

2016 interim



LI-NING

LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)



**Anything
is possible**

Disclaimer

This presentation incorporates information contained in the interim results announcement (the “Results Announcement”) for the six months period ended 30 June 2016 of Li Ning Company Limited (the “Company”). This presentation should be read in conjunction with the Results Announcement and is qualified in its entirety by the more detailed information and financial information contained in the Results Announcement.

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Agenda

Results Highlights

Financial Review

Business Review

Appendix



Results highlights

2016H1 Highlights

Financial Highlights :

- **Reported net profit of RMB 113 million, improved from losses of RMB 29 million in 2015H1**
 - Revenue up 13% to RMB 3,596 million
 - Gross profit margin expanded 1.5 percentage points
 - Rationalized cost structure, particularly without provision impact
- **Operating cash flow doubled to RMB 346 million, improvement even bigger excl. Double Happiness**
- **Significant improvement in working capital**
 - Gross working capital improved (down) by 8% while revenue increased
 - Cash conversion cycle improved (shortened) by 15 days (2015: 90 days / 2016: 75 days)

Operational Highlights:

- **Low-teens growth for total platform retail sales, including online and offline channels**
- **Overall Same-Store-Sales in 2016H1 grew mid-single digit**
- **New product sell-out rate improvement continued, up almost 2 percentage points**
- **Discount rate improved over 2 percentage points driven by higher new product mix, particularly in direct retail platform**



Financial review

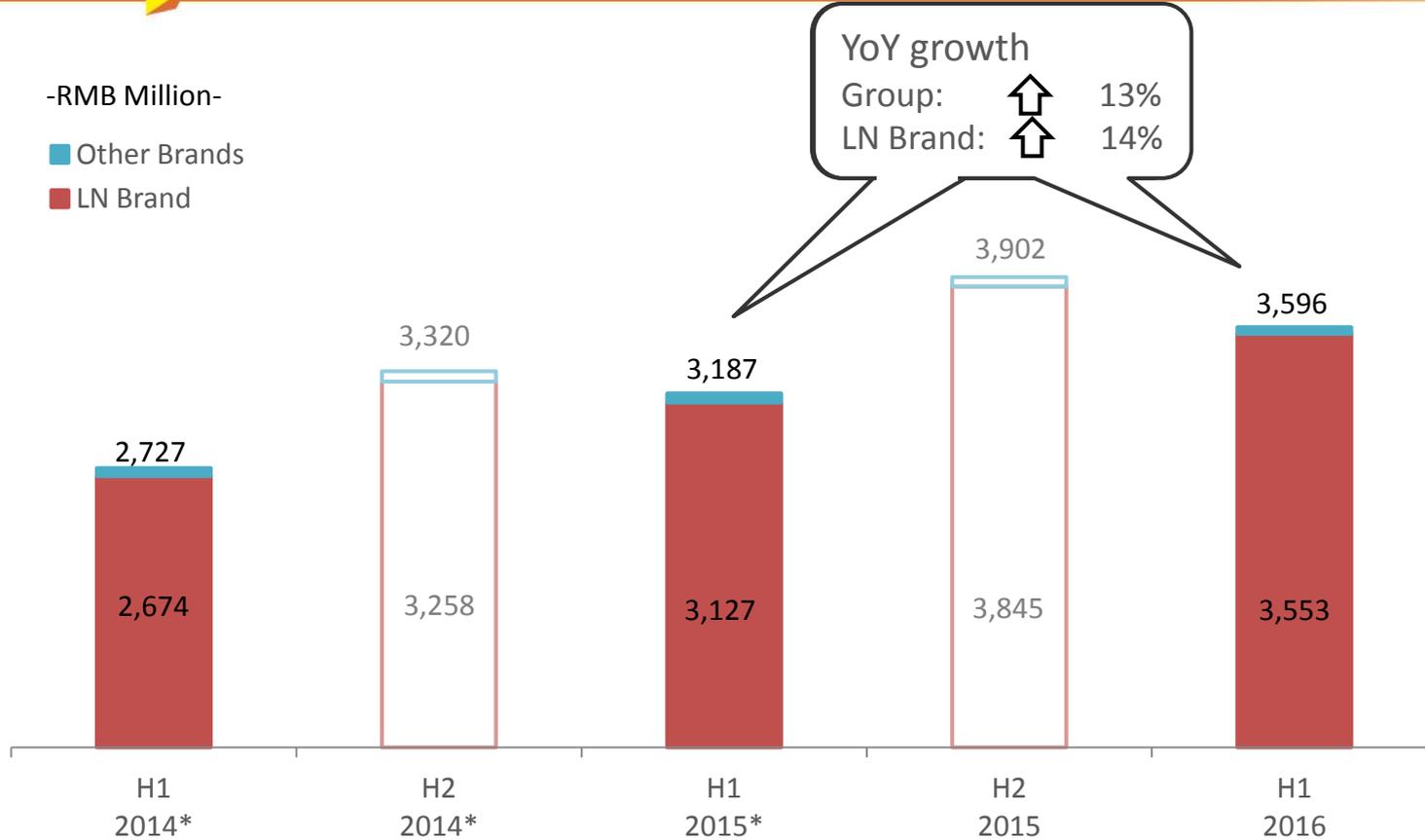
Revenue

Group Total, excl. Double Happiness

-RMB Million-

■ Other Brands

■ LN Brand



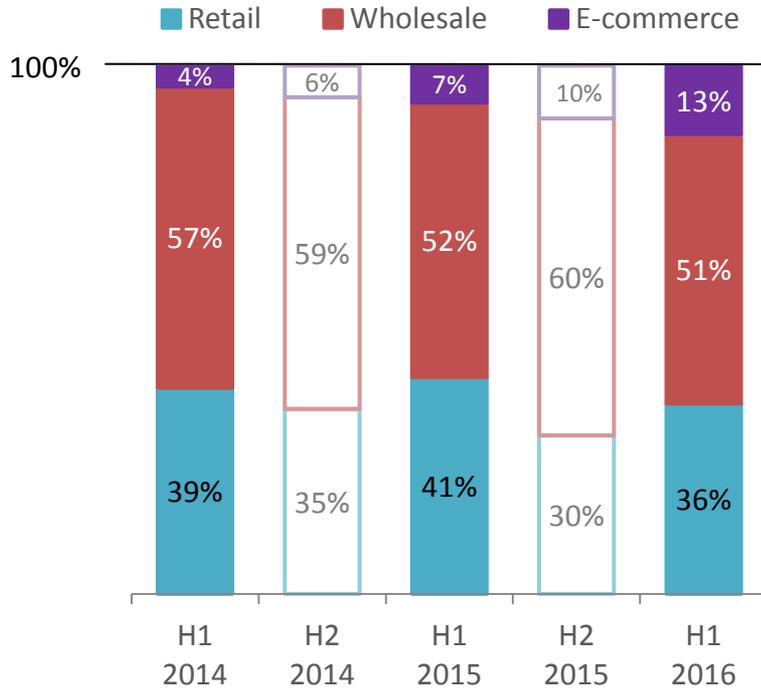
Double digit growth continued, led by effective execution

*Excluded Double Happiness

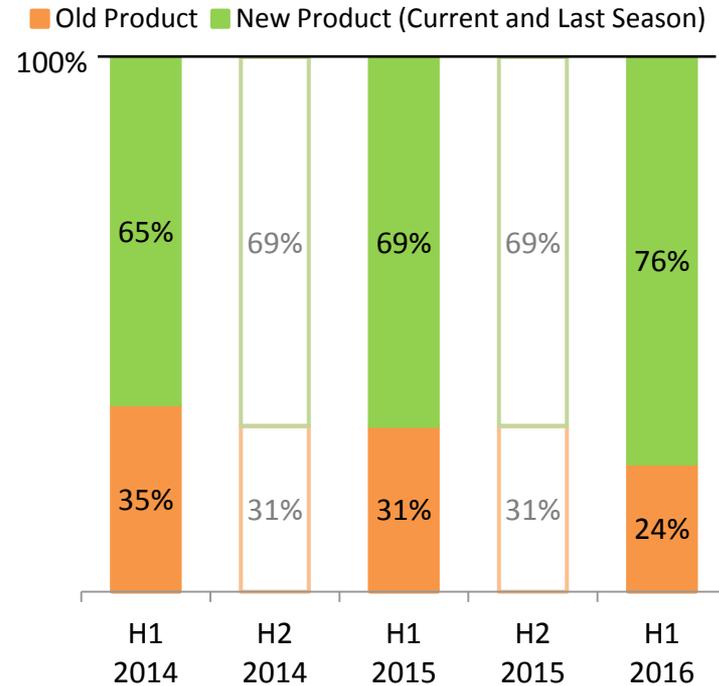
Revenue and Sell-Through Mix

LN Brand, excl. international markets

Company Revenue Mix



Sell-Through Mix (Incl. Retail, Wholesale and E-commerce)

