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 2019

FINANCIAL HIGHLIGHTS

- Reported net profit attributable to equity holders increased by 196% to RMB795 million, net profit margin raised from 5.7% to 12.7%.

- Excluding the one-off profit and loss not related to operation, the net profit attributable to equity holders increased by 109% to RMB561 million, net profit margin was 9.0%:
  - Revenue increased by approximately 33% to RMB6,255 million
  - Gross profit margin expanded 1 percentage point
  - Enhanced operating leverage notwithstanding investment in new initiatives and increase of organization costs

- Operating cash flow increased by 107% to RMB1,366 million.

- Significant improvement in working capital continued:
  - Gross average working capital improved (reduced) by 16% while revenue increased by approximately 33%
  - Cash conversion cycle further improved (shortened) by 13 days (2018: 45 days/2019: 32 days)

OPERATIONAL HIGHLIGHTS

- The retail sell-through for the overall platform increased by low-twenties, including online and offline channels.

- Channel inventory turnover improvement continued.

- Overall same-store-sales in 2019H1 grew mid-teens.

- Offline channel new product sell-through increased by mid-teens with gross margin improved:
  - New product discount rate improved over 1 percentage point
  - Sell-out rate was up over 2 percentage points

INTERIM RESULTS

The board of directors (the "Board") of Li Ning Company Limited (the "Company" or "Li Ning Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2019, together with comparative figures of 2018, as follows:

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

	Note	**Unaudited As at 30 June 2019** *RMB'000*	Audited As at 31 December 2018 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**843,195**	830,085
Right-of-use assets	*2*	**804,488**	-
Land use rights		**73,162**	74,092
Intangible assets		**181,482**	233,921
Deferred income tax assets		**326,447**	239,047
Other assets		**125,962**	132,491
Investments accounted for using the equity method		**1,038,978**	728,499
Other receivables		**100,672**	102,916
Total non-current assets		**3,494,386**	2,341,051
Current assets			
Inventories	*4*	**1,323,827**	1,239,741
Other assets – current portion		**544,315**	508,536
Trade receivables	*5*	**755,721**	928,895
Other receivables – current portion		**38,721**	37,340
Restricted bank deposits		**200**	200
Cash and cash equivalents		**4,724,804**	3,671,542
Total current assets		**7,387,588**	6,386,254
Total assets		**10,881,974**	8,727,305

	Note	Unaudited As at 30 June 2019 *RMB'000*	Audited As at 31 December 2018 *RMB'000*
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		**214,333**	204,435
Share premium		**3,517,389**	3,249,389
Shares held for Restricted Share Award Scheme		**(141,967)**	(168,809)
Other reserves		**1,072,573**	1,314,569
Retained earnings		**1,797,760**	1,217,456
		6,460,088	5,817,040
Non-controlling interests in equity		**2,550**	2,550
Total equity		**6,462,638**	5,819,590
LIABILITIES			
Non-current liabilities			
License fees payable		**26,624**	27,565
Derivative financial instruments		**28,285**	14,274
Lease liabilities		**439,266**	-
Deferred income tax liabilities		**45,686**	34,730
Deferred income		**53,278**	53,675
Total non-current liabilities		**593,139**	130,244
Current liabilities			
Trade payables	*6*	**1,212,257**	1,133,314
Contract liabilities		**155,791**	97,979
Lease liabilities – current portion		**278,197**	-
Other payables and accruals		**1,793,368**	1,383,118
License fees payable – current portion		**53,997**	28,719
Current income tax liabilities		**332,587**	134,341
Total current liabilities		**3,826,197**	2,777,471
Total liabilities		**4,419,336**	2,907,715
Total equity and liabilities		**10,881,974**	8,727,305

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Unaudited Six months ended 30 June **2019** ***RMB'000***	 2018 *RMB'000*
Revenue	*3*	**6,254,730**	4,712,773
Cost of sales	*7*	**(3,146,772)**	(2,418,906)
Gross profit		**3,107,958**	2,293,867
Distribution expenses	*7*	**(2,023,392)**	(1,735,145)
Administrative expenses	*7*	**(450,913)**	(297,106)
Reversal of impairment losses on financial assets – net		**103**	1,062
Other income and other gains – net	*8*	**44,306**	31,121
Operating profit		**678,062**	293,799
Finance income	*9*	**18,202**	8,546
Finance expenses	*9*	**(26,441)**	(7,050)
Finance (expenses)/income – net	*9*	**(8,239)**	1,496
Share of profit of investments accounted for using the equity method		**310,479**	32,128
Profit before income tax		**980,302**	327,423
Income tax expense	*10*	**(185,303)**	(58,854)
Profit for the period		**794,999**	268,569
Attributable to:			
Equity holders of the Company		**794,999**	268,569
Non-controlling interests		**–**	–
		794,999	268,569
Earnings per share attributable to equity holders of the Company for the period (expressed in RMB cents per share)			
Basic earnings per share	*11*	**32.88**	11.10
Diluted earnings per share	*11*	**32.08**	10.98

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June **2019** ***RMB'000***	 2018 *RMB'000*
Profit for the period	**794,999**	268,569
Other comprehensive income/(loss):		
Items that may be reclassified to profit or loss		
Currency translation differences	**528**	(873)
Total comprehensive income for the period	**795,527**	267,696
Attributable to:		
Equity holders of the Company	**795,527**	267,696
Non-controlling interests	**–**	–
	795,527	267,696

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 13 August 2019.

This condensed consolidated interim financial information has not been audited.

2. Changes in accounting policies

This note explains the impact of the adoption of IFRS 16 *Leases* on the Group's financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

(a) Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.5%-6.1%.

	RMB'000
Operating lease commitments disclosed as at 31 December 2018	959,500
Discounted using the lessee's incremental borrowing rate of at the date of initial application	792,728
Less: short-term leases recognised on a straight-line basis as expense	(121,077)
Lease liabilities recognised as at 1 January 2019	671,651
Of which are:	
Lease liabilities – current portion	264,443
Lease liabilities – non-current portion	407,208

The right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The recognised right-of-use assets relate to the following types of assets:

	30 June 2019	1 January 2019
	RMB'000	*RMB'000*
Properties	**804,488**	757,762

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by RMB757,762,000
- other assets – current portion – decrease by RMB86,931,000
- lease liabilities – non-current portion – increase by RMB407,208,000
- lease liabilities – current portion – increase by RMB264,443,000
- other payables and accruals – decrease by RMB820,000

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

(b) The Group's leasing activities and how these are accounted for

The Group leases various offices, warehouses and retail stores. Rental contracts are typically made for fixed periods of 1 to 6 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees, and
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options

Extension and termination options are included in some property leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

3. Segment information and revenue

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

The segment information presented by brand perspective has ceased since 1 January 2018 as the Group was principally engaged in a single line of business of sporting goods.

Revenue breakdown by product category is as follows:

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Footwear	**2,921,728**	2,190,747
Apparel	**3,060,044**	2,299,615
Equipment and accessories	**272,958**	222,411
Total	**6,254,730**	4,712,773

Geographical information of revenue

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
The PRC (including the Hong Kong Special Administrative Region)	**6,157,231**	4,639,133
Other regions	**97,499**	73,640
Total	**6,254,730**	4,712,773

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 2019 and 2018, 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 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Raw materials	**9,931**	1,112
Work in progress	**7,068**	3,101
Finished goods	**1,459,918**	1,360,167
	1,476,917	1,364,380
Less: provision for write-down of inventories to net realisable value	**(153,090)**	(124,639)
	1,323,827	1,239,741

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB3,058,230,000 for the six months ended 30 June 2019 (30 June 2018: RMB2,366,250,000). 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 2019 and 2018.

