

For clearance of inventory, through our factory stores, general discount stores, temporary bargains stores and channels outside our system, we vigorously implemented clearance of obsolete inventory, optimizing our inventory structure and laying a solid foundation for the growth in the second half of the year and into next year.

For development of innovative sales channels, we furthered our efforts in market segmentation and channel differentiation, with a focus on developing various forms of emerging channels, such as footwear stores, footwear counters, community stores, combination stores, campus stores and other non-traditional points of sales. In pursuit of more opportunities for business growth, we also expanded our business in the supermarket channels and actively developed various forms of collaboration. In the first half of the year, the senior management of the Company approached a total of nine leading groups engaging in the operation of shopping malls and supermarkets, namely, Parkson, Bailian, Grandbuy, RT-Mart, Rainbow and Maoye, with whom the Company has now built up stable and comprehensive strategic partnerships. In 2015, we have opportunities for opening over 100 new points of sales and renovating over 30 points of sales in the premises of these groups. We can also effectively control the risk of store closure. In addition, by matching sports resources and launching sports marketing, we strengthened the relationship with our existing business partners, while gaining access to more resources through cooperation with various channels.

For organization optimization, we continued to step up our efforts in organization reform in the first half of the year, and enhanced operational efficiency through streamlining of staff, flattening of organizational structure, and optimization and integration of functions. In terms of management at the regional level, with integrated sales functions of large regions and subsidiaries, organizational structure was delayered which optimized utilization of resources and production efficiency. In terms of management at the headquarters level, with the integration of management functions like product planning, sales and promotion, management and execution of product assortment planning, product operation and product pricing were strengthened. Moreover, a management team for nation-wide distribution was established to have a better command of the business of our distributors across the country, and to push forward the management and expansion of the distribution business of the subsidiaries of the Company. Merging the logistics and supplies planning departments into our sales system facilitated optimization and streamlining of our supplies and sales processes.

E-Commerce

In the first half of 2015, the e-commerce division of the Company continued its efforts in enhancing overall operations and continuously optimised its decision making process based on digital operation, while establishing an operational and products response mechanism effectively and efficiently. E-commerce business therefore achieved relatively outstanding financial results in the first half of 2015.

Meanwhile, the e-commerce business will continue to advance amid integration of businesses of overall store structure, channel structure development, product mix for online sales and O2O business. We will continue to invest in various emerging businesses including digital operation, customization and rapid supply chain for further breakthrough.

Double Happiness brand

Double Happiness brand is owned by Shanghai Double Happiness Co., Ltd. and its subsidiaries (collectively, "Double Happiness"), in which the Group holds 57.5% equity interest. It 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 2015, 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), Yan An (閆安), Zhu Yuling (朱雨玲) and Chen Meng (陳夢). At the same time, the brand also actively sponsored various domestic and international professional tournaments. In 2015, it successfully sponsored and accomplished the marketing promotion for the World Table Tennis Championships in Suzhou, in which Ma Long and Ding Ning, as the endorsers for Double Happiness brand, won the championship titles. The brand continued to provide professional equipment for events such as the International Table Tennis Federation (ITTF) Professional Tour, Table Tennis World Cup and the China Table Tennis Super League.

Over 90% of China National Table Tennis team members opted for the brand's rubber covering and the brand's blades were among their most popular choices. Besides equipment for professional players, the brand continued to launch more than 100 new products in the market successfully in 2015, including products exclusively for the e-commerce market, professional blades, coverings, table tennis tables. These new products complemented the product line of the brand, demonstrating the strong product development and design capabilities of Double Happiness brand.

Table tennis balls made with a new material under Double Happiness brand have been in use in major top events and will continue to be used in other events to be held in 2015 to 2016. New models of blades and coverings to fit the new balls were also rolled out and received recognition from the professional athletes of the China National Team.

Double Happiness products are mainly distributed via wholesale and integrated sporting goods stores. It has adopted a wholesale model for its domestic business, with a relatively stable clientele in approximately 30 provinces and municipalities in China. The brand continued to refine and standardise the management of customer behaviours and sales policies in 2015 and continued the implementation of the "e-commerce expansion" project to develop e-commerce exclusive products, and implement special policies and promotional support for e-commerce business.

Both LI-NING brand and Double Happiness brand will continue to create synergistic effect in brand marketing, promotion, event sponsorship and distribution channel expansion, which will further strengthen the position of the Group in the Chinese table tennis market.

Other Brands

AIGLE Brand

The retail sector in general encountered enormous challenges during the year. Sales of international luxury items was hit hard by China's crackdown on lavish spending, while major foreign leisure and outdoor brands' revenue generally declined amid unfavorable market conditions. Attributable to AIGLE brand's unique market positioning and competitive edges as well as consumer's rising recognition of the brand, existing retail shops were able to sustain their sales growth. Overall sales achieved double-digit growth as a result of well-planned expansion strategy, maintaining AIGLE brand's position as one of the leading outdoor and leisure brands in the market.