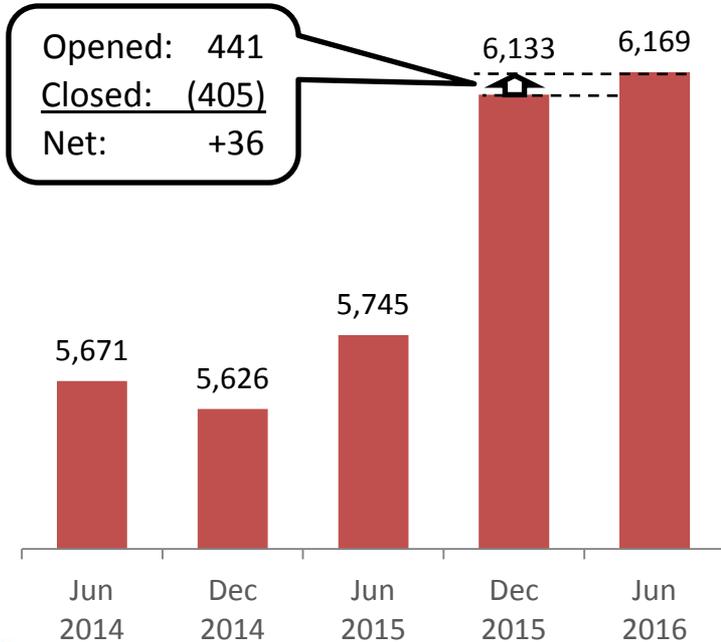


Enhanced profitability, driven by more balanced business model and higher new product mix

Online and Offline Expansion

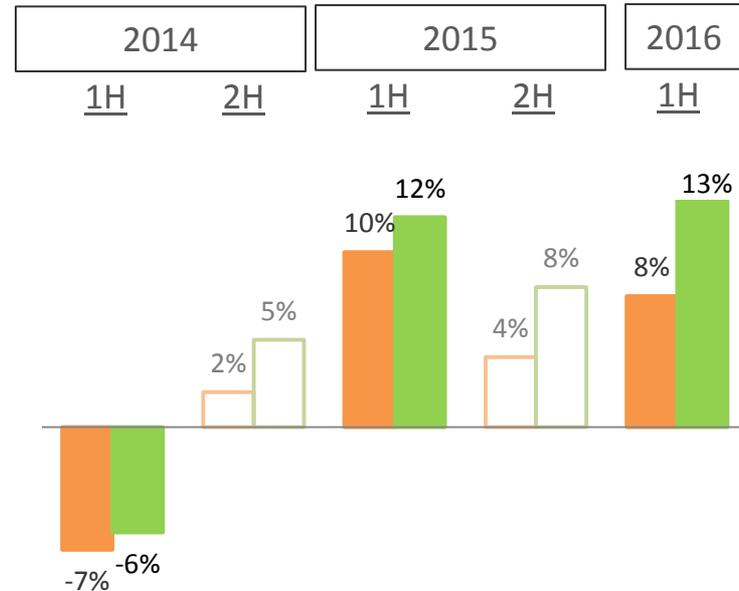
LN Brand, excl. international market sales

No. of POS (Period End)



Sell-through growth, YoY %

Offline Channel Online and Offline Channels



Productive expansion continued in both online and offline channels

Same Store Sales Growth (SSSG) Rate

LN Brand

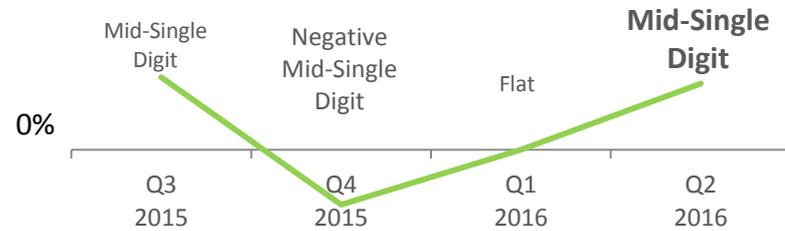
SSSG (H1: 2016 vs 2015)

- Overall ↑ Mid-Single Digit
- Retail ↑ Low-Single Digit
- Wholesale ↑ Low-Single Digit
- E-commerce ↑ High-sixties

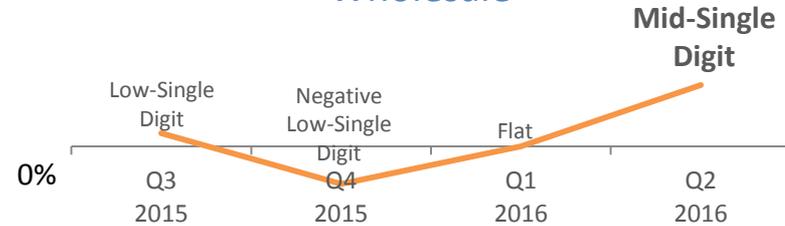
Overall Platform



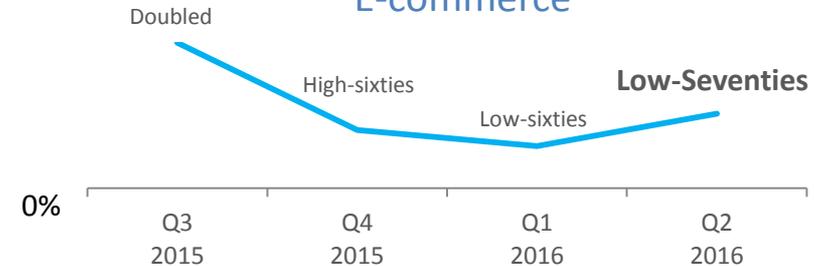
Retail



Wholesale



E-commerce*

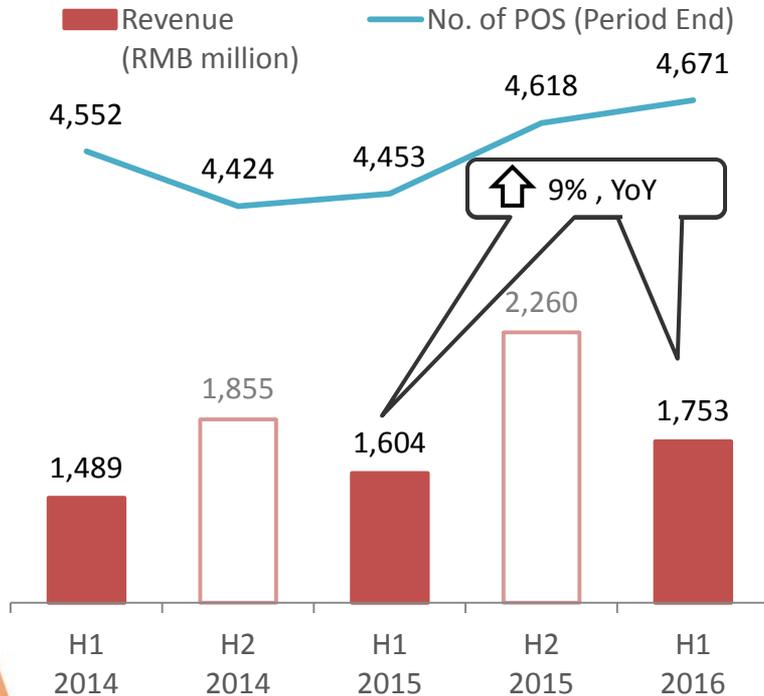


*E-commerce: LN brand sell-through generated from T-mall, JD and Lining.com

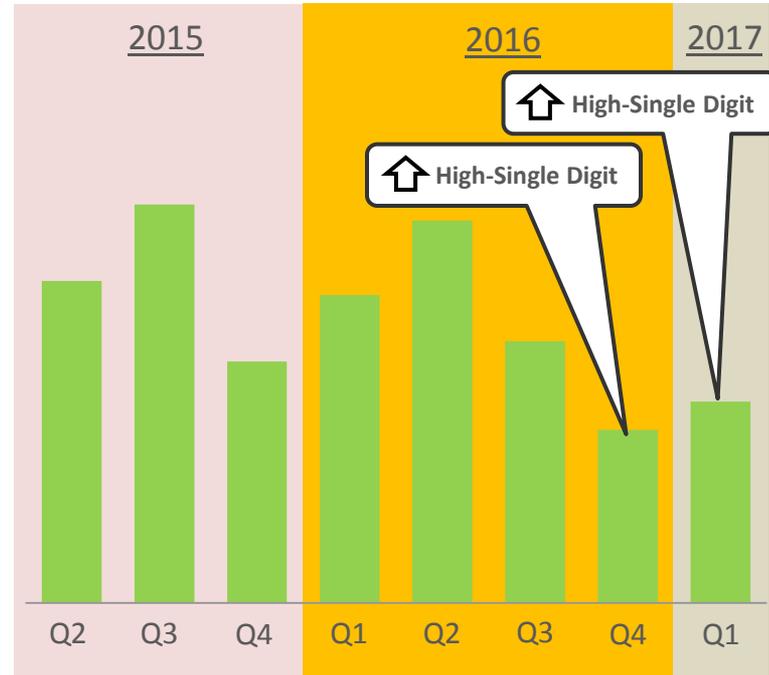
Wholesale Business[^]

