

2016

Annual Results



LI NING COMPANY LIMITED

李寧有限公司

(於開曼群島註冊成立之有限公司)

(股份代號：2331)



Disclaimer

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Agenda

Results Highlights

Financial Review

Business Review

Appendix

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Results Highlights

2016 Results Highlights

Sale of 10% equity interest in Shanghai Double Happiness Co., Ltd.

- The transaction was completed in Dec 2016, net gain on disposal is RMB 313 million

Financial Highlights :

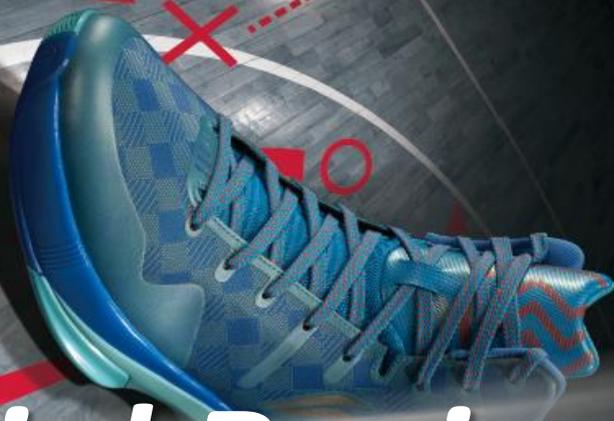
- **Operating net profit[^] of RMB 330 million, margin raised from 0.2% to 4.1%**
 - Revenue up 13% to RMB 8,015 million, LN brand revenue was almost back to 2011 level
 - Gross profit margin expanded 1.2 percentage points
 - Enhanced operating leverage through disciplined cost management
- **Operating cash flow (excluded DHS) increased 52% to RMB 835 million**
- **Rationalized working capital**
 - Gross working capital improved (down) by 10% while revenue increased
 - Cash conversion cycle improved (shortened) by 17 days (2015: 76 days / 2016: 59 days)

Operational Highlights:

- **Continued business expansion, with enhanced channel efficiency**
 - Overall retail sell-through grew low-teens for two consecutive years
 - Channel inventory turnover further improved
- **Retail capabilities improvement continued**
 - Accelerated growth in Same-Store-Sales (SSS) for overall platform, including online and offline channels
 - New product sell-out rate improvement continued, up over 2 percentage points
 - Discount rate improved almost 2 percentage points driven by higher new product mix, particularly in direct retail