5. Trade receivables

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
Accounts receivable	**1,040,298**	1,213,288
Less: allowance for impairment of trade receivables	**(284,577)**	(284,393)
	755,721	928,895

Customers are normally granted credit terms within 90 days. As at 30 June 2019 and 31 December 2018, ageing analysis of trade receivables based on invoice date are as follows:

	Unaudited 30 June 2019 *RMB'000*	Audited 31 December 2018 *RMB'000*
0 – 30 days	**351,421**	551,193
31 – 60 days	**159,248**	247,090
61 – 90 days	**123,394**	99,029
91 – 180 days	**122,117**	87,835
Over 180 days	**284,118**	228,141
	1,040,298	1,213,288

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

	Unaudited Six months ended 30 June	
	2019 *RMB'000*	2018 *RMB'000*
Opening balance	**284,393**	401,845
Provision for/(reversal of) impairment allowance of trade receivables	**230**	(1,062)
Trade receivables written off during the period as uncollectible	**(46)**	(3,103)
Closing balance	**284,577**	397,680

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 2019	Audited 31 December 2018
	RMB'000	*RMB'000*
0 – 30 days	**892,232**	758,434
31 – 60 days	**278,895**	310,259
61 – 90 days	**32,398**	57,309
91 – 180 days	**3,307**	1,947
181 – 365 days	**1,277**	1,857
Over 365 days	**4,148**	3,508
	1,212,257	1,133,314

7. **Expenses by nature**

	Unaudited Six months ended 30 June 2019	2018
	RMB'000	*RMB'000*
Cost of inventories recognised as expenses included in cost of sales	**3,058,230**	2,366,250
Depreciation on property, plant and equipment *(Note a)*	**189,829**	177,379
Amortisation of land use rights and intangible assets	**21,687**	24,176
Depreciation on right-of-use assets	**152,580**	–
Impairment of goodwill	**36,394**	–
Advertising and marketing expenses	**557,055**	492,733
Commission and trade fair related expenses	**119,194**	75,494
Staff costs, including directors' emoluments *(Note a)*	**725,224**	539,950
Expenses relating to short-term lease and variable lease payments not included in lease liabilities and rental related expense (30 June 2018: Operating lease rentals and related expenses in respect of land and buildings)	**318,793**	443,861
Research and product development expenses *(Note a)*	**132,711**	61,632
Transportation and logistics expenses	**214,063**	175,672
Auditor's remuneration	**2,916**	2,707
– Audit services	**2,600**	2,500
– Non-audit services	**316**	207
Management consulting expenses	**44,577**	23,612
Travelling and entertainment expenses	**32,336**	23,995

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 2019	2018
	RMB'000	*RMB'000*
Government grants	**22,312**	15,088
License fees income	**6,452**	7,896
Interest income from wealth management products measured at fair value through profit or loss	**29,553**	16,293
Fair value losses on derivative financial instruments at fair value through profit or loss	**(14,011)**	(8,156)
	44,306	31,121

9. Finance (expenses)/income – net

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Finance income		
Interest income on bank balances and deposits	**15,139**	4,560
Net foreign currency exchange gain	**3,063**	3,986
	18,202	8,546
Finance expenses		
Amortisation of discount – license fees payable	**(1,643)**	(2,160)
Amortisation of discount – lease liabilities	**(19,833)**	–
Others	**(4,965)**	(4,890)
	(26,441)	(7,050)
Finance (expenses)/income – net	**(8,239)**	1,496

10. Income tax expense

	Unaudited Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
Current income tax		
– Corporate income tax	**261,153**	69,561
– Withholding income tax on interest income from subsidiaries in PRC	**593**	482
	261,746	70,043
Deferred income tax	**(76,443)**	(11,189)
Income tax expense	**185,303**	58,854

11. Earnings per share

Basic

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

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company completed the issuance of offer securities. The below market subscription price of these two events effectively resulted in 44,813,000 ordinary shares (30 June 2018: 57,689,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and the impact of such bonus element has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share.

	Unaudited Six months ended 30 June **2019** ***RMB'000***	 2018 *RMB'000*
Profit attributable to equity holders of the Company	**794,999**	268,569
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,417,682**	2,418,896
Basic earnings per share *(RMB cents)*	**32.88**	11.10

Diluted

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

	Unaudited Six months ended 30 June **2019** ***RMB'000***	 2018 *RMB'000*
Profit attributable to equity holders of the Company, used to determine diluted earnings per share	**794,999**	268,569
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share *(in thousands)*	**2,417,682**	2,418,896
Adjustment for the restricted shares *(in thousands)*	**26,572**	14,345
Adjustment for the share option schemes *(in thousands)*	**34,071**	12,926
Deemed weighted average number of shares for diluted earnings per share *(in thousands)*	**2,478,325**	2,446,167
Diluted earnings per share *(RMB cents)*	**32.08**	10.98

Note:

As at 30 June 2019, there were 1,607,000 share options that could potentially have a dilutive impact in the future but were antidilutive during the six months ended 30 June 2019. As at 30 June 2018, there were 52,932,000 share options that could potentially have dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2018.

12. Dividends

The Board did not propose interim dividend for the six months ended 30 June 2019 and 2018.

DIVIDENDS

The Board resolved not to distribute any interim dividend for the six months ended 30 June 2019 (30 June 2018: nil).

The proposed final dividend of RMB8.78 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2018 was declared payable and approved by the shareholders at the annual general meeting of the Company on 14 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the six months ended 30 June 2019 are set out below:

	Unaudited Six months ended 30 June		
	2019	2018	**Change** *(%)*
Income statement items			
(All amounts in RMB thousands unless otherwise stated)			
Revenue	**6,254,730**	4,712,773	**32.7**
Gross profit	**3,107,958**	2,293,867	**35.5**
Operating profit	**678,062**	293,799	**130.8**
Earnings before interest, tax, depreciation and amortisation (EBITDA) *(Note 1)*	**1,352,637**	527,482	**156.4**
Profit attributable to equity holders *(Note 2)*	**794,999**	268,569	**196.0**
Basic earnings per share *(RMB cents) (Note 3)*	**32.88**	11.10	**196.2**
Key financial ratios			
Profitability ratios			
Gross profit margin *(%)*	**49.7**	48.7	
Operating profit margin *(%)*	**10.8**	6.2	
Effective tax rate *(%)*	**18.9**	18.0	
Margin of profit attributable to equity holders *(%)*	**12.7**	5.7	
Return on equity attributable to equity holders *(%)*	**13.0**	5.1	
Expenses to revenue ratios			
Staff costs *(%)*	**11.6**	11.5	
Advertising and marketing expenses *(%)*	**8.9**	10.5	
Research and product development expenses *(%)*	**2.1**	1.3	
Asset efficiency			
Average inventory turnover *(days) (Note 4)*	**74**	85	
Average trade receivables turnover *(days) (Note 5)*	**24**	42	
Average trade payables turnover *(days) (Note 6)*	**66**	82	

	Unaudited 30 June 2019	Audited 31 December 2018
Asset ratios		
Debt-to-equity ratio *(%) (Note 7)*	**68.4**	50.0
Net asset value per share *(RMB cents)*	**283.14**	269.79

Notes:

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

2. Including profit attributable to equity holders for the period from 1 January to 31 March 2019: RMB251,009,000.

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

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

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

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

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

* *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 2019 amounted to RMB6,254,730,000, representing an increase of 32.7% as compared to the corresponding period of 2018, with a significant year-on-year increment. By effectively integrating Chinese elements with our "Sports DNA", we have enhanced the recognition of the LI-NING brand significantly and recorded a higher increase in revenue from all channels, among which, (a) revenue generated by the franchised distributors recorded a mid-fortieth growth given stronger confidence on the LI-NING brand among franchised distributors, as well as the fact that the Group has transferred certain self-operated stores to the distributors and agreed that the distributors may set up large stores and casual stores with an aim to optimise its overall channel structure; (b) as affected by the transfer of certain stores to the distributors, the growth of sales revenue from direct operation has slowed down but still managed to maintain a growth rate of over 10%; and (c) the e-commerce channel grew rapidly and recorded a high-thirtieth growth with an increasing percentage to revenue owing to the rapid development in recent years. While securing strong revenue growth, the Company will continue to monitor the changes in inventory of its channels and maintain it at a reasonable and healthy level.