LN Brand, excl. international market sales

Business Performance



Trade Fair Order* (Tag Price) Growth, % YoY



Wholesale business growth continued, coherent with strong trade fair order performance

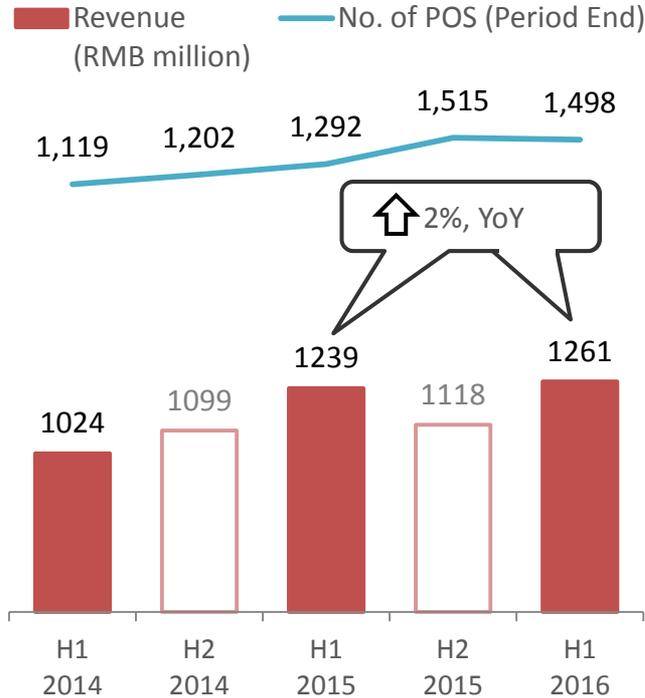
[^] Wholesale business: Only including franchised distributors; excluding our direct retail

*Order placed during trade fair (excl. orders from subsidiaries), e.g. 2017Q1 orders were placed about half year ago

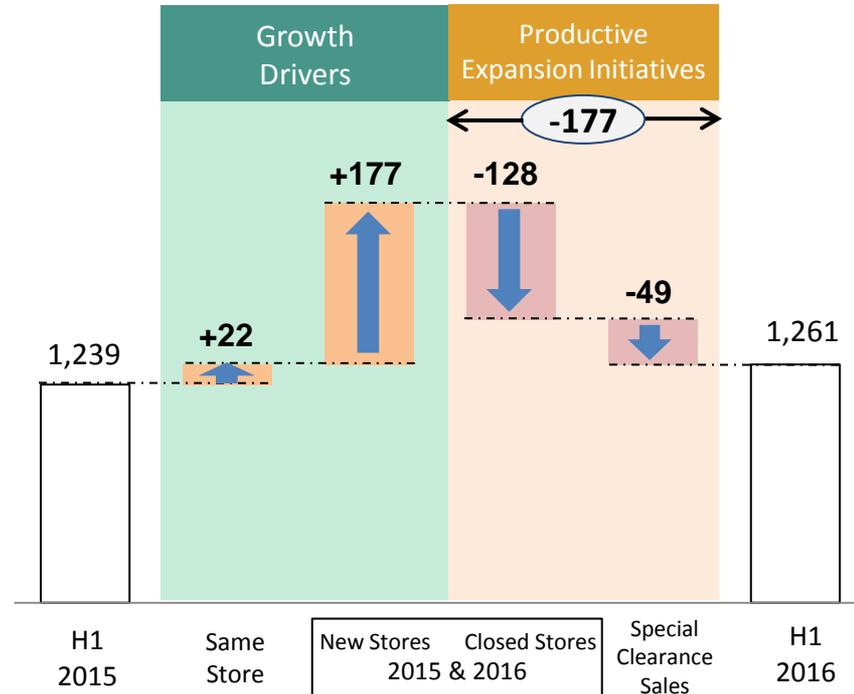
Retail Business[^]

LN Brand

Business Performance



Revenue Growth Analysis



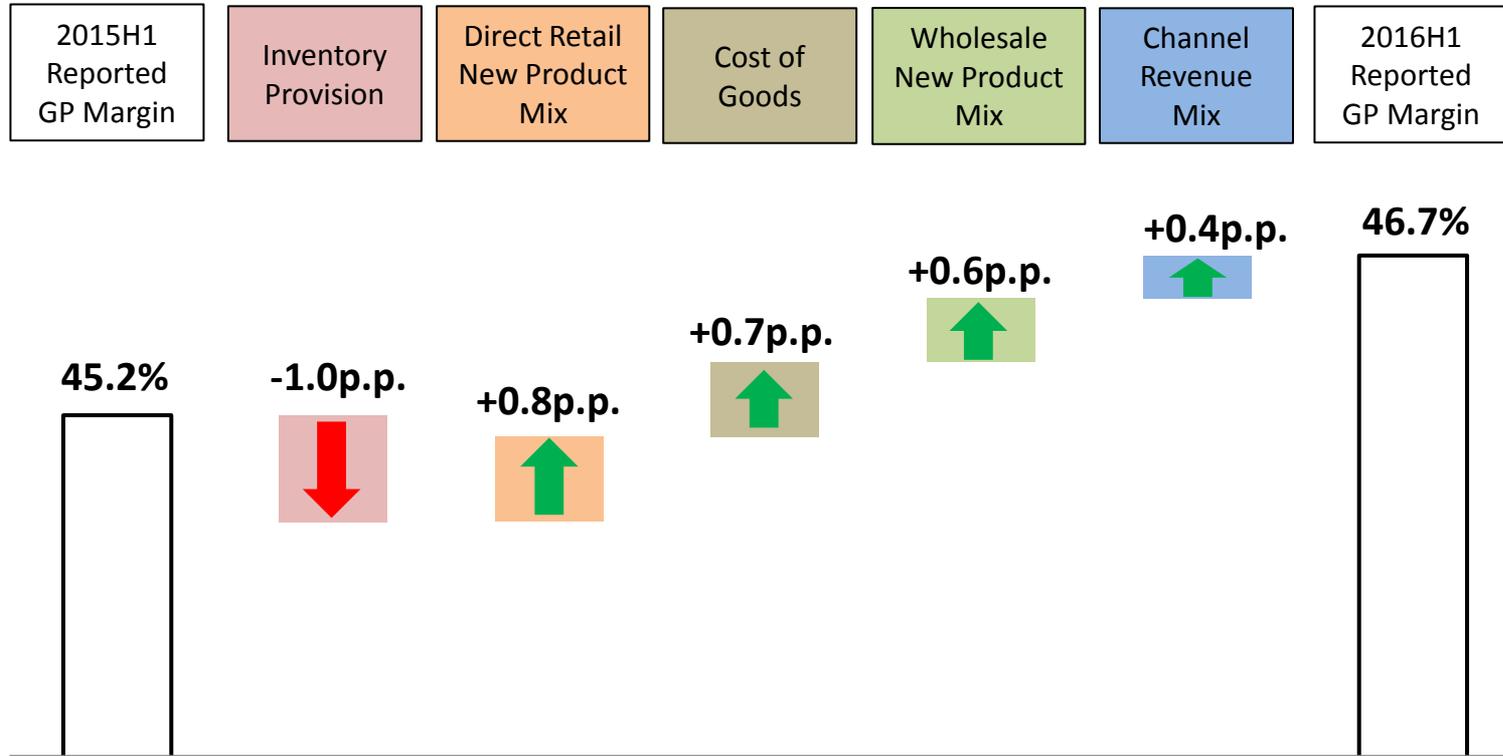
Revenue growth temporarily affected by fewer special clearance sales and non-productive store closure