放开打

CBA联赛官方指定战靴



空袭 III

Financial Review

闪击 III

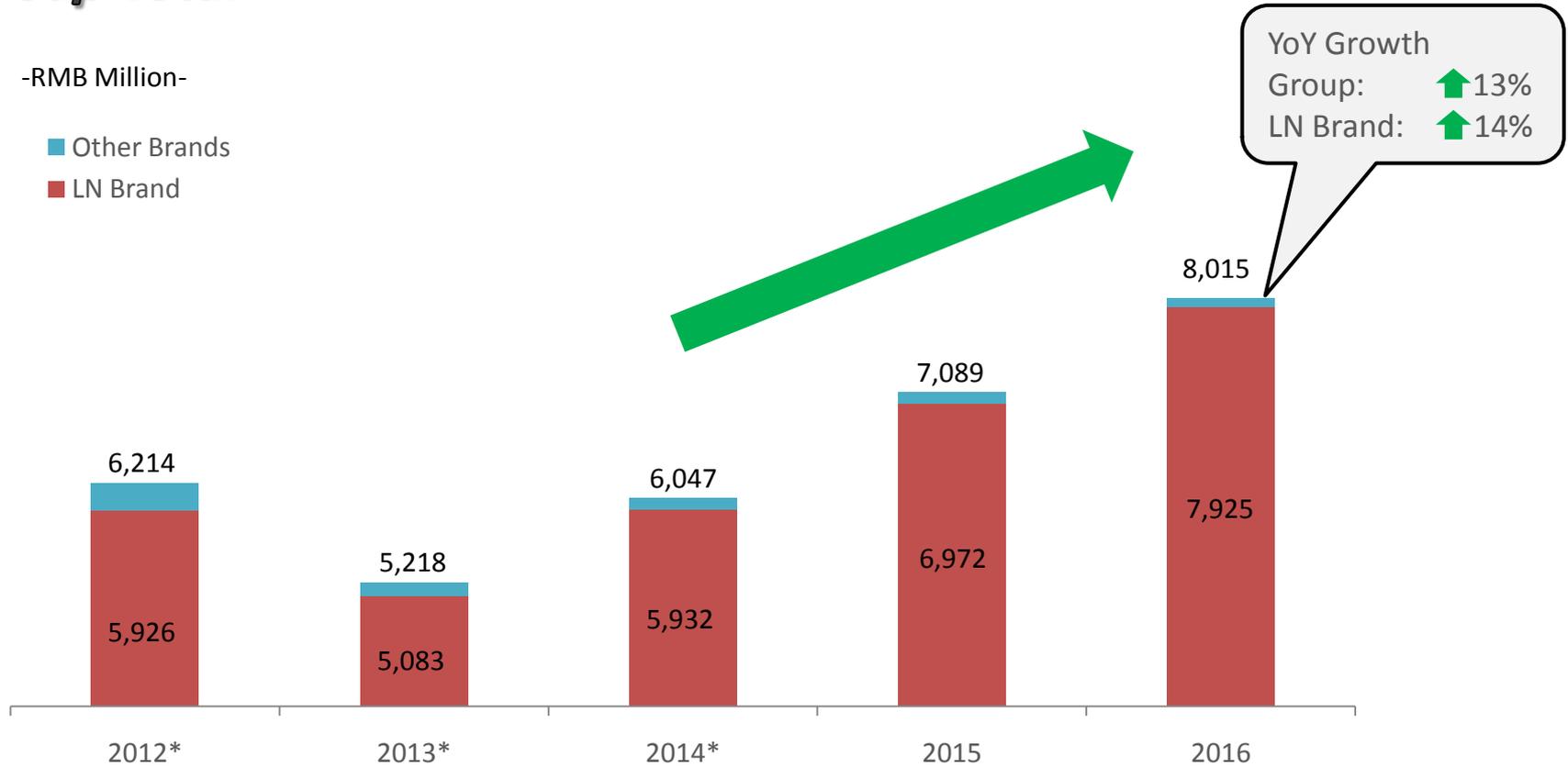
Revenue

Group Total

-RMB Million-

■ Other Brands

■ LN Brand



Three consecutive years of double-digit growth led by strong momentum of Li Ning brand

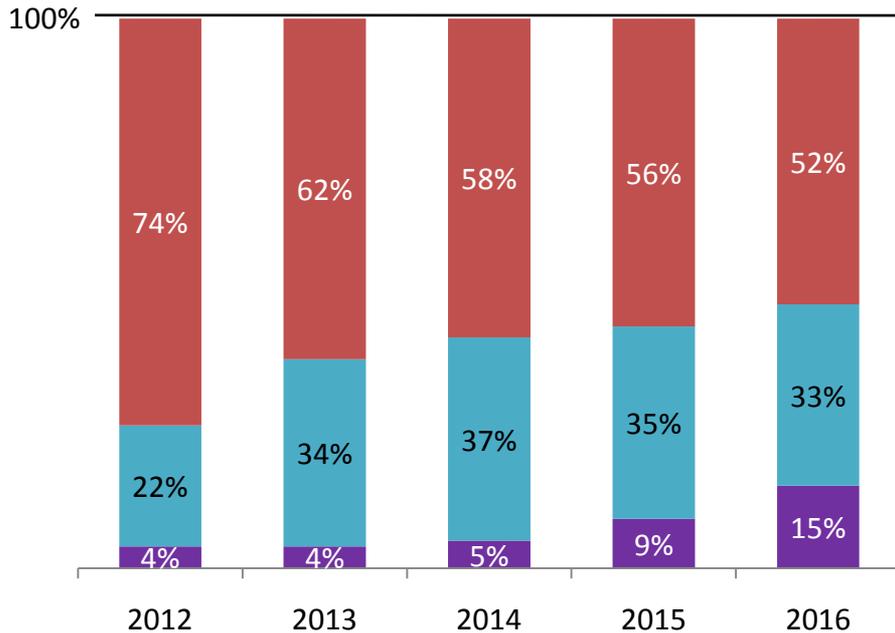
*Excluded Double Happiness

Revenue and Sell-Through Mix

LN Brand, excl. international markets

Company Revenue Mix

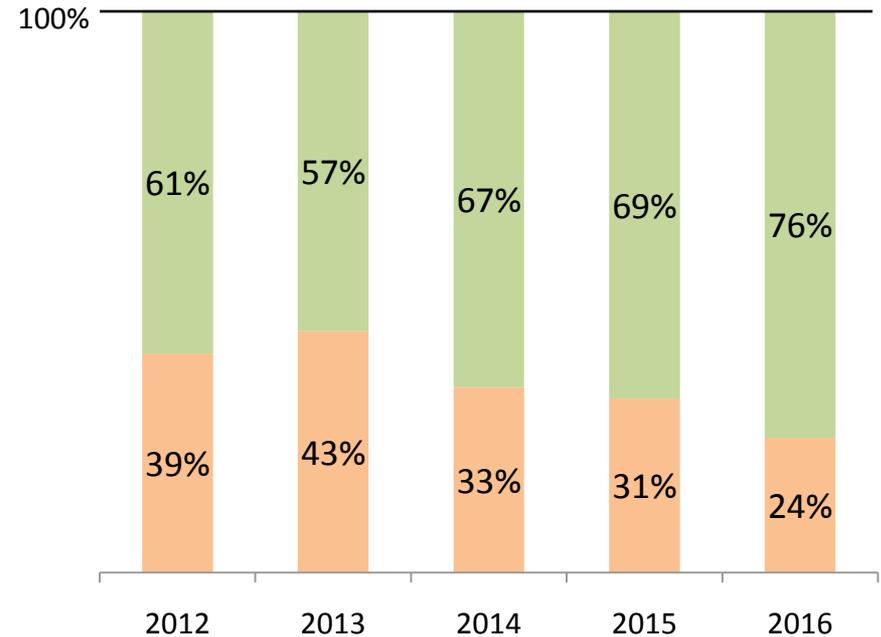
E-commerce Retail Wholesale



Sell-Through Mix

(Incl. Retail, Wholesale and E-commerce)