Revenue breakdown by product category

	Six months ended 30 June				
	2019		2018		
	RMB'000	**% of total revenue**	*RMB'000*	% of total revenue	**Revenue Change (%)**
Footwear	**2,921,728**	**46.7**	2,190,747	46.5	**33.4**
Apparel	**3,060,044**	**48.9**	2,299,615	48.8	**33.1**
Equipment and accessories	**272,958**	**4.4**	222,411	4.7	**22.7**
Total	**6,254,730**	**100.0**	4,712,773	100.0	**32.7**

Revenue breakdown (in %) by sales channel

	Six months ended 30 June		
	2019	2018	
	% of revenue	% of revenue	**Change *(%)***
PRC market			
Sales to franchised distributors	**48.6**	44.4	**4.2**
Sales from direct operation	**28.1**	33.2	**(5.1)**
Sales from e-commerce channel	**21.7**	20.8	**0.9**
International markets	**1.6**	1.6	**–**
Total	**100.0**	100.0	

Revenue breakdown by geographical location

		Six months ended 30 June				
		2019		2018		
	Note	***RMB'000***	**% of revenue**	*RMB'000*	% of revenue	**Revenue change (%)**
PRC market						
Northern region	*2*	**3,191,126**	**51.0**	2,570,602	54.5	**24.1**
Southern region	*1, 3*	**2,175,937**	**34.8**	1,521,131	32.3	**43.0**
South China region	*1, 4*	**790,168**	**12.6**	547,400	11.6	**44.3**
International markets		**97,499**	**1.6**	73,640	1.6	**32.4**
Total		**6,254,730**	**100.0**	4,712,773	100.0	**32.7**

Notes:

1. In the second half of 2018, the Group restructured and adjusted its sales system and related organizational structure to re-classify the original Southern region into two sub-regions, namely Southern region and South China region. The purpose of this was to cater to the changes in consumers' demand and the business environment, thereby facilitating strategy optimization as well as innovation and modification of operation model in a more precise manner. Comparative figures have also been restated for consistent presentation purpose.

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

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

4. The South China region includes provinces and autonomous region covering Guangdong, Guangxi, Fujian and Hainan.

Cost of Sales and Gross Profit

For the six months ended 30 June 2019, the overall cost of sales of the Group amounted to RMB3,146,772,000 (2018: RMB2,418,906,000), and the overall gross profit margin was 49.7% (2018: 48.7%). During the period, the Group provided higher percentage of tag price on delivery to franchised distributors due to the increasing brand recognition, and there was better sales discount on both new and old products in self-operated channel. The aforesaid factors contributed to the increase of 1.0 percentage point in gross profit margin compared to the corresponding period last year.

Distribution Expenses

For the six months ended 30 June 2019, the Group's overall distribution expenses amounted to RMB2,023,392,000 (2018: RMB1,735,145,000), accounting for 32.3% (2018: 36.8%) of the Group's total revenue.

The percentage of distribution expenses to revenue dropped significantly by 4.5 percentage point during the period. While revenue grew significantly, the Group implemented reasonable control over its expenditures such as advertising and marketing expenses and miscellaneous daily expenses. However, distribution expenses increased as compared to the corresponding period of last year, which is mainly attributable to: (1) along with the development of the Group's business, both expenses that directly related to sales, such as logistics expenses, variable rentals, commission, wages and bonuses of marketing staff and license fees that are linked to part of the income of particular products have all increased in accordance with the growth in revenue; and (2) the Group's active implementation of innovational marketing model with a focus on user's experience to build up a trendy brand culture image while increased both relevant brand promotion fee and corresponding depreciation on the asset investment of points of sales during the period.

Administrative Expenses

For the six months ended 30 June 2019, the Group's overall administrative expenses amounted to RMB450,913,000 (2018: RMB297,106,000), accounting for 7.2% (2018: 6.3%) of the Group's total revenue with a year-on-year increase of 0.9 percentage point. Administrative expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes and other miscellaneous daily expenses.

The increase in administrative expenses is mainly attributable to the Group's dedication to enhancing product competitiveness and improving supply chain management. To this end, the Group has successively employed various experts in related field and provided incentives to personnel from key positions. Besides, the Group has made provision for the relevant goodwill impairment of RMB36,394,000 in aggregate resulting from the realignment of the Group's overall channel structure. Consequently, the Group's administrative expenses and its percentage to revenue increased year-on-year.

Share of Profit of Investments Accounted for Using the Equity Method

For the six months ended 30 June 2019, the Group's share of profit of investments accounted for using the equity method amounted to RMB310,479,000 (2018: RMB32,128,000), among which, the Group shared the one-off gain of RMB269,925,000 in relation to the expropriation of a piece of land parcel held by Shanghai Double Happiness Co., Ltd. ("Double Happiness", the Group's associate) by the government during the period.

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

For the six months ended 30 June 2019, the Group's EBITDA amounted to RMB1,352,637,000 (2018: RMB527,482,000), representing a year-on-year increase of 156.4%. This was comprised of share of gain of RMB269,925,000 in relation to the expropriation of a piece of land parcel held by Double Happiness; the provision for goodwill impairment of RMB36,394,000 due to the realignment of the Group's overall channel structure; and the inclusion of part of the expenses in depreciation charge and interest expenses, which were originally included in lease expenses, of RMB172,413,000 under the influence of IFRS 16 Leases. Apart from the abovementioned factors, for the six months ended 30 June 2019, the Group's EBITDA amounted to RMB946,693,000, representing a year-on-year increase of 79.5%. This was mainly attributable to the increase in revenue and gross profit margin, control over expense ratio and growth in gains from investment in wealth management products.

Finance (Expenses)/Income

For the six months ended 30 June 2019, the Group's net finance expenses amounted to RMB8,239,000 (2018: finance income of RMB1,496,000). The increase in net finance expenses was mainly due to the recognition of interest on the lease liabilities of RMB19,833,000 according to the requirement of IFRS 16, which took effect from 1 January 2019, during the period. In addition, as evidenced by the sufficiency of capital, the Group was maintaining a more mature and stable control over the use of capital and recorded a significant growth in bank deposit interest income as compared to the corresponding period last year.

Income Tax Expense

For the six months ended 30 June 2019, the income tax expense of the Group amounted to RMB185,303,000 (2018: RMB58,854,000) and the effective tax rate was 18.9% (2018: 18.0%); while excluding the one-off profit and loss not related to operation, the effective tax rate was 24.8%.

Overall Profitability Indicators

During the period, the sales revenue and gross profit margin of the Group both improved with a lower expense ratio, while other income and other gains increased, together with a substantial growth in share of profit of investments accounted for using the equity method, thus the overall profitability indicators of the Group for the six months ended 30 June 2019 improved significantly. During the period, the Group's profit attributable to equity holders amounted to RMB794,999,000 (2018: RMB268,569,000) with a year-on-year increase of 196.0%; while excluding the one-off profit and loss not related to operation, the profit attributable to equity holders amounted to RMB561,468,000 with a year-on-year increase of 109.1%. The margin of profit attributable to equity holders was 12.7% (2018: 5.7%), while excluding the one-off profit and loss not related to operation, the margin of profit attributable to equity holders was 9.0%. Return on equity attributable to equity holders was 13.0% (2018: 5.1%), while excluding the one-off profit and loss not related to operation, the return on equity attributable to equity holders was 9.3%.

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2019 was the same as that in 2018. Inventories of the Group are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy to be adequate in ensuring appropriate provision for inventories is made by the Group.

As at 30 June 2019, the accumulated provision for inventories was RMB153,090,000 (31 December 2018: RMB124,639,000). During the period, the balance of the provision for inventories increased along with the increase in gross value of inventories, the growth rate of both of which, however, were lower than that of revenue. The Group will continue to monitor the changes in inventory ageing so as to improve the inventory ageing structure.