[^] Retail business: Refers to direct retail operation

[#] Excl. POS with less than one month operation and special event sales

GP Margin Analysis – 2016H1 vs 2015H1

Net Change in Major Items, Double Happiness Recorded as Discontinued Operations

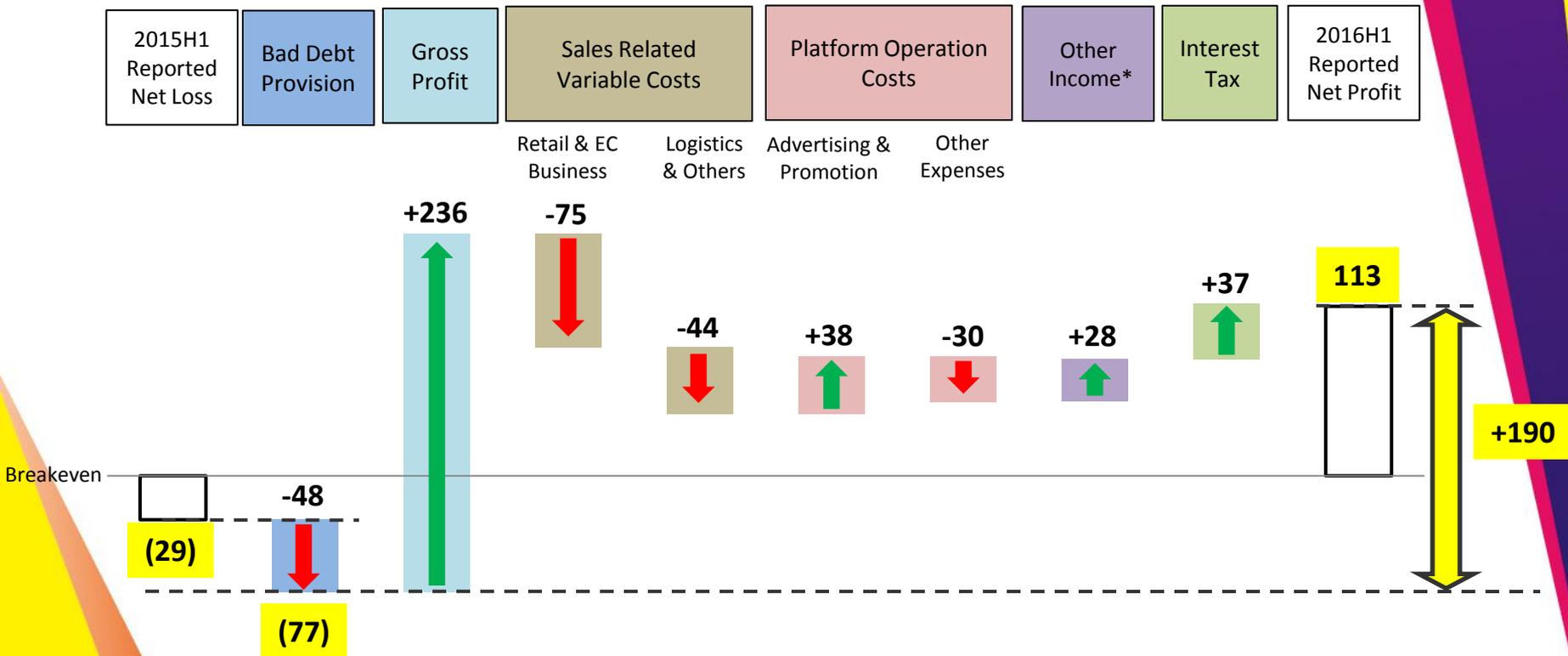


Gross profit (GP) margin expansion driven by enhanced new product mix

Profitability Analysis – 2016H1 vs 2015H1

Net Change of Major P&L Items, Double Happiness Recorded as Discontinued Operations

-RMB Million-



Revenue growth and disciplined spending enhanced operating leverage and expanded net profit margin

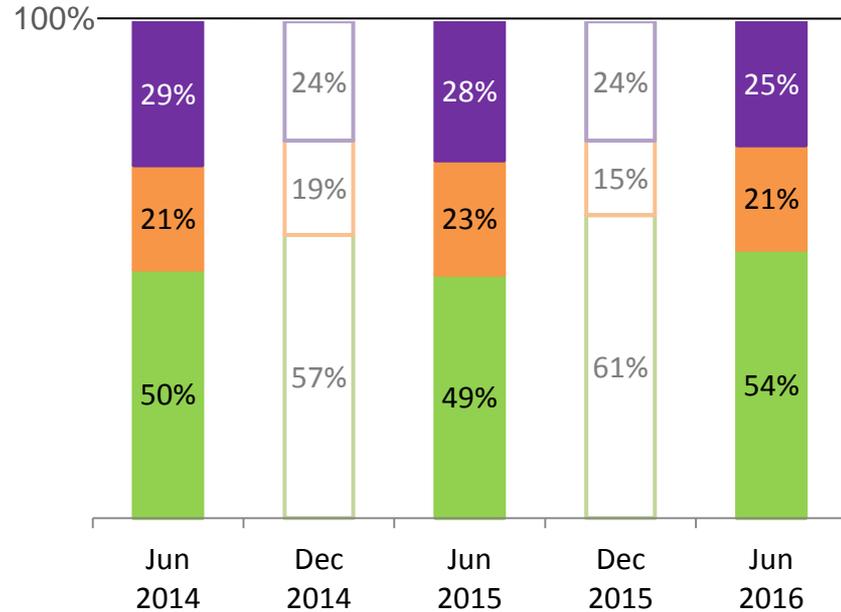
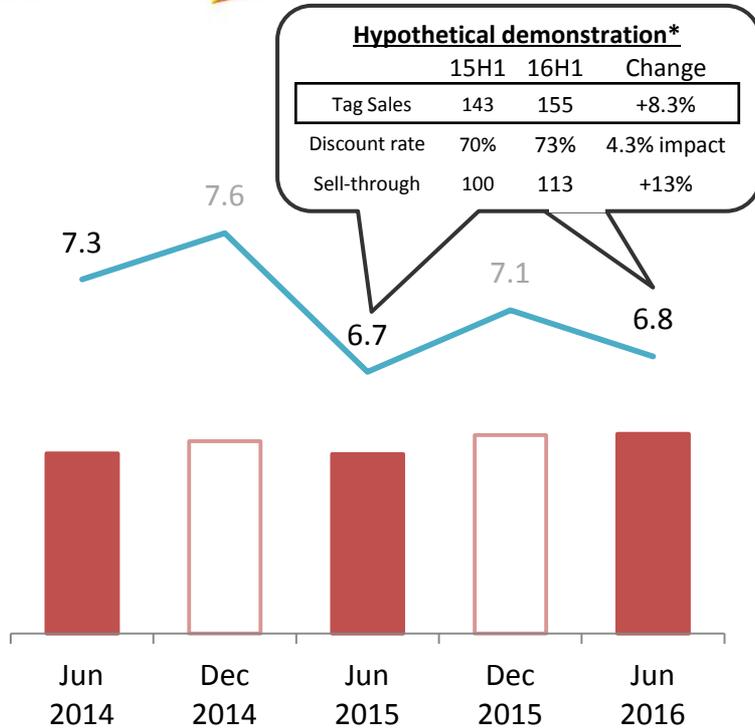
*Other income include (i) miscellaneous income and gains, (ii) share profit from associate and (iii) profit from discounted operation of Double Happiness

Channel Inventory

Incl. Retail, Wholesale and E-commerce

Hypothetical demonstration*

	15H1	16H1	Change
Tag Sales	143	155	+8.3%
Discount rate	70%	73%	4.3% impact
Sell-through	100	113	+13%



Inventory Level (Tag Price) Turnover Months

6 months or less 7 - 12 months Over 12 Months (New Product)