Old Product New Product (Current and Last Season)



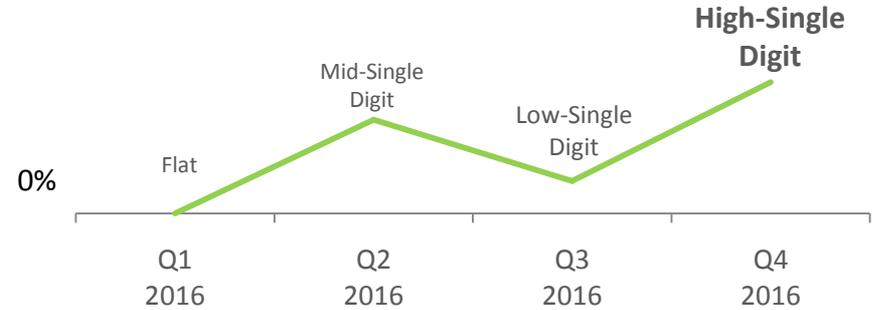
Business expansion driven by further balanced channel and healthier sell-through mix

Same Store Sales Growth (SSSG) Rate

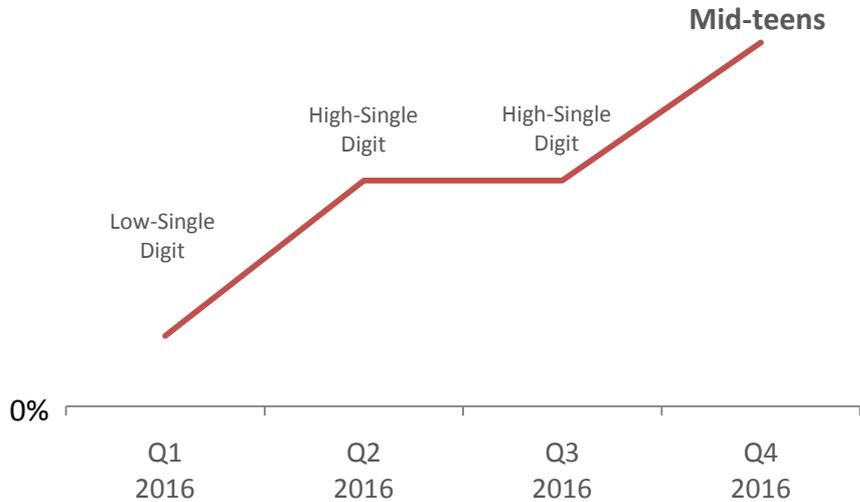
LN Brand

SSSG (Full year 2016)	
Overall	↑ Low-teens
➤ Retail	↑ Mid-Single Digit
➤ Wholesale	↑ Low-Single Digit
➤ E-commerce	↑ Mid-Eighties

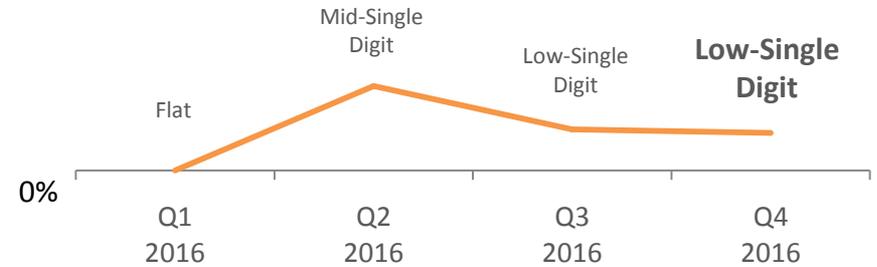
Retail (Direct operation)



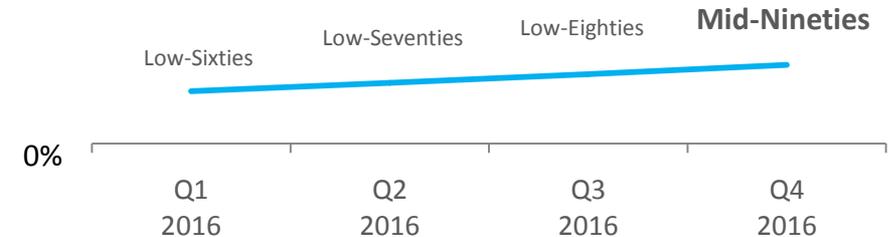
Overall Platform



Wholesale (Franchised Distributors)