Provision for Doubtful Debts

The Group's policy in respect of provision of doubtful debts for the first half of 2019 was the same as that in 2018. The provision of doubtful debts was recorded at an amount equal to the lifetime expected credit losses of the trade receivables that do not contain a significant financing component, and 12 months expected credit losses or lifetime expected credit losses of other receivables, depending on whether there has been a significant increase in credit risk since initial recognition.

As at 30 June 2019, the accumulated provision for doubtful debts was RMB288,295,000 (31 December 2018: RMB288,444,000), among which the accumulated provision for doubtful debts of trade receivables was RMB284,577,000 (31 December 2018: RMB284,393,000) and the accumulated provision for doubtful debts of other receivables was RMB3,718,000 (31 December 2018: RMB4,051,000). The trade receivables written off during the period as uncollectible amounted to RMB46,000 (2018: RMB95,225,000). There was a decrease in the gross value of trade receivables, while provision for doubtful debts basically remained flat compared with its opening balance.

Liquidity and Financial Resource

The Group's net cash from operating activities for the six months ended 30 June 2019 amounted to RMB1,366,159,000 (2018: RMB660,199,000). As at 30 June 2019, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB4,724,804,000, representing a net increase of RMB1,053,262,000 as compared with the position as at 31 December 2018. The increase was due to the following items:

	Unaudited Six months ended 30 June 2019 *RMB'000*
Item	
Operating activities:	
Net cash from operating activities	**1,366,159**
Investing activities:	
Net capital expenditure	**(235,748)**
Interest received	**44,692**
Financing activities:	
Principal portion of lease payments	**(136,561)**
Net cash from other financing activities	**13,125**
Add: Exchange gains on cash and cash equivalents	**1,595**
Net increase in cash and cash equivalents	**1,053,262**

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

As at 30 June 2019, the Group's banking facilities amounted to RMB1,065,000,000, without outstanding borrowings.

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

Foreign Exchange Risk

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

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

Pledge of Assets

As at 30 June 2019 and 31 December 2018, the Group had no pledged assets.

Contingent Liabilities

As at 30 June 2019, the Group had no significant contingent liabilities.

BUSINESS REVIEW

In recent years, the sports market in China sustained its steady growth momentum along with the continuous economic growth in China, positive impact of national policies, strong support from government of all levels for the development of sports industry and increasing health awareness of consumers. Meanwhile, coupled with the ongoing urbanization development in China, as well as the continuous optimization of consumers' consumption structure and manner, sports consumption is gradually shifting towards a more diversified, professionalized and refined direction. In response to the increasingly segmented and mature consumption demand, we continued to focus on creating and enhancing LI-NING's experience value. At the same time, we enhanced and maintained ongoing interaction with consumers based on our digitalization strategy and provided them with differentiated consumer services and experience. We also accurately capitalized on hot topics to draw young consumer groups closer to our brand and enhance the recognition of brand image and brand value among consumers. During the period, key operational indicators have been optimized continuously, the Group's revenue maintained steady growth and profitability has been continuously improved.

During the period, we continued to support and deepen LI-NING's experience value in full swing with products, channels and retail capability, and supply chain management as our main business focuses, and implemented the strategy of "Single Brand, Multi-categories, Diversified Channels" to enhance our brand competitiveness. As always, we highlighted the professional sports attributes of our products and upheld a stringent and professional attitude towards sports research as well as development and design of professional products so as to consistently offer better product experience for athletes and sports enthusiasts. On the other hand, enhanced innovation capacity and acute market insight enabled us to achieve breakthrough from traditional model and closely integrate professional sports with fashion trends and culture, hence providing more consumption choices and more accurate consumption experience for consumers. During the period, we continued to attract consumers and expanded our consumer groups through fashion weeks, "China LI-NING" and various cross-sector crossover collaborations, hence strengthening and enhancing both our brand and product competitiveness. Meanwhile, we continued to optimize our structure of channels by adopting a diversified development approach to unleash channel efficiency. Moreover, we continued to optimize the retail operation platform, aiming to improve the retail operation standards of stores and hence improve the retail efficiency. In terms of supply chain, we further established the supply chain management system centering on business needs while striving to enhance our own supply chain capabilities.

Latest trade fair orders and operational update

In terms of tag price, trade fair orders for LI-NING brand products (excluding LI-NING YOUNG and China LI-NING) from franchised distributors, which are for the first quarter of 2020, held in June 2019 registered a high-teens growth on a year-on-year basis.

For the second quarter ended 30 June 2019, in respect of LI-NING POS (excluding LI-NING YOUNG) which have been in operation since the beginning of the same quarter last year, the same-store-sales for the overall platform registered a mid-teens growth on a year-on-year basis. In terms of channels, both retail (direct operation) and wholesale (franchised distributors) channels registered a low-teens growth, while the e-commerce virtual stores business registered a mid-thirties growth on a year-on-year basis.

For the second quarter ended 30 June 2019, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform increased by low-twenties on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a low-twenties growth, with retail increased by high-single-digit and wholesale increased by mid-twenties, while the e-commerce virtual stores business registered a high-twenties growth.

As at 30 June 2019, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 6,422, representing a net increase of 112 POS since the end of previous quarter and a net increase of 78 POS since the beginning of this year. Among the net increase of 78 POS, direct retail accounts for a net decrease of 127 POS, and wholesale accounts for a net increase of 205 POS.

As at 30 June 2019, the total number of LI-NING YOUNG POS in China amounted to 872, representing a net increase of 57 POS since the end of previous quarter and a net increase of 79 POS since the beginning of this year.

Deepening the strategy of "Single Brand, Multi-categories, Diversified Channels" to enhance channel efficiency

Enhancing the feature of professional sports while capturing fashionable and cultural elements to increase product and brand competitiveness

During the period, in order to further strengthen the brand and product competitiveness, we continued to focus on our five core categories, namely basketball, running, training, badminton and sports casual. We set professionalism and functionalism as the foundation, and consolidated the brand's DNA of professional sports. Meanwhile, we carried on our exploration of products based on the differentiated features of various product categories and individual needs of consumers, and emphasized on the functional features and wearing experience, at the same time seeking fashionable and cultural elements which align with our brand value to vitalize the development of both products and brand in order to enhance our brand value.

For professional products, we continued to strengthen the knowledge and research of sports science during the period and invest in the exploration and application of new technologies and new materials. With the application of such knowledge to our product design, we offered more customized and professional products to consumers that cater to their differentiated demand for product functions under different categories. We also offered highly professional product experience to sports players, thereby enhancing LI-NING brand's competitiveness in mainstream mass sports in China.

– We continued to focus on star products for LI-NING professional basketball footwear and offered comfortable professional sports experience by upgrading the core IPs, such as "Power" (空襲) and "Speed" (閃擊) by improving products' appearance and applying LI-NING Cloud technology, which gained wide recognition from consumers. Riding on the effect of endorsements by CBA, we continued to apply new functional technology on LI-NING professional basketball sportswear, while professional basketball competition uniforms were frequently exposed throughout the CBA League. We launched hoodie under the "All-Star Fanpack" series and received positive responses from the market.

– Catering to the needs for jogging and fashion style in everyday life, we launched "Super Light 16th" (超輕十六代) running shoes under "Super Light" (超輕) series. The appearance design is inspired by Chinese ancient screen with simple color mix, which delivers a sense of simplicity and leisure. New material "FOAM EVA LITE" is applied to the midsole to provide a comfortable feeling and reduce energy loss. Adopting a double-layer structure in the heel, it offers a high breathability and at the same time providing support and protection for the heel. The shoe face adopts fly knit technology with an extensive use of yarns in the quarter lining, outer quarter and heel, which is lighter and more breathable.