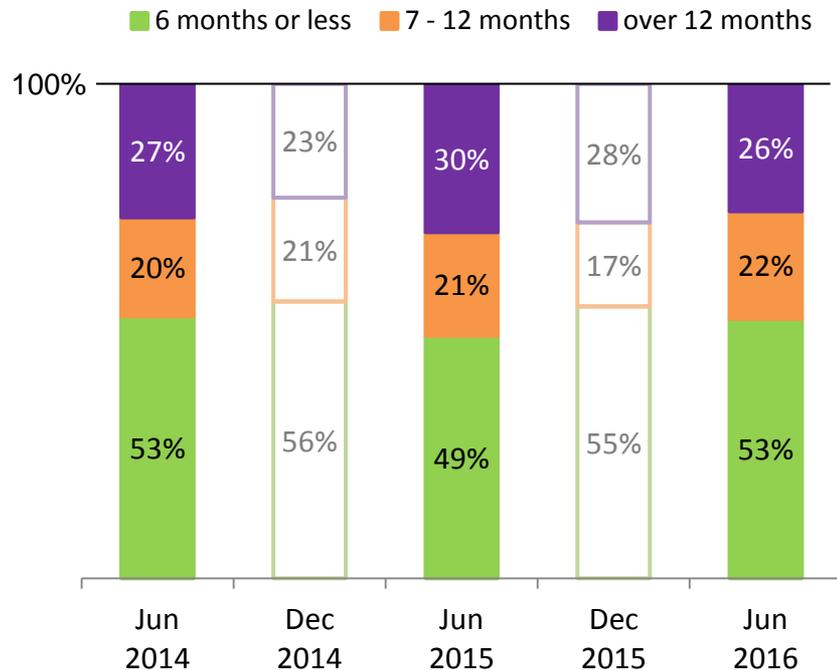
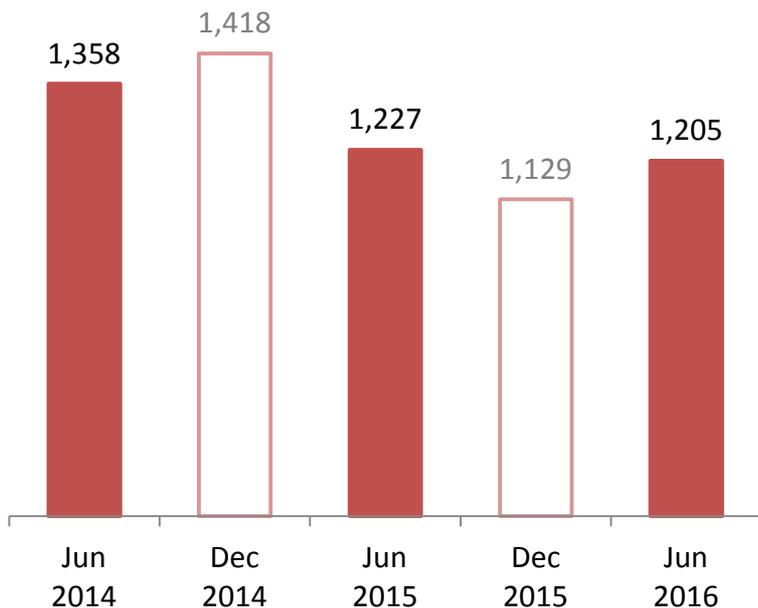
Product mix improved, ready for sustainable business expansion

*To demonstrate how discount improvement inflated number of months

Company Inventory

Excl. Double Happiness

At cost, before provision
(RMB Million)

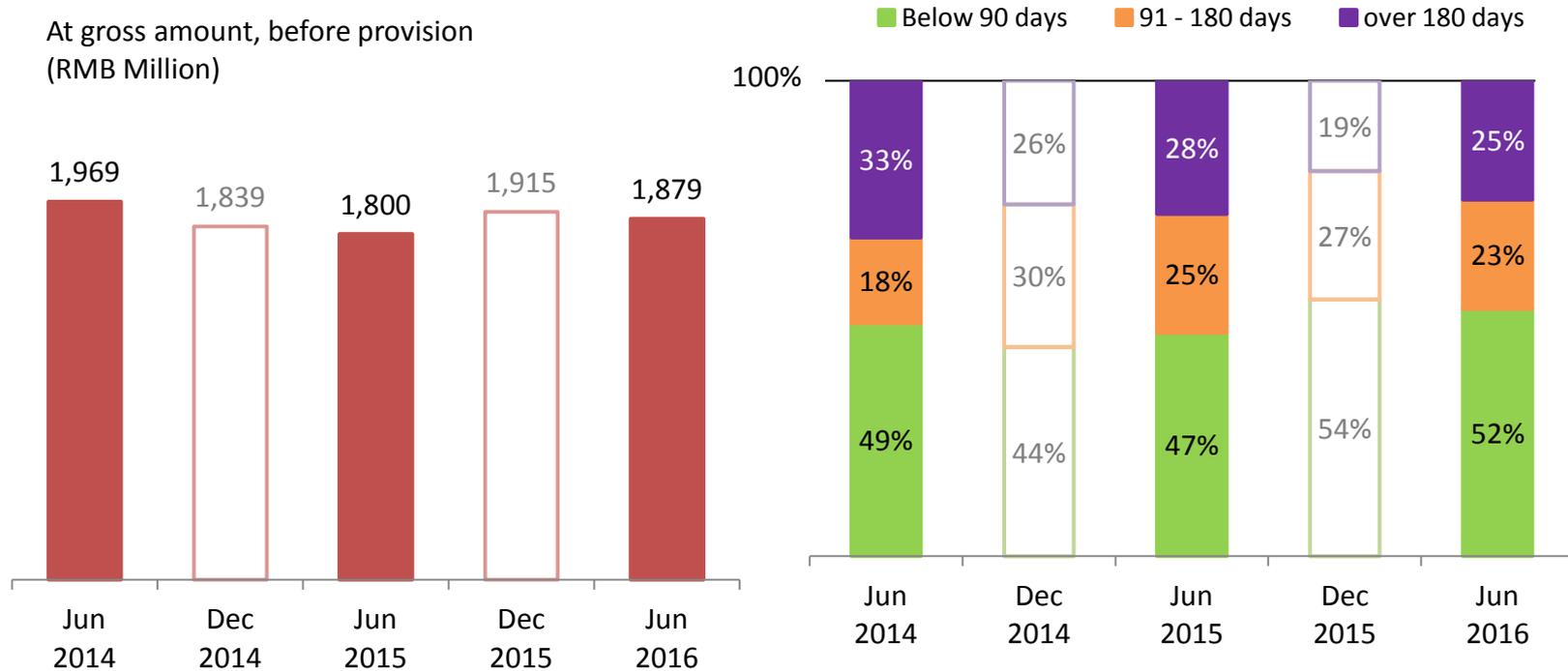


Healthy inventory notwithstanding strong expansion in direct operated business (Incl. EC)

Trade Receivables

Excl. Double Happiness

At gross amount, before provision
(RMB Million)



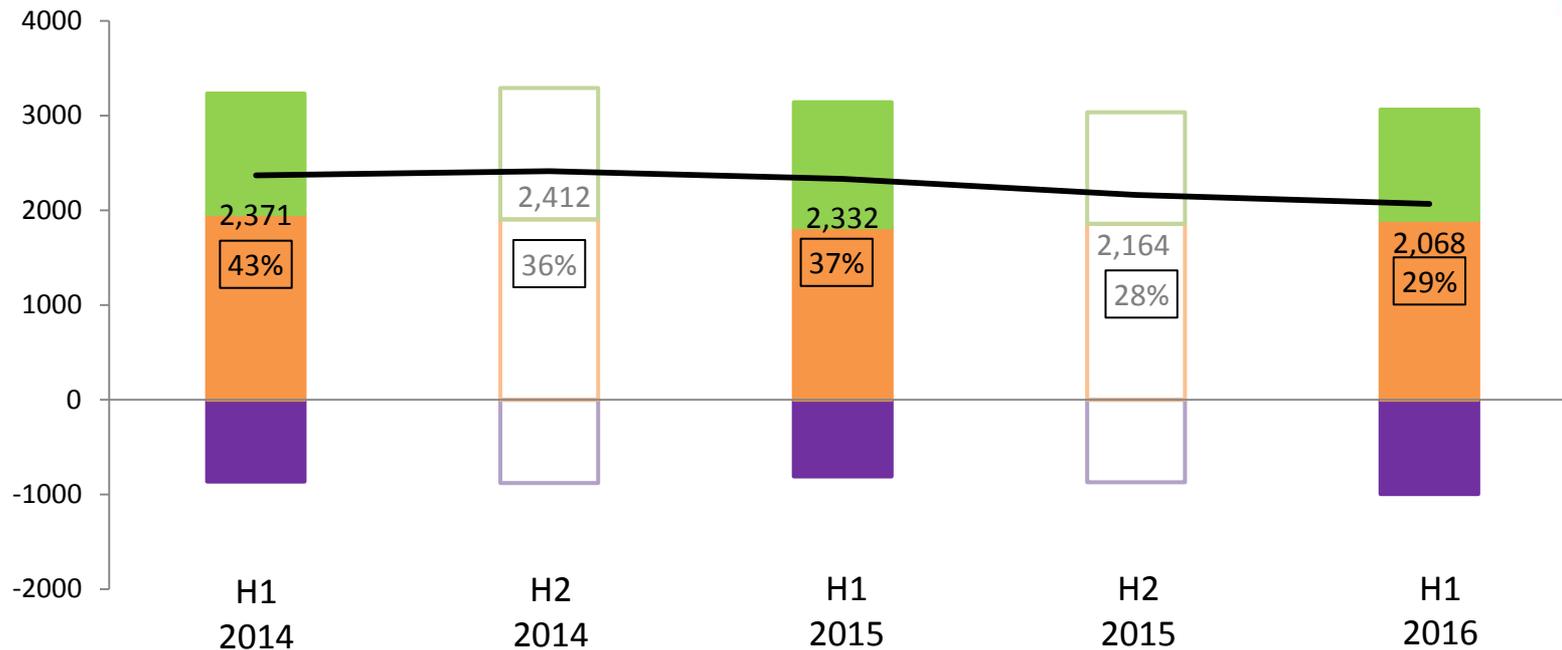
Receivables maintained stable notwithstanding revenue growth