In the second half of 2015, AIGLE brand will continue to focus on implementing the following major operation strategies with an 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;

– Enhance regional retail outlet mix (specialty shop, franchised counter and outlets channel) and development strategy while practising effective management of the terms of cooperation of different channels and shopping malls in a bid to boost long-term sales profit;

– Strengthen the development and collaboration of product lines in Asia, optimize long-term product lines and expand the potential consumer base;

– Sustain efforts to upgrade retail sales management and improve frontline customer service while implementing effective inventory management and handling measures.

HUMAN RESOURCES

The Group continued to strengthen the synergistic development of products, channels and retail capability in 2015. To establish a business-oriented model, expand the business scale and improve cash flow continuously, our human resources team joined hands with the operations departments to roll out various important measures to streamline the business flow, optimise the organisational structure and control labor costs, and the outcome has been encouraging. Other major tasks carried out during the period included:

– Continued to implement the annual Short Term Incentive (STI) plan by setting the 2015 goal for the Group and all employees. By means of quantitative indicators, as well as effective communications between supervisors and subordinates, the Group ensured that each staff member understood and strived to achieve the corporate and personal targets for 2015 by performing their daily duties diligently, with an aim of achieving satisfactory corporate performance;

- Stepped up efforts in talent identification and assessment in the process of organisational optimisation, and promoted a talent retention program in order to give full scope to outstanding employees and ensure internal staff stability;

- Enhanced the collective management of remuneration structure within the Group and improved the market competitiveness of our remuneration packages;

- Continuously expanded the scope of training to cope with precise business needs. The Group has provided product knowledge training sessions to all employees to improve the professional levels of internal staff. The Group also introduced external office software trainings for boosting general work efficiency of all the employees;

- Arranged each office staff member to participate in the front line sales work and provide system supports during the peak season, in a bid to support the front line employees and understand consumer needs directly;

- Strengthened interaction with potential talents in an early stage by establishing cooperative relationship with reputable institutes such as Stanford University, the University of Virginia, Peking University, thus enhancing our brand influence as an employer.

As at 30 June 2015, the Group had 3,036 employees in total (3,735 employees as at 31 December 2014), including 1,785 employees at the Group's headquarters and retail subsidiaries (2,158 employees as at 31 December 2014), and 1,251 employees at the Group's other subsidiaries (1,577 employees as at 31 December 2014).

OUTLOOK

In the first half of 2015, the Company's losses significantly narrowed as operating income grew steadily while operational efficiency continued to improve, paving the way for a return to profit in the second half of the year.

Looking forward, the Company will utilize its huge base of consumer data to probe deeply into consumers' behavior and spending habit, allowing the Company to make more flexible and targeted attempts to fit into their social lives and smart-living lifestyles. We will also encourage online-to-offline interactions to generate a larger proportion of revenue from O2O business model. In the first half of the year, the income from e-commerce business accounted for 7% and 6% of the Li Ning's branded products' and the Group's total revenue respectively; we target to increase the proportion of e-commerce business income to over 20% in the next three to five years. Recently, Li Ning, in collaboration with Xiaomi Mi Band, launched two models of smart running shoes targeting the functional and mass sports lifestyle markets respectively. Consumers can enjoy a multi-faceted running experience combining "professional equipment + smart gadget + mobile internet + data analysis and sharing." This collaboration signified a shift from the traditional sales model to a "try offline, buy online" O2O sales model as it harnessed Li Ning's competitive advantage in Internet+ strategy to optimize resource allocations and promote supply chain efficiency, in an effort to reduce the costs of marketing and channel sales.

In terms of product positioning, to better position the functional and mass market product lines while further tapping into the potential sports lifestyle market, the Company will gradually roll out the blue and white " " label series in the second half of the year, increase the number of stand-alone stores focusing on the mass sports lifestyle market and introduce products with high price-performance ratio catering the mass market, particularly the group of trendy young consumers. Meanwhile, the classic Li Ning brand will stay on and serve sports participants familiar with the brand tradition of Li Ning as well as consumers looking for functionality. The product categories of the classic Li Ning brand span from basketball, running and badminton to football, tennis and table tennis, for which consumers can mainly experience high-tech and functionality oriented innovations.

In addition to delivering a clearer brand strategy and expanding the sales network based on market opportunities, the Company will sustain our efforts to improve operational efficiency, enforce stricter measures to control operating costs and enhance cash flow management capability, striving to return to profit for the year's annual results.

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 2015. 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 2015 to 30 June 2015, 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 during the six months ended 30 June 2015, the Executive Chairman of the Company, Mr. Li Ning, assumed the role of chief executive officer with the assistance of the current senior management of the Company, and he was officially appointed as Interim Chief Executive Officer of the Company from 18 March 2015. 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 Chief Executive Officer 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 beneficial to the Company and its shareholders as a whole.

The Company has adopted the "Model Code for 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 for the six months ended 30 June 2015.

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, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2015.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2015 in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

By order of the Board
Li Ning Company Limited
Li Ning
Executive Chairman and
Interim Chief Executive Officer

Hong Kong, 12 August 2015

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