– In terms of training products category, we continued to focus on functional sports and promote the innovation of technological platforms. We categorised sport environments to improve product experience. Targeting the characteristics of outdoor sport, we have developed waterproof and windproof protective gears to enrich our key product offerings with more comprehensive functions. Icy printing and ice yarn materials are used based on the fabric characteristics and covered more functional products, thereby developing an all-rounded icy product series. Incorporating the technology of the "Super Light" (超輕) series, we launched running products with enhanced lightweight and comfortable experience, such as superlight windbreaker and superlight T-shirt. Targeting women fitness enthusiasts, we offered product packages, such as "Fitness Mickey" (健身米奇), to attract women consumers with an aim of enhancing our brand influence among women consumer groups.

– For badminton category, with constantly enhancing functional features and thoughtfully designed appearance, the reputation of our badminton products was further enhanced. In terms of sportswear, the competition uniform for Sudirman Cup gained wide recognition from consumers. Regarding badminton shoes, new high-end products, namely "RANGER 3.0", "Shadow Pro3.0" (鋒影Pro3.0), "Sonic Boom 2.0" (音爆2.0) and "Ambush SE" (突襲SE), have delivered excellent performance in the market leveraging our sports resources and exposure in competitions. Meanwhile, we launched various products under the "Blast 9000" (風動9000) and "Energy 70" (能量70) series on "LI-NING Racket Technological Platform". By virtue of the superior functions and designs, these new rackets attained high popularity among badminton enthusiasts once launched and maintained a strong sales momentum.

While conducting research and development proactively for professional products, we continued to explore the popular trend regarding culture and lifestyle in order to gain inspiration to satisfy individual dressing needs of consumers. During the period, we continued to cooperate with sports stars and developed star products with their endorsements by integrating their personal characteristics into our professional products, which received overwhelming response from fans and sports enthusiasts. We also paid close attention to the needs and trends amongst young consumers and launched more customized products for youngsters by accurately capturing the fashionable elements and conducting intensive research on trendsetters, aiming to enhance our brand influence among young consumers.

– As the high-end product series of LI-NING basketball, the WADE series focused on high quality, simple functions and fans culture. This product style has received high recognition from the general consumers. The "WOW-7" basketball shoes with new colour edition launched during the NBA All-Star Game also gained attention and positive feedbacks from basketball fans. To celebrate Wade's retirement, we launched a commemorative edition of all-gold basketball shoes named "WOW-7 ONE LAST DANCE", which achieved outstanding market performance far beyond our expectations.

– "BADFIVE" apparel products continued to focus on the pragmatism of street basketball in China. We provided a diversified street chic style for consumers through the creation of unique China street basketball apparel which incorporates Chinese culture, street fashion and basketball attitude. We continued to cooperate with "XLARGE" and "X-girl" and created newly co-branded series named "Deconstruction" (破舊立新) and "Girls Can Do Everything They Want" (少女幫派) after a season of innovation and incubation to demonstrate the culture and spirit of street fashion.

– Regarding running culture, we upgraded "Furious Rider ACE" (烈駿ACE) and "V8" based on the original design which are the derivative design of professional running shoes, and newly created "Furious Rider ACE1.5" (烈駿ACE1.5) and "Arc ACE" (弧ACE) series with a more fashionable appearance design to present Chinese culture in a modernized way. By gaining exposure at the Fashion Weeks, we built our product image of "Sports + Fashion" running culture.

– For sports fashion footwear, we constantly launched hot products with particular market attractiveness. Riding on the exposure during the Fall/Winter 2019 New York Fashion Week, "Titan" (盤古) aroused much market attention with its uniqueness and pioneering approach to explore new horizon by combining fashionable elements and functional features. With the promotion and recommendation by KOL and mainstream Sneaker media, we successfully attracted young and fashionable consumer groups and explored the huge potential of women consumer groups.

– We continued to cooperate with Disney and launched various products under the "Mickey Family", "Star War" and "Toy Story" series. We joined hands with domestic top e-sports club, "RNG" and "Newbee", and launched cross-over apparel products with the concept of "Chinese Players" (中國選手), which is inspired by traditional professional competition uniform. The product integrated LI-NING's professional sports features with retro style, bringing the interpretation of our design concept to a new level. We launched collaborative products with Los Angeles pop artist, David Flores, and injected the DNA of LI-NING brand into graffiti art pieces to demonstrate a strong visual effect.

Comprehensively optimizing marketing resource allocation with the focus on core categories

During the period, our strategy of comprehensively optimizing marketing resource allocation remained focused on the five major categories, including basketball, running, training, badminton and sports casual. We analyzed customized consumer demand and allocated marketing resource to different areas based on category features. Continuous exposure of our professional products leveraging on sports stars and professional events as well as promotional efforts in tandem with hot topics have boosted our product popularity. We drew attention of young consumers by making more efforts in sports fashion marketing and capturing fashion trend with our flexible and diversified digital marketing resources. Under the guidance of fashion opinion leaders, we have gained recognition from more mainstream consumers and enhanced brand image and value.

– We continued to integrate resources from professional events, such as CBA, and players to maintain the continued exposure of LI-NING brand and products in top professional competitions in China. Meanwhile, LI-NING basketball expanded "3+1" street basketball league to 24 cities, covering young consumer groups aged between 17 and 28 so as to build a unique basketball culture that is of absolute street chic style and create opportunities for product experience. In terms of teenagers' basketball training market, the "LI-NING Basketball College" project initiated "3+1" teenagers' event, gathering young basketball enthusiasts aged below 10 and cooperating with nearly 200 basketball training institutes, thereby offering consumers professional brand and product experience.

– We have launched a series of successful marketing campaigns by utilizing the outstanding on-court performance of C.J. McCollum, our signed NBA star, and the professional basketball product series endorsed by him. Our events, including pop-up offering events in Portland, the U.S., and the promotional campaign of C.J.'s China tour themed "Rose Assassin" (玫瑰刺客), have been warmly supported by fans. To commemorate the special occasion of Wade's retirement year, we continued to build the influence of Way of Wade series with a focus on Wade 7 basketball footwear and organized a comprehensive advertising campaign for "ONE LAST DANCE" products. Emotional resonance and topics on Wade's retirement coupled with combination of online and offline fan activities ultimately led to a huge success of online and offline pre-sales.

– In order to break the competition barrier for international brands for years and build a professional image of LI-NING running, we launched “LI-NING 䨻” (李寧䨻「bèng」) technology platform with lightweight and high resilience features. Through the product test and improvement of domestic and foreign marathon elite athletes during 11 marathon events in the first half of the year, athletes swept the top three of men’s event and top two of women’s event in Qingdao Marathon as well as men’s champion in Guiyang Marathon. The numerous achievements have gained not only accumulated endorsements but also huge attention from the media and runners. The technology exhibition under the theme of “Fast 䨻 to Win” (一䨻「bèng」即發，快者勝) at the world’s largest light show in Qingdao has successfully become the hot topic during the Qingdao Marathon event. Involving large numbers of runners, the product has enhanced the influence and recognition of LI-NING’s professional running products, thereby significantly refreshing the professional experience of runners in LI-NING running.

– We launched 45 “No Boundaries Fitness Challenge” competitions (無界體能挑戰賽) simultaneously in five first-tier cities across China via LI-NING CLUB membership platform. In order to enable the consumers to fully experience the professional performance of “No Boundaries” (無界) products through challenging the limits of physical fitness, we offered “No Boundaries” (無界) product experience opportunities for fitness enthusiasts in event sections such as “No Boundaries” shock-relieving challenge (「無界」緩震挑戰), “No Boundaries” stability challenge (「無界」穩定挑戰) and “No Boundaries” multi-functional challenge (「無界」多功能挑戰), thereby creating professional reputation of the products. As a result of the premium professional experience which attracted keen participation of fitness enthusiasts, in conjunction with the promotion of the media, both products and events received high attention from the society.