Working Capital Efficiency

Excl. Double Happiness

-RMB Million-

■ Inventory*
 ■ Trade Receivables*
 ■ Payables*
 Working Capital^
 Working Capital^ as % of Revenue#



Working capital improvement continued

* Simple average between period opening and ending

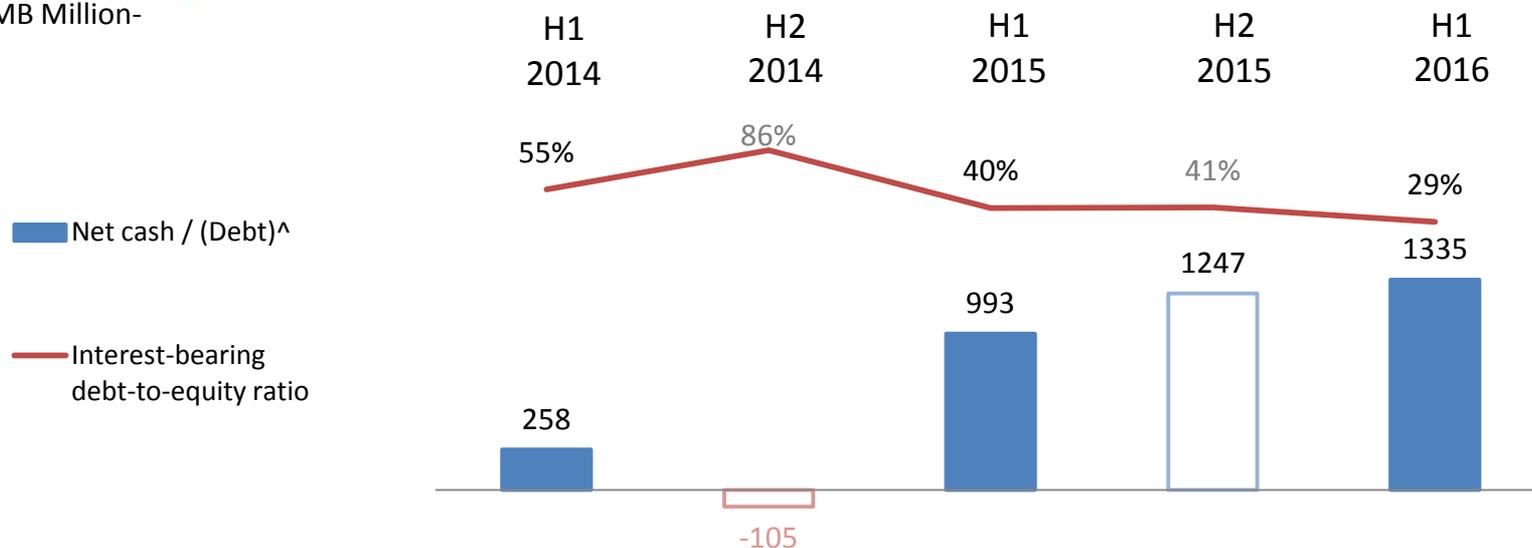
^ Gross Amounts of inventory, trade receivables and payables, without netting off provisions

Annualized revenue

Balance sheet summary and cash position

Excl. Double Happiness

-RMB Million-



-For the Six Months Period-

Cash Conversion Cycle (Days)	101	97	90	71	75
Operating Cash Flow	(389)	(6)	91	596	307

Business stabilized, operating cash flow resumed normal

^Net Cash / (Debt) = Cash and Cash Equivalents – Borrowings

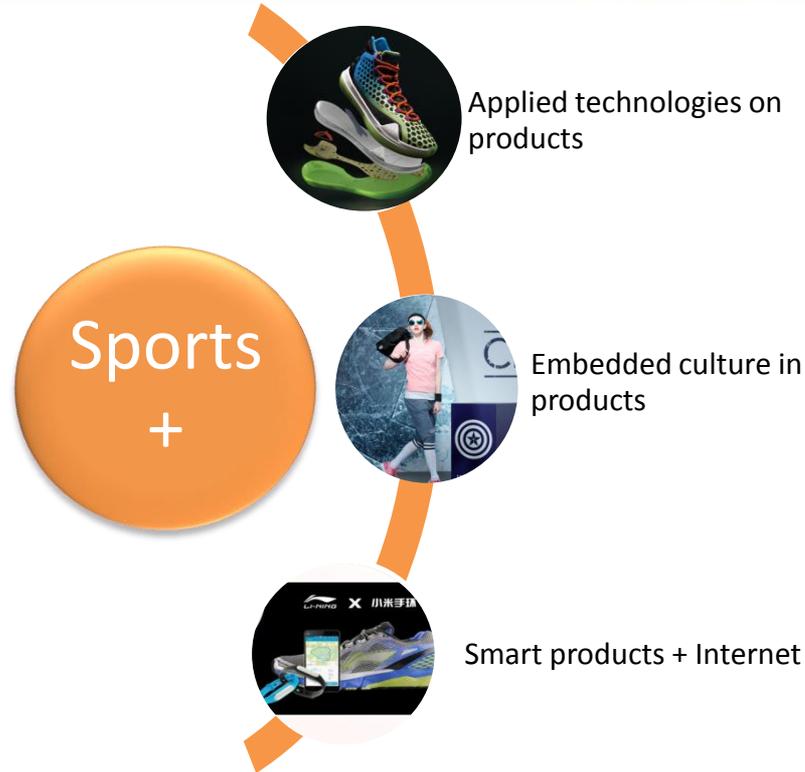


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步频(步/分)

Business Review

Enticed Sports Enthusiastic Consumers by “Performance” and “Functionalities”

- Pushed boundaries of the “value for money” proposition offered by most domestic brands
- Provided products to satisfy sports participating consumers
- Promoted 「Sports +」 Concept



- To promote sports beyond enjoyment of competitions, but also as a mean toward an educated and healthy lifestyle.

National Policies Go in Favor of Industry Development

<National Fitness Program 2016-2020>

- Announced in June 2016
- Maximise the impact of Chinese people's fitness training on educational, economic and social functions, to facilitate mutual development of other social affairs
- Include Chinese people's fitness training projects in assessment of local governments' livelihood policies
- In the next 5 years, sports, fitness training and leisure activities, tournament performance events, venue services, training and education will grow in scale and account for a bigger part of the sports services industry
- Introduce the "Internet +" concept, develop a business model for Chinese people's fitness training which integrates statistics, smart hardware and training sessions, etc.