E-commerce*

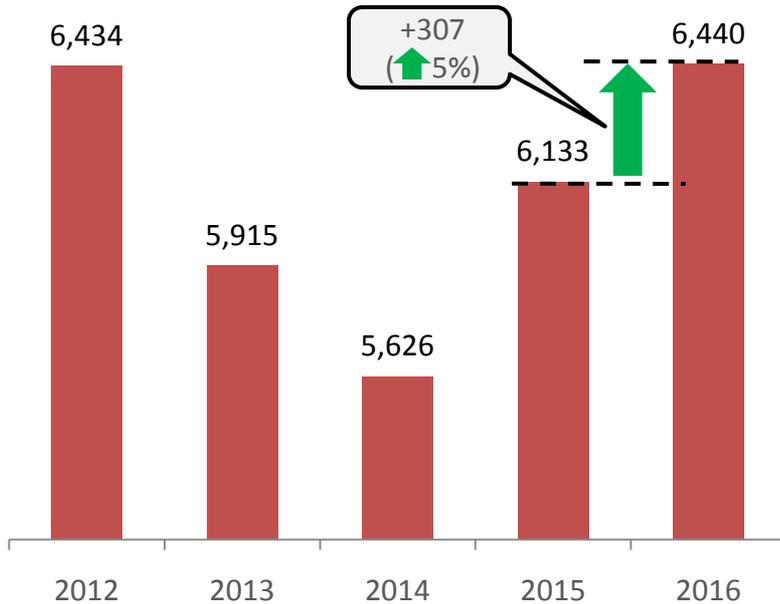


*E-commerce: LN brand sell-through generated from T-mall, JD and Lining.com

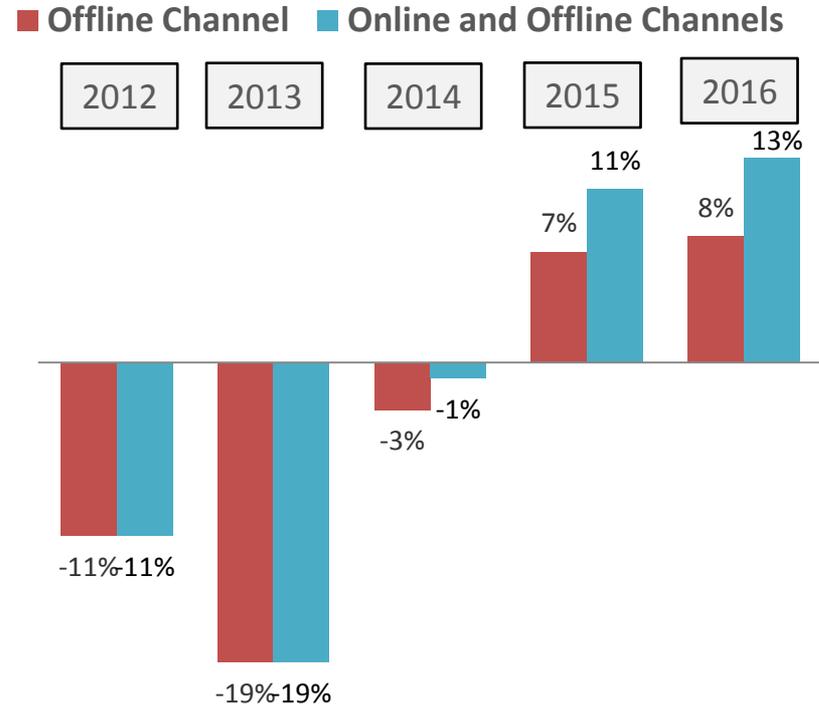
Online and Offline Expansion

LN Brand, excl. international market sales

No. of POS (Period End)



Sell-through growth

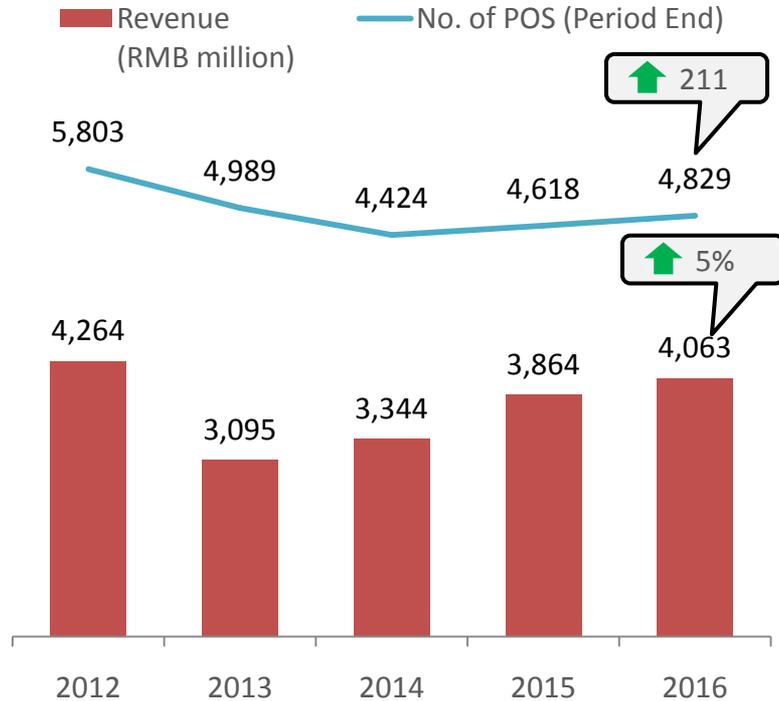


Double digit business growth contributed by both SSSG and platform recovery

Wholesale Business[^]

LN Brand, excl. international market sales

Business Performance



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



Sustainable wholesale business growth driven by more precise trade fair order strategy