– In terms of badminton, to celebrate the tenth anniversary of cooperation with the national team, we initiated the annual theme of “LI-NING Badminton 10 Years, Dare to Dream” (羽十俱進，敢夢敢為). For products, we released rackets and footwears endorsed by badminton star athletes such as Chen Long (諶龍), Shi Yuqi (石宇奇), Zheng Siwei (鄭思維), Li Junhui (李俊慧) and Huang Yaqiong (黃雅瓊) as well as themed racquet bags for tenth anniversary, advertising popular products through high exposure on live streaming channels such as CCTV and ZHIBO.TV (中國體育). In the international events, under the theme of the tenth anniversary of LI-NING badminton, the brand-new image of “Champion’s Factory” (冠軍工廠) emerged in pop-up stores at the courts. The pop-up stores in the subsequent events will continue such image and enable consumer to gain a stronger impression.

– Through cross-over collaboration, we integrated the DNA of both brands in our products to draw attention from the fans groups of both products. We enhanced trendy and fashion brand attributes through joint events, thus achieving mutual benefit based on brand influence on both sides. The integrated footwear and apparel theme of “Old-fashioned Mickey” (復古米奇) under Disney cross-over series, coupled with the offline “321 Old-fashioned Sports Meeting” (321復古運動會) activities brought up back-to-old-fashioned trend. We organized special offline offering events with world-class trendy multi-category store CONCEPTS to strengthen brand tonality and initiate trendy events. To unleash the unique urban culture, we established regionally-featured pop-up stores under the themes of “Too Young To Stay” (少不入川) and “Chang An Young n Rich” (長安少年), with urban uniqueness clashing trendy culture. The highly regional products have won the preference of more young consumers.

– Leveraging the influence of artists, we further deepened the marketing campaigns with entertainment elements, thereby transforming fans of these artists into fans of our brand, which will build up our fans economy and directly drive business growth. With the addition of artists having huge online fan base such as Evan Lin (林彥俊), Wang Yibo (王一博), Ayanga (阿雲嘎) and Cai Chengyu (蔡程昱) into the scope of our cooperative artists and by inviting popular artists to make appearance at 2019 Paris Fashion Week, the exposure of and discussion on our products have been significantly increased. To achieve circle marketing effects, we selected KOL resources which align with our product tonality on top-tier platforms such as Weibo, WeChat and TikTok (抖音) and vertical communities such as Xiaohongshu (小紅書) to release customized brand-related contents and form KOL matrix, thereby creating hot topics and draw attention from consumers to our brand and products. By selecting top-edged, reputable and influential fashion media in the industry to work with based on product positioning, we came up with in-depth authentic output to build brand-related product tonality so as to touch and expand target levels of consumers.

Strengthening diversified sales channels development

During the first half of 2019, the Company accelerated the promotion of diversified sales channels development. On the basis of developing conventional shopping streets, department stores and sports cities, we made breakthroughs in focusing on channels with shopping malls and outlets. During the period, the Company has achieved strategic cooperation with various large-scale domestic commercial property chain groups to open multi-category big stores with high productivity in shopping mall channel, while actively explore new channel types. In addition, we continued to close loss-making stores, upgrade and improve low-efficiency stores and optimize store structures. Furthermore, to continuously strengthen sales network coverage, optimize business structure and profitability, the Company is also actively seeking breakthroughs in regional markets in key provinces and low-tier markets.

During the period, with showings at New York and Paris Fashion Weeks again, LI-NING brand leads the national fashion trend by taking advantage of the product innovation and brand transformation. Catering to young customers who are more sensitive to high-end fashion trends, the Company made vigorous efforts in the establishment of China LI-NING store channel. "China LI-NING" has become one of the preferred target brands to introduce when various shopping malls are newly opened or restructured, hence significantly increasing brand channel competitiveness.

As at 30 June 2019, the number of conventional stores, flagship stores, China LI-NING stores, factory outlets and multi-brand stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 7,294, representing a net increase of 157 POS as compared to 31 December 2018. The number of distributors was 62 (including sales channels of China LI-NING stores), representing a net increase of 16 as compared to 31 December 2018. The number of POS breakdown as at 30 June 2019 is as follows:

LI-NING Brand	**30 June 2019**	31 December 2018	**Change**
Franchised	**5,043**	4,838	**4.2%**
Directly-operated retail	**1,379**	1,506	**-8.4%**
LI-NING YOUNG	**872**	793	**10.0%**
Total	**7,294**	**7,137**	**2.2%**

Number of LI-NING Brand POS by geographical location

Regions	30 June 2019 LI-NING Core Brand	30 June 2019 LI-NING YOUNG	30 June 2019 Total	31 December 2018 LI-NING Core Brand	31 December 2018 LI-NING YOUNG	31 December 2018 Total	Change
Northern Region *(Note 1)*	**3,332**	**614**	**3,946**	3,269	549	3,818	**3.4%**
Southern Region *(Note 2)*	**2,355**	**225**	**2,580**	2,351	212	2,563	**0.7%**
Southern China Region *(Note 3)*	**735**	**33**	**768**	724	32	756	**1.7%**
Total	**6,422**	**872**	**7,294**	6,344	793	7,137	**2.2%**

Notes:

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

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

3. The Southern China region includes provinces and autonomous regions covering Guangdong, Guangxi, Fujian and Hainan.

Enhancing product and retail capability and improving efficiency of sales channels

In the first half of 2019, the Company continued to focus on the transformation of its product operation model and the improvement of its retail operation management capability with a view to optimizing the efficiency of terminal sales channels.

– Differentiated product planning according to regional characteristics. Differentiated product supply has been basically realized during the period. In the same season, we provided multiple choices of fabrics for various products to accommodate the sales demand in regions of special climate in order to cater to the regional characteristics. Meanwhile, a department for quick response products has been established to cover the shortage of products offered based on consumers' demand.

– Optimizing and upgrading the single store order project. During the period, on the basis of the single store order model, we have adjusted the manual selection model accordingly. Based on the research relating to consumer big data, in conjunction with the application of middle-end data platform, the Company conducted researches on systematic intelligent product assortment in an effort to gradually realize intelligent single store order.

– Formulating the retail operation standard for big stores with high productivity. In the first half of 2019, in order to accelerate the introduction of the strategy of big stores with high productivity across China, the Company set up designated project team for the operation of such stores, upgraded the retail operation platform, explored the retail operation standard for big stores with high productivity and optimized the operation and management process of stores. We tackled standardized product assortment properly at big stores with high productivity and managed to make such stores more professional and trendy through setting up module tools, thereby pushing forward the optimization and improvement of operating efficiency.

– Upgrading the visual image of stores. In response to the strategy of big stores with high productivity, the Company continued to optimize the visual image of stores. During the period, we diversified the display of various sporting and living scenarios by way of adding new types of props-racks. We promoted the professional and functional features of our running, basketball and training products by adopting high-tech promotion materials and campaigns, and managed to enhance the shopping experience regarding lifestyle products by showcasing with fashion matching, the theme of fashion weeks and trendy story-packs. Furthermore, we set up digital screens in the stores so as to optimize the display and product promotion via short videos and graphic works.

– Strengthening the cultivation of terminal retail talents. In order to reserve and cultivate retail talents for performance growth, the Company attached great importance to the establishment and refinement of LI-NING's terminal talent cultivation system, designing promotional path, mentoring process and contents, online and offline course system as well as performance training evaluation system for the terminal-level positions. For the purpose of enhancing LI-NING's training and learning method and building an education-oriented retail organization, we continued to make efforts to improve the online learning platform and the diversity of retail learning channels by setting up live streaming training channel on We-Media platform.

Strengthening interaction to improve consumers' experience

In the first half of 2019, the Company sustained its focus on consumer research and made further improvements on the way of reaching out to consumers, which continuously and effectively enhanced consumers' retail experience.

– Pushing ahead with the establishment of digital stores and new retail business continuously. We set up independent visitors, heat map of customer flow, commodity touching assessment and other digital devices as well as back-end computing system at the terminal stores, giving us insights on consumers' portraits at stores, based on which we analyzed the behavior and demand of consumers as well as closely followed the performance on the individual product. With the support of the big data, we managed to improve our efficiency and performance by enhancing the decision-makings in relation to optimization of product assortment, retail circulation layout, retail display method and sales services in stores.