Some **700 million*** people will participate in sports training once or more times in a week



Some **435 million*** people will participate regularly in sports training



Sports related consumption will reach **RMB1.5 trillion***

The “Three-Pillar” Strategy: Enhanced User Experience (“Super Light 13th Generation” running shoe model as an example)

- Promoted products through the authorized product-testing platforms (<http://www.i-size.com.cn/>)



- Organised a variety of interactive events with prizes on WeChat to enhance the participative experience
- Retweeted information of LI-NING China 10K Running League and participate in lucky draws to win prizes in products



Online (Website)



- Product launches online and offline at the same time

- Perpetuated the LI-NING brand’s technology edges, groom the “Super Light” range into the lightest running trainers in history

轻到不公平
 李宁超轻十三代跑鞋 185g^{42码}



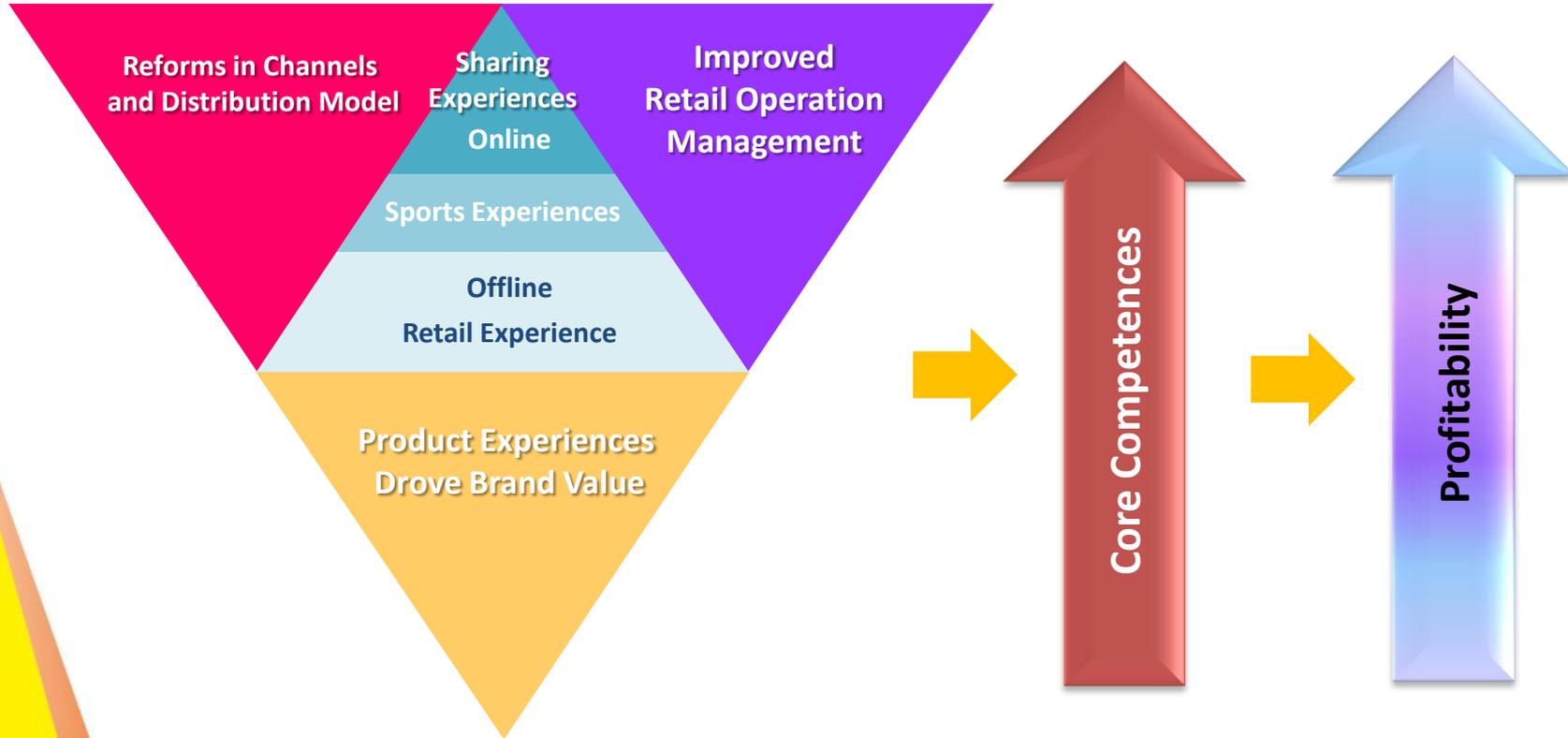
- Promoted products via LI-NING China 10K Running League (Chengdu, April 2016)



Offline (brick and mortar stores)



The “Three-Pillar” Strategy: Core Competitiveness led to Profitability

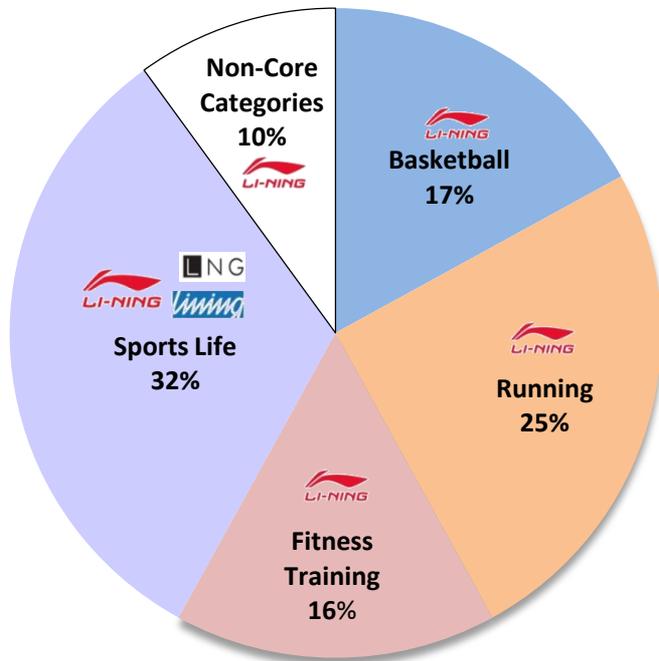


Five Core Categories* Drove Business Growth

(2016 H1)



Retail Sell-through – Mix



Retail Sell-through – YoY Change

Total Value		↑ 8 %
	Basketball	↑ 12%
	Running	↑ 31%
	Fitness Training	↑ 14%
	Sports Life	↑ 6%
	Non-Core	↓ 30%

Sell-in –YoY Change

	Badminton*	↓ 25%
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*The “Five Core Product Categories” include basketball, running, fitness training, sports life and badminton
Sales of badminton products are shown with sell-in data for reference as they are mainly distributed via professional channels

Smart Products:

Boosted Business Growth and Brand Rejuvenation



Smart Running Trainers

Retail Sales volume of Li-Ning Smart Running Shoes Exceeded 700 thousands pairs*



Rouge Rabbit

Launched in July 15
RMB199
Online Sales
Offline Experience



Furious Rider

Launched in July 15
RMB 399
Online Sales
Offline Experience



Rouge Rabbit 2016

Launched in July 16
RMB199
Online Sales
Offline Experience



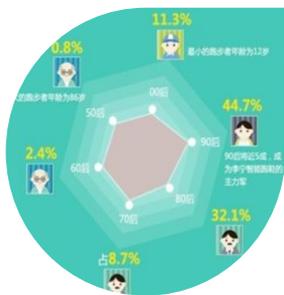
Cloud 3

Launched in 16Q1
RMB419
Distribute online and via offline channels



LI-NING Bow

Launched in 16Q1
RMB499
Distribute online and via offline channels



Sales Statistics of Rouge Rabbit

- Sales volume: around 400 thousands pairs*
- Post-80s and Post-90s consumers accounted for 75% of the total^

*By the end of July 2016

^By the end of June 2016

Professional Products + Smart Hardware + Mobile Internet + Big Data analysis

Established new ways to communicate with target customers

Smart Basketball

- Connect cell phones with the basketball via bluetooth
- Provide dedicated statistics to enhance training results

专属训练

专业教练量身打造属于自己的专属训练课程

篮球教练

帮助教练员同时查看多名队员的训练成果

自由训练

根据自身短板进行有针对性的自由训练提高运动效率

热身训练

系统化的热身运动可以增强身体素质降低运动时受伤的机率

篮球PK

激情线上对战PK根据训练数据与他人比拼结果一目了然

趣味运动

游戏与运动同步进行让你乐享其中



Smart Products:

LI-NING Smart Running Family 2016



Shock-absorbers



LI-NING Bow shock absorbing smart running trainers

Price: RMB 499

- Ring-Bow provides superior cushioning effects
- Upgrade sole to regular polyhedron
- Avoid foot injuries from torsion



Cloud 3 Shock-absorbing smart running trainers

Price: RMB 419

- Li-Ning Cloud Technology Platform
- Outstanding "Impulse-recoil" effect
- Pioneer cushioning materials used in professional running trainers

Stabilizers



Furious Rider 2016

Price: Not available (to be launch)