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

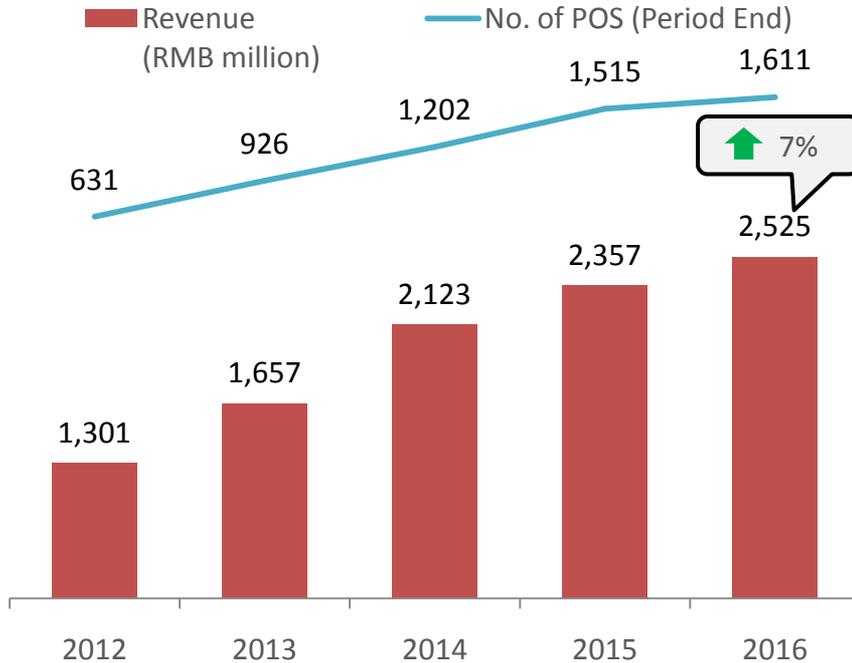
*Order placed during trade fair (excl. orders from subsidiaries), e.g. 2017Q3 orders were placed about half year ago

Accounted for impact by transfer market (Note: We acquired distributors business, which affected trade fair orders of 2016)

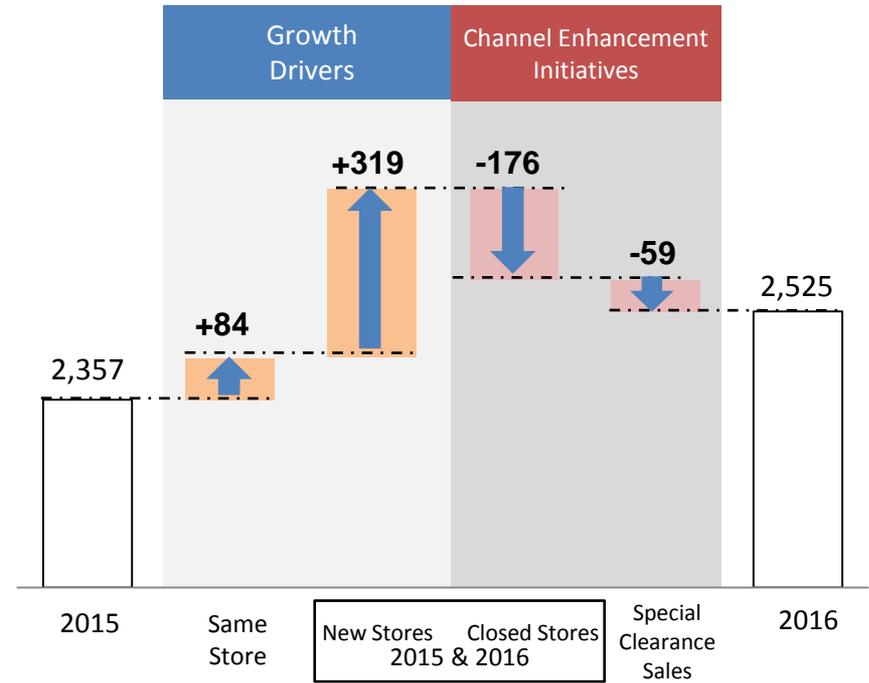
Retail Business[^]

LN Brand

Business Performance



Revenue Growth Analysis

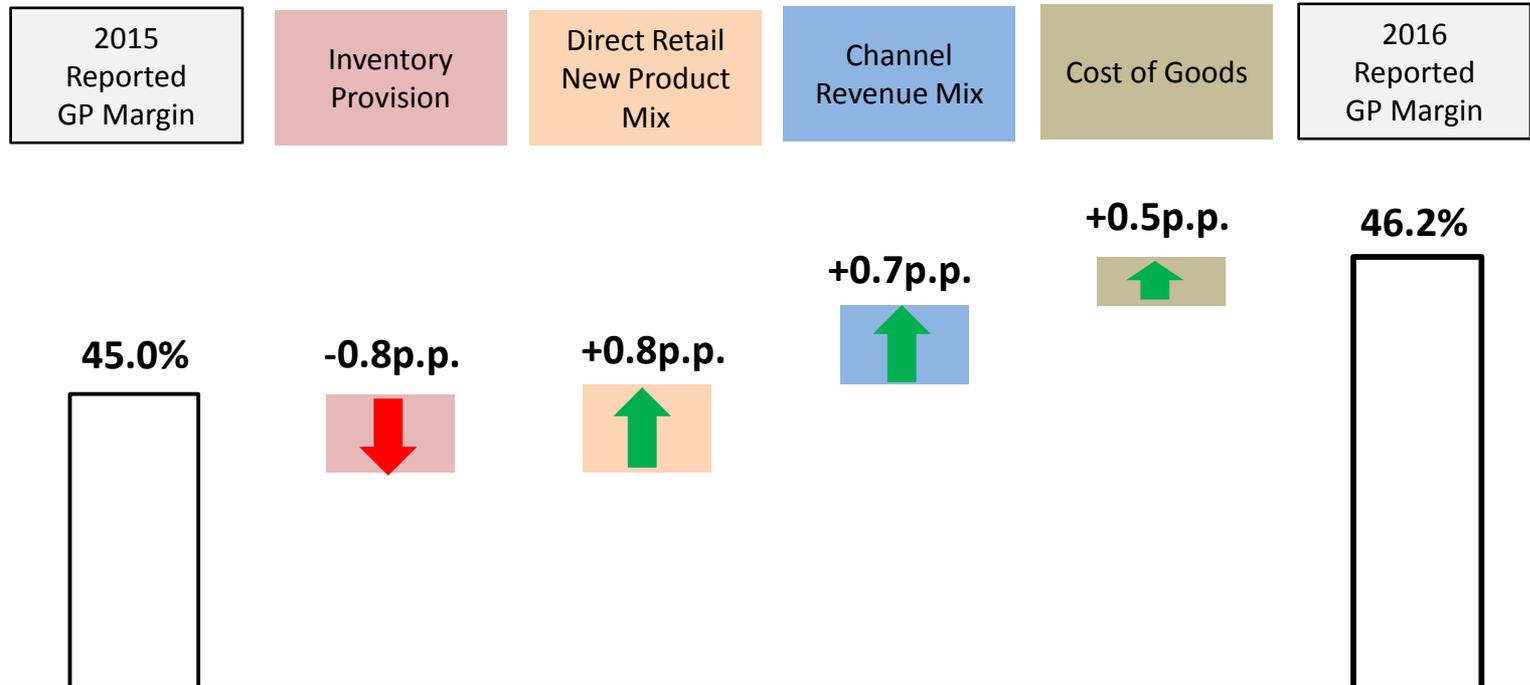


Growth momentum driven by both organic (SSSG) and productive store expansion

[^] Retail business: Refers to direct retail operation

Gross Profit Margin Analysis – 2016 vs 2015

Net Change in Major Items

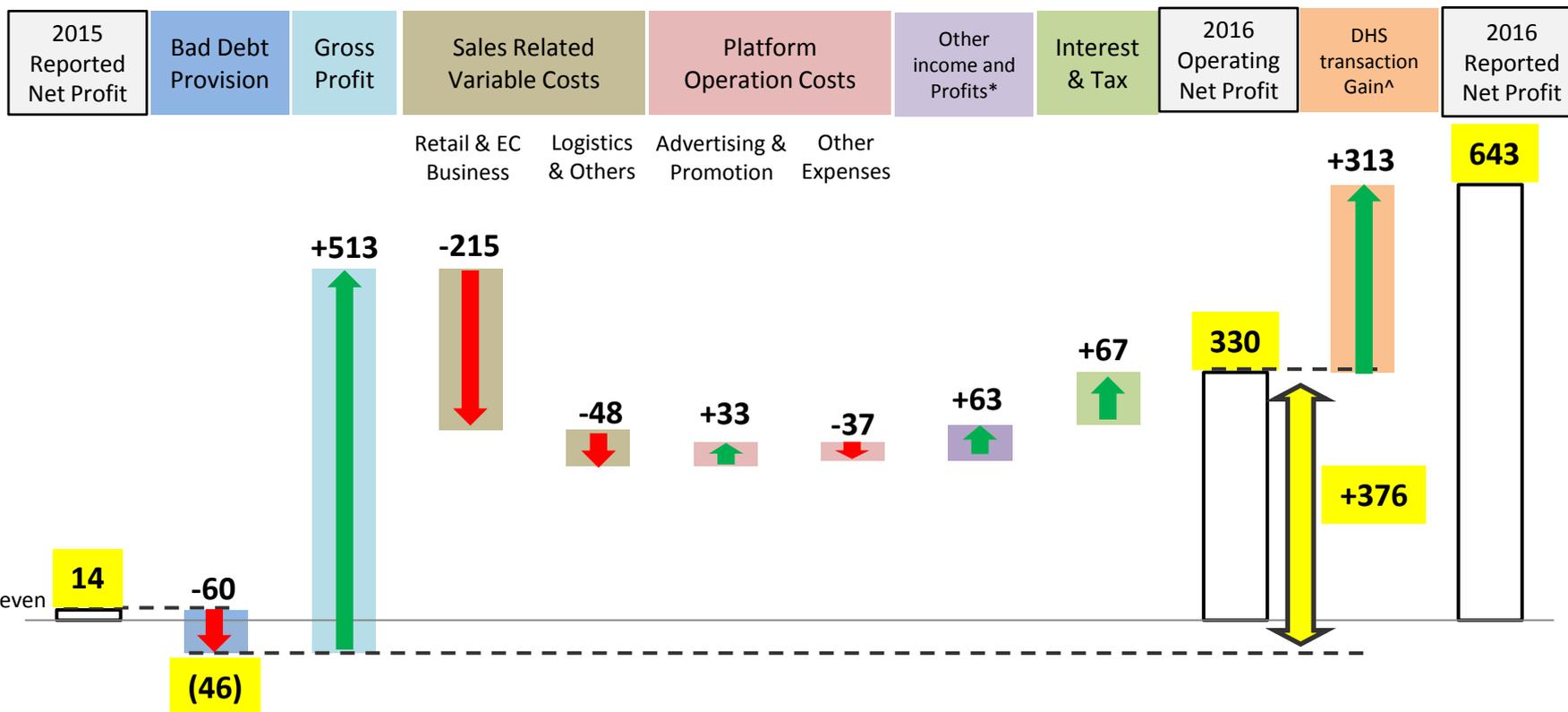


Gross profit margin expansion driven by enhanced mix of new product and channel revenue

Profitability Analysis – 2016 vs 2015

Net Change of Major P&L Items

-RMB Million-

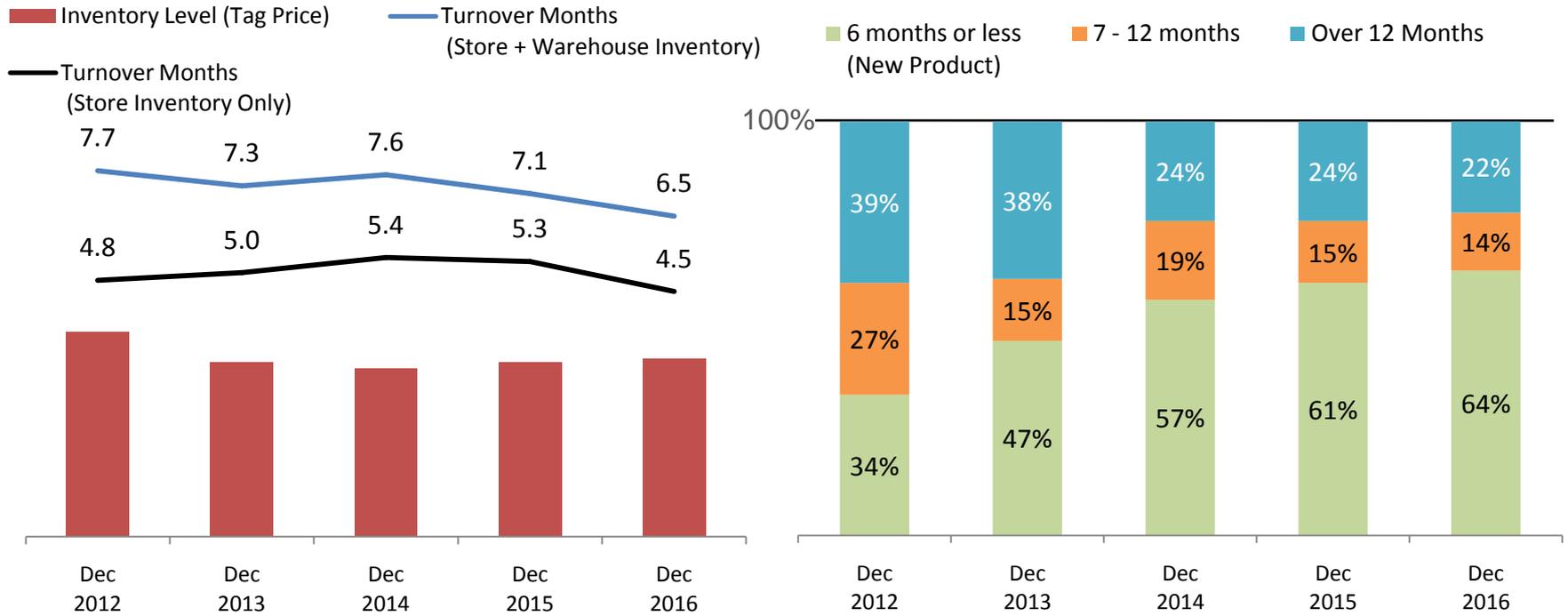


Enhanced operating leverage through disciplined cost management

* Other income and profits includes (i) Other income and other gains – net (ii) Sharing of profit of investment accounted for using the equity method (iii) Sharing of profit from DHS
 ^ DHS transaction gain includes the net disposal gain arising from the sale of the 10% equity interest in DHS and a gain on remeasurement of the remaining stake (47.5%)

Channel Inventory

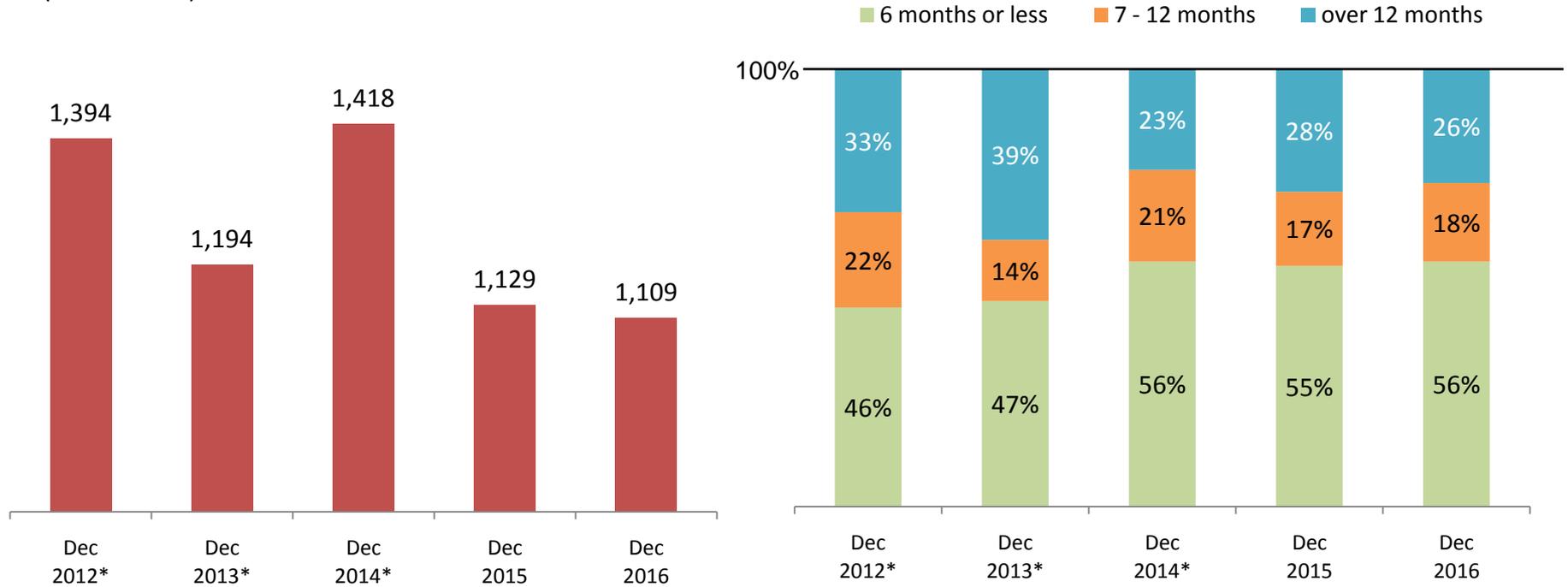
Incl. Retail, Wholesale and E-commerce



Improved efficiency driven by strong sell-through growth and enhanced inventory control

Company Inventory

At cost, before provision
(RMB Million)

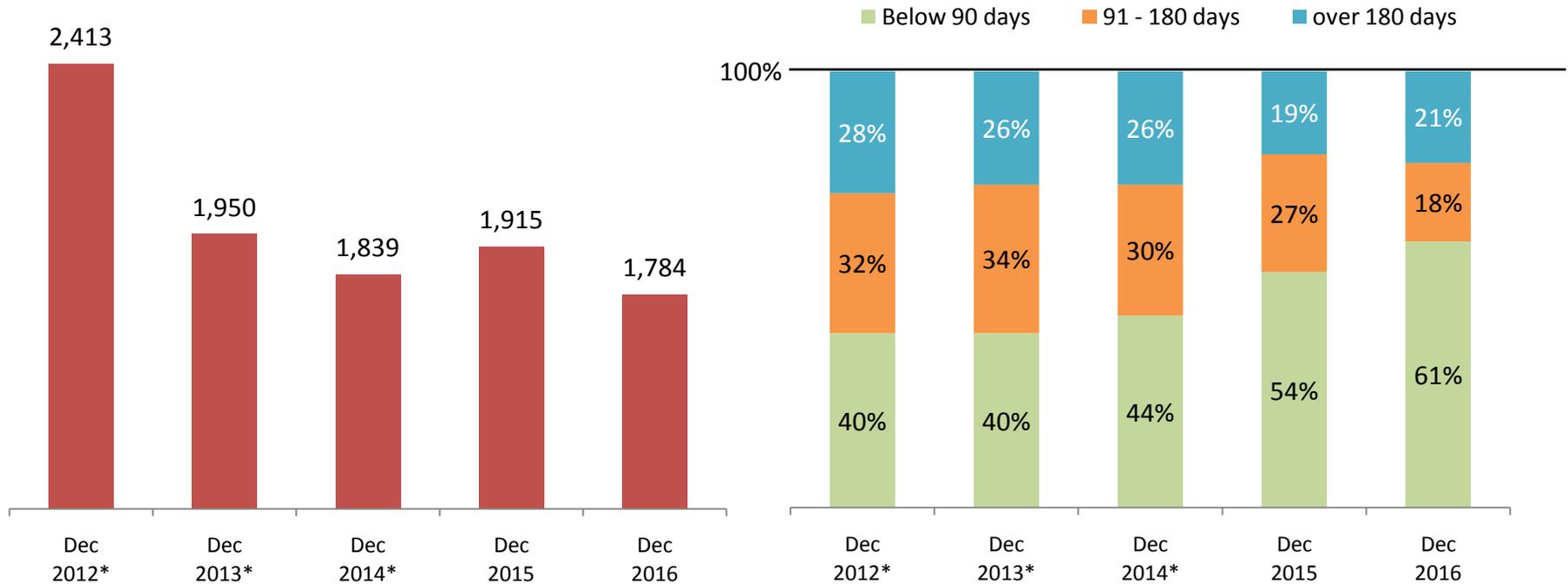


Healthy inventory notwithstanding strong expansion in direct operated business (Incl. EC)

*Excluded Double Happiness

Trade Receivables

At gross amount, before provision
(RMB Million)