– Extending efforts on marketing promotion and engagement with consumers. Leveraging on events such as "Way of Wade Tour China" (韋德中國行), "3+1" Basketball League (「3+1」籃球聯賽) and "Vanke Fun Run" (萬科歡樂跑), the Company interacted with consumers at the terminal stores, allowing consumers to get close access to the products, thereby increasing the number of new members and the traffic at stores. We launched the promotion and sales of products at the terminal stores through the electronic screen and graphic display at stores, online game interaction, cross-over brand cooperation and attractive gift development.

– Facilitating membership's expansion and marketing. Adhering to the operational value chain with membership as the core, the Company recorded significant increase in both number of members and their sales contribution. We strived to accelerate the integration of distribution membership system by integrating the online and offline into omni-channel membership system. The seamless connection of online and offline systems will complement each other with a view to providing a smooth experience for the members when completing the related services via the intelligent system in collaboration with the physical stores.

Strengthening Construction of Logistics Supporting Capacity

In the first half of 2019, the Company continued to focus on building and optimizing the logistics operation system of "Precise, Swift and Efficient", thus providing strong logistics support for its retail management.

- Accelerating the speed of all processes including forward and reverse logistics as well as deployment and turnover of goods by introducing quality resources and following the instruction of the goods management team, thereby achieving prompt response and flexible delivery. During the period, through the enhancement of operation efficiency and the great synergy from planning for upstream and downstream of the supply chain, we have realized direct delivery and rapid replenishment from the central warehouse to various stores across China, which is conducive to the implementation of efficient goods operational management and effective goods turnover of the Company.

- Strengthening the logistics support for operation of retail stores. During the period, the Company placed strong emphasis on formulating targeted logistics services and supporting plans for big stores with high productivity with a view to enhancing the logistics operation efficiency of such stores, demonstrating and utilizing their overall advantages and resources to improve both store and customer experience.

- Supporting the rapid development of O2O business. Currently, all warehouses are equipped with operation capacity for B2B and B2C models, and are hence able to satisfy the sales demand online and offline simultaneously in various peak seasons and holidays. Meanwhile, we continued to improve the online and offline integrated operation model, and enhanced the omni-channel coverage of directly-operated retail and franchised business, thereby enhancing inventory utilization of the terminal products whilst better catering to consumers' demand, and thus created benefits for the Company.

Sustained e-commerce growth by product innovation and consumer experience upgrade

During the first half of 2019, the e-commerce of Li Ning Company continued to record steady growth in terms of revenue and profitability.

During the period, the e-commerce of Li Ning Company stepped up its efforts in product creativity and experience upgrade. In terms of product creativity, the e-commerce platform continued to focus on establishing the independent product line, the "Counterflow-溯" series, which comprises middle-to high-priced sports footwear and apparel featuring both street fashion and Chinese culture elements, and is committed to developing it into an independent product line with the richest cultural background and strongest storytelling capabilities in the industry. During the period, the product reputation of the "Counterflow-溯" series improved continuously with gradually enhanced consumer recognition. Meanwhile, the e-commerce of Li Ning Company played an active role in the Group's core strategic projects such as "China LI-NING", New York/Paris Fashion Week. With the combination of thematic marketing and simultaneous online sales, the contribution of e-commerce to our business has increased and the recognition among consumers has improved.

In terms of experience upgrade, the e-commerce of Li Ning Company continued to invest in visual contents, marketing campaigns and store experience, using big data to set precise positioning for different products and user groups so as to grasp diversified consumption needs and comprehensively enhance users' store experience. Meanwhile, we have used trendy tools such as WeChat mini program and live streaming to attract more consumers, upgrade consuming experience and enhance user loyalty.

Looking forward, the e-commerce of Li Ning Company will continue to seek breakthroughs in product innovation and marketing experience and make great efforts to satisfy differentiated and specific market demands so as to further increase its influence among different consumers.

Continuous promotion of "Demand-driven" (因需而動) supply chain optimization

During the first half of 2019, in line with the Company's needs for business development, the Company continued to improve the responsiveness and elasticity of the supply chain with an emphasis on "Demand-driven" to optimize and consolidate supply chain resources in multiple levels and dimensions and establish a precise and swift business-oriented supply chain system, thereby fostering positive and dynamic supply chain management.

– During the period, on the basis of overall business layout and differentiated product needs as well as suppliers' own advantages, the Company has increased its investment in the rapid production and development of popular products. Meanwhile, the Company steadily pushed ahead with its automation projects to achieve automated, smart and standardized production and hence further improve its production efficiency.

– The Company continued to intensify its efforts in product innovation and research and development to improve the professional features and sports performance of its products. It has also strengthened the management of product quality with a focus on enhancing product workmanship and details and improving wearing comfortability to enhance wearing experience. It established a quality management commune with suppliers to control risks in production stages.

– In respect of cost management, the Company implemented stringent cost control measures and practiced the concept of cost management on all areas ranging from product design and development to various production stages, through which the procurement costs have been effectively controlled, hence directly benefiting consumers by improving price–performance ratio of products. Meanwhile, it continued to tighten the requirements on labour, occupational health and environmental protection to ensure sustainable development.

– Meanwhile, to ensure rapid growth of new businesses, based on diversified business development needs and with an aim to enhance efficiency and improve product competitiveness, the Company made optimized allocation of supplier resources to improve layout of supply chain resources and network. During the period, the Company continued to devote efforts in establishing its own supply chain system. The footwear production plant that we leased in Nanning, Guangxi Province has been officially put into production, with the aims of instilling core industrial capabilities into LI-NING's system over time and strengthening its own supply chain management and application of research and development knowledge.

NEW BUSINESS

LI-NING YOUNG

During the first half of 2019, LI-NING YOUNG made continued progress and achievements by orderly carrying out product development, supply chain building, channel development and brand image establishment.

– We carried out product categorization and segmentation to achieve precision in product categorization and product structure. During the period, we promoted marketable products customized for local climate based on the regional climate characteristic and introduced professional products for sports training of high-tier children, striving to cater more consumption needs and increase business opportunities. Keeping abreast of fashion trend in the market, we launched cross-over products with Chimelong Resort and Disney, and continued to develop "China LI-NING" kidswear series product line to raise brand influence. Meanwhile, during the period, with continuously optimizing product technology and materials, we released new product technologies such as "High Thread Count and High Density Long-staple Cotton for Summer", "Single-way Moisture Diffusion" and "Beehive Shock-relieving" technology. For materials, we successively introduced special materials for children and trendy products to gradually increase product performance such as softness, wrinkle resistance and wear resistance to improve wearing experience, thereby building sound product reputation.

– We laid out quality supply chain resources and established supply chain system exclusively for kidswear business. During the period, by integrating production stages such as product development, design and cost, we prioritized the allocation of quality supply chain resources to core and popular products to ensure product quality, optimize production procedures and facilitate efficiency enhancement.

– For channel building, we continued to expedite market expansion while optimizing and adjusting market layout. By analyzing entry strategies and advantages of markets and commercial zones with different channels and levels, we allocated channel polices and resources based on the differentiated development of regional markets and strategic customers, so as to realize channel building precision. Online channels continued to cooperate with maternity and childcare channel on e-commerce platforms and develop vertical e-commerce customers so as to enter professional online maternity and childcare platforms and try to create popular products via community e-commerce.

– For marketing, LI-NING YOUNG continued to optimize its own digital marketing matrix including Weibo, WeChat and TikTok (抖音) official accounts. Meanwhile, leveraging various promotional channels such as KOL in maternity and childcare field, sportsman, celebrities and partners, we have delivered real-time information on brand news and new product launch and interacted with our consumers with a view to enhancing customer loyalty. Apart from online promotion, LI-NING YOUNG also organized opening ceremonies, festival discounts and membership activities in key stores nationwide. It has also strengthened its brand and product promotion through participation in events such as "Way of Wade Tour China" (韋德中國行), organizing fashion shows or fun sports day, launching cross-over marketing campaign in collaboration with large theme park in China and sponsoring youth sports competitions.