- DualLoc double density materials and transparent TPU structure used in the midsole
- Reduce joint injuries caused by incorrect running posture
- Cloud materials and bounce technology to enhance shock-absorbing and recoil functionalities

Light Weight



Rouge Rabbit 2016

Smart Running trainers

Price: RMB 199

- Lightweight midsole EVA foamed materials to enhance comfort
- Use breathable mesh for uppers
- "FoamEvalite" midsole + EVA heel piece to strengthen cushioning

Special Editions

LI-NING Cloud Glory Edition

Price: RMB 539



Rouge Rabbit Glory Edition

Price: RMB 299



- Add passion from Brazil, let consumers feel the enthusiasm from Rio Olympics

Non-Smart Products: Integrating Professionalism & Fashion



	Running	Basketball	Training
Hero Product	 <p>Super Light 13th Single-piece knit Running shoes Tag price: RMB 469</p>	 <p>CBA Professional Boot Cloud Phantom Tag price: RMB 599</p>	 <p>LI-NING Super Trainer Tag price: RMB 379</p>
Product Description	<ul style="list-style-type: none"> • Launched in 16Q2 • Inspired by oriental tapestry • One-piece knit upper to allow air permeability and enclosure • extremely lightweight EVA foam bed for midsole • Simple chic color mix, classical and stylish 	<ul style="list-style-type: none"> • Launched in 16Q1 • Applied 3rd generation midsole to enhance shock absorptions and recoil • Rubber + EVA combined sole, for excellent in abrasion and slip resistance • Retro stylish with traditional Chinese splash-ink prints 	<ul style="list-style-type: none"> • Launched in 16Q1 • One-piece knitted toe-cap, warm and breathable • Lightweight patina color sole, sporty comfortable • Using stylish color-combo to highlight personality
Sales Performance	<p>3-months sales performance</p> <ul style="list-style-type: none"> • Sell-out rate: 62% • Volume: Approx. 500,000 pairs 	<p>4-months sales performance</p> <ul style="list-style-type: none"> • Sell-out rate: 70% • Volume: Over 10,000 pairs 	<p>3-months sales performance</p> <ul style="list-style-type: none"> • Sell-out rate: 65% • Volume: Approx. 40,000 pairs

Channel:

POS Expansion & Performance Enhancement



- 6,169 point-of-sales (POS) by end-Jun 2016, net addition of 36 from end-Dec 2015 (newly opened: 441; closed: 405), including:
 -  19 net additions
 -  21 net additions
- Target for the whole year is maintained at net additions of 300-500 POS
- Strengthened cooperation with channel partners , strategically enter regions of low penetration with growth potential

- Category-specific stores : opened running and basketball specialty stores, delivered more professional services to running and basketball enthusiasts



Channel:

E-Commerce Business Development



- Revenue from e-commerce doubled YoY
- Contributing 13% to the total revenue

- Reinforced all-channel business development, achieved inventory allocation across channels
- Established market trend analysis system, to identify consumer demand with Big Data and improve product experience

Care about consumers' participation at sales operation level:



- Mr. Li Ning appeared on Tmall live broadcast during the launch of "Rouge Rabbit 2016", illustrated the product and delivered healthy lifestyle concepts
- Coupling with offline campaigns "Taking a stroll to win smart shoes" which drove store sales



- Launched national Olympic team equipment
- Initiated "Old customer outreach" campaign with Olympic related gifts to advocate fitness concept



Live broadcast of "Wade China Tour"

Channel:

Provided Professional Services to Running Enthusiasts



The first LI-NING running product specialty store opened in Shanghai, it stands as new landmark for running enthusiasts, offering a combination of professional equipment, tests and sports-social interactions.



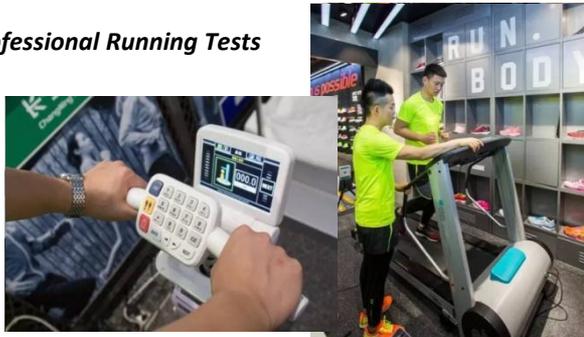
(Address : 5/F, Longemont Shopping Mall, Zhongshan Park, Shanghai)



*Professional
Running
Equipment*



Professional Running Tests



A Business Model based on Retail Mentality



Previous model: Wholesale Mentality



- Consolidated online and offline merchandise management and marketing campaign

- Established a fully integrated all-inventory system, improving inventory structure and operational efficiency

- Developed monthly and quarterly evaluation benchmarks for subsidiaries to improve terminal operation standards

- Developed operating benchmarks for stores of different types in accordance with unique channel attributes

- Developed unique visual identities for stores in various channels with different product assortments

- Formulated promotional plans and display guidance according to store images and types

- Strengthened training on services, sales and management skills for POS terminals

- Coped with competition by applying optimal retail discounts to meet consumers' demand

Retail Capability:

Strengthened the Retail Operation "Closed Loop"



(Data reflected the situation in the first half of 2016 and YoY change)

Offline Channel Sales Performance

- Sell-through: high single-digit growth
- Sales Volume: high single-digit growth

News Product Performance

- Contribution to total sales: up 5 p.p.
- Sell-through: High-teens growth

New Product Sell-out Rate

- Q1 products : up 2 p.p. in 6 months
- Q2 products : up 2 p.p. in 3 months



Overall Channel Sales Efficiency

- SSSG: low single-digit growth
- Retail Discount: increased over 2 p.p.

Gross inventory Percentage

- Channel: declined(improved) 3 p.p.
- Company: declined(improved) 4p.p.

Operating Cash Flow

- Cash flow from operating activities: RMB346 million net inflow
- Net Cash: increased by RMB342 million
- Trade receivables before provisions: stable
- Cash conversion cycle: decreased(improved) by 15 days



Open Forum

Summary of Income Statement

Double Happiness Recorded as Discontinued Operations

(RMB million)	H1 2016	H1 2015	Better/(Worse)
	Period ended 30 June		
Revenue	3,596	3,186	13%
Gross Profit	1,678	1,441	16%
Distribution costs	-1,355	-1,243	(9%)
Administrative expenses	-203	-158	(28%)
Other income and other gains – net	33	17	94%
Operating Profit	153	57	167%
EBITDA	308	163	89%
(Loss) / Profit Attributable to Equity Holders	113	-29	N/A
Basic (Losses) / Profit per share(RMB cents)	5.16	-1.55	N/A

Profit Margins And Expense Ratios

Double Happiness Recorded as Discontinued Operations

	H1 2016	H1 2015	Better/(Worse)
	Period ended 30 June		
Gross Profit Margin	46.7%	45.2%	1.5p.p.
Operating Profit Margin	4.2%	1.8%	2.4p.p.
EBITDA Margin	8.6%	5.1%	3.5p.p.
Margin of (Loss) /Profit Attributable to Equity Holders	3.2%	-0.9%	4.1p.p.
R&D Expenses(as % of revenue)	1.6%	2.2%	0.6p.p.
A&P Expenses(as % of revenue)	12.1%	14.8%	2.7p.p.
Staff Costs(as % of revenue)	9.8%	10.1%	0.3p.p.

Key Operational Indicators

Double Happiness Recorded as Discontinued Operations

	H1 2016	H1 2015	Better/(Worse)
	Period ended 30 June		
Average Inventory Turnover(Days)	94	112	18
Average Trade Receivables Turnover(Days)	72	71	(1)
Average Trade Payables Turnover(Days)	91	93	(2)
Cash Conversion Cycle(Days)	75	90	15
Return on Equity(ROE)	3.5%	-1.2%	4.7p.p.
Return on Asset(ROA)	1.7%	-0.5%	2.2p.p.
CAPEX(RMB million)	176	140	26%

Summary of Balance Sheet

Double Happiness Recorded as Held for Sale Asset

(RMB Million)	30 Jun 2016	31 Dec 2015	Better/(Worse)
Cash and Cash Equivalents	1,545	1,813	(15%)
Borrowings	210	566	63%
Convertible Bonds Liabilities	741	723	(2%)
Net Cash*	1,335	1,246	7%
Current Liabilities	2,259	2,472	9%
Current Ratio(times)	2.4	2.2	0.2x
Total Liabilities to Total Assets Ratio	48.0%	50.6%	2.6p.p.

*Net Cash = Cash and Cash Equivalents – Borrowings