As of 30 June 2019, LI-NING YOUNG business covered 31 provinces with a total of 872 stores. Looking forward, we will continue to explore market demand and optimize product categorization with products as the core aspect, at the same time devoting consistent efforts in channels, retail operations, and supply chains to create a closed-loop ecosystem covering product planning to consumer purchase, aiming to drive business growth, enhance efficiency and hence reinforce the core values of our brand.

DANSKIN Brand

In October 2016, Li Ning Company announced the cooperation with Danskin, a professional dance sports brand in the United States, for the exclusive licensing right to operate the brand's businesses in the Mainland China and Macao region. The brand focused on women sports products with attractive appearance. Meanwhile, it highlighted the professional sports attributes and offered products with better styles and designs targeting women consumer groups.

With the accumulation of experience in business development in 2018, Danskin brand focused the strategy for its principal business on mid- to high-end professional women yoga products and certain women fitness products in 2019. The channel development of the brand mainly focused in the first- and second-tier cities and adopted directly-operated retail model. It also continued to intensify its efforts in product design, research and development and upgrade, and optimization of supply chain with a view to exploring core products with relatively strong market competitiveness and enhancing store efficiency.

Looking forward, in addition to enhancing single store profitability, the brand will focus on digital marketing and put more efforts in online promotion and marketing to promote the brand and its core products through diversified advertising initiatives in social media, striving to promote the high value-added women sports products and yoga culture to more consumers.

HUMAN RESOURCES

During the first half of 2019, based on its strategic focus, the Company formulated targeted human resources strategy and continued to optimize the organisation, incentive, talent management and corporate cultural system to cater business needs.

- Regarding organisational development, the Company established and improved the organisation of new product categories and new sales channels, strengthened our research and development and organisational capacity in respect of the supply chain, as well as continued to optimize the organisation of LI-NING YOUNG and e-commerce business.

- In terms of talent management, the Company actively explored and recruited talents to drive business transformation, nurtured employees' planning, design as well as research and development capacity and built up its talent pool, at the same time ensuring the efficiency of these talents.

- In terms of remuneration package, the Company continued to enhance market competitiveness of our key employees' remuneration and newly added various timely and short-term incentive measures so as to encourage employees to achieve excellent performance, and motivate core talents.

- Regarding corporate cultural system, we continued to optimize our welfare schemes and career development system. We also devoted great efforts in brand-building of employer with an aim to increasing our staff's sense of honor and professionalism.

In the future, focusing on the Group's strategic plan of "Single Brand, Multi-categories, Diversified Channels" and pursuing the goal of enhancing both operating efficiency and profitability, we will strengthen our organisational performance and the development of our talent team. We will effectively manage the investments in human resources, while continuing to strengthen our organisational capacity and enhance the overall performance of staff in order to give full support to the Company's strategic goal.

As at 30 June 2019, the Group had 3,495 employees in total (31 December 2018: 2,412 employees), in which 3,330 employees, including a net increase of 969 employees at the footwear production plant in Nanning, Guangxi Province, are at the Group's headquarter and retail subsidiaries (31 December 2018: 2,233 employees), and 165 employees are at other subsidiaries (31 December 2018: 179 employees).

OUTLOOK

Looking forward, on the basis of our major tasks which were accomplished in the first half of 2019, we will continue to promote the strategy of "Single Brand, Multi-categories, Diversified Channels", strengthen and improve the following core business focuses, remain devoted to create LI-NING's experience value, and focus on enhancing efficiency in order to achieve healthy and sustainable profit growth for the Company in the future:

- In respect of products, we will continue to innovate by integrating professional sports with pop culture, so as to attract more consumer groups and expand our brand influence. We will enhance the professional sports attributes with innovative technology by strengthening our research and development in relation to sports science. Meanwhile, we will focus on seeking fashionable elements which align with the DNA of our brand by exploring and analysing the pop culture with an aim to increasing the fashionable elements in our professional sports products and develop more star products. We will also precisely capitalize on current hot topics to create and lead the market trend, at the same time strengthening the interaction with consumers to enhance their recognition of and loyalty to our brand and increase our brand value;

- In terms of sales channels, we will continue to increase the efficiency and promote the diversified development of our sales channels, as well as implement the strategy of big stores with high productivity. Meanwhile, with a view to refining the structure of sales channels, we will continue to close down and reform loss-making and inefficient stores;

- Continuous establishment and optimization of retail operation platform and supply chain management system will remain as one of our major tasks. We will constantly optimize the retail experience in stores, promote standardization of store operation, improve store management ability and optimize consumption experience in stores. We will also continue to explore new retail businesses and improve the online and offline integrated operation mode. Meanwhile, we will carry on enhancing the capability in terms of our own supply chain management and research and development regarding application of technology and knowledge;

- We will continue to promote the development of digitalization strategy so as to further strengthen the comprehensive marketing layout. Capitalizing on the hot topics and trends in the market, we will further enhance the sales efficiency by flexibly conducting multichannel marketing campaigns both online and offline, with a view to seizing and procuring more business opportunities;

- In respect of new business, on the basis of continuing to focus on enhancing single store profitability, we will make reasonable and prudent use of resources to explore business opportunities and potential market, in order to foster new opportunities for the Company's profit growth in the long run.

In recent years, the government has introduced various favorable policies to support the development of the sports industry. Meanwhile, under the consumption upgrade driven by national economic growth, the consumption concept of the general public has changed gradually with more and more consumers giving great consideration to product innovation and brand value. Along with the increasingly mature consumption concept, the consumption demand of people will become more refined and diverse, which will pose more challenges to our brand and product competitiveness in the market. In order to better adapt to the industry's development and market trends, and demonstrate the unique characteristics and values of our brand amidst industry competition, we will continue to focus on our products with emphasis on their professional features. We will also devote great efforts in building our brand competitiveness and LI-NING's experience value, thereby providing sufficient driving force to support the Company's long-term development. In the future, we will continue to devote main resources into gaining sports knowledge, researching on technology, building LI-NING brand experience, as well as proactively explore and broaden room for business development.

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 2019. Except for the purchase of shares by the trustee of the restricted share award scheme adopted by the Company (the "Restricted Share Award Schemes") pursuant to the trust deed and the rules of Restricted Share Award Schemes, neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the period.

EVENTS AFTER THE REPORTING PERIOD

The Group does not have any significant event requiring disclosure under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") that has taken place subsequent to 30 June 2019 and up to the date of this announcement.

CORPORATE GOVERNANCE

For the period from 1 January 2019 to 30 June 2019, the Company has complied with all the code provisions of the Corporate Governance Code ("Code Provisions") contained in Appendix 14 to the Listing Rules with the exception of paragraph A.2.1 of the Code Provisions.

According to paragraph A.2.1 of the Code Provisions, the roles of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. As the Company has not yet identified a suitable candidate to be the chief executive officer ("CEO") during the six months ended 30 June 2019, Mr. Li Ning, the Executive Chairman and Interim CEO of the Company, assumed the role of chief executive officer during the period. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles are currently undertaken by Mr. Li Ning. Notwithstanding the above, the Board is of the view that the assumption of the roles of Executive Chairman and Interim CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group's business strategies. The Board also believes that the current arrangement is in the interest of the Company and its shareholders as a whole.

The Company has adopted the "Model Code 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 have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2019.

The audit committee of the Company, consisting of three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed the auditing, risk management, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2019.

The Company's external auditor, PricewaterhouseCoopers, has performed a review of the Group's interim financial information for the six months ended 30 June 2019 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 of
Li Ning Company Limited
Li Ning
Executive Chairman and
Interim Chief Executive Officer

Hong Kong, 13 August 2019

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning and Mr. Li Qilin. 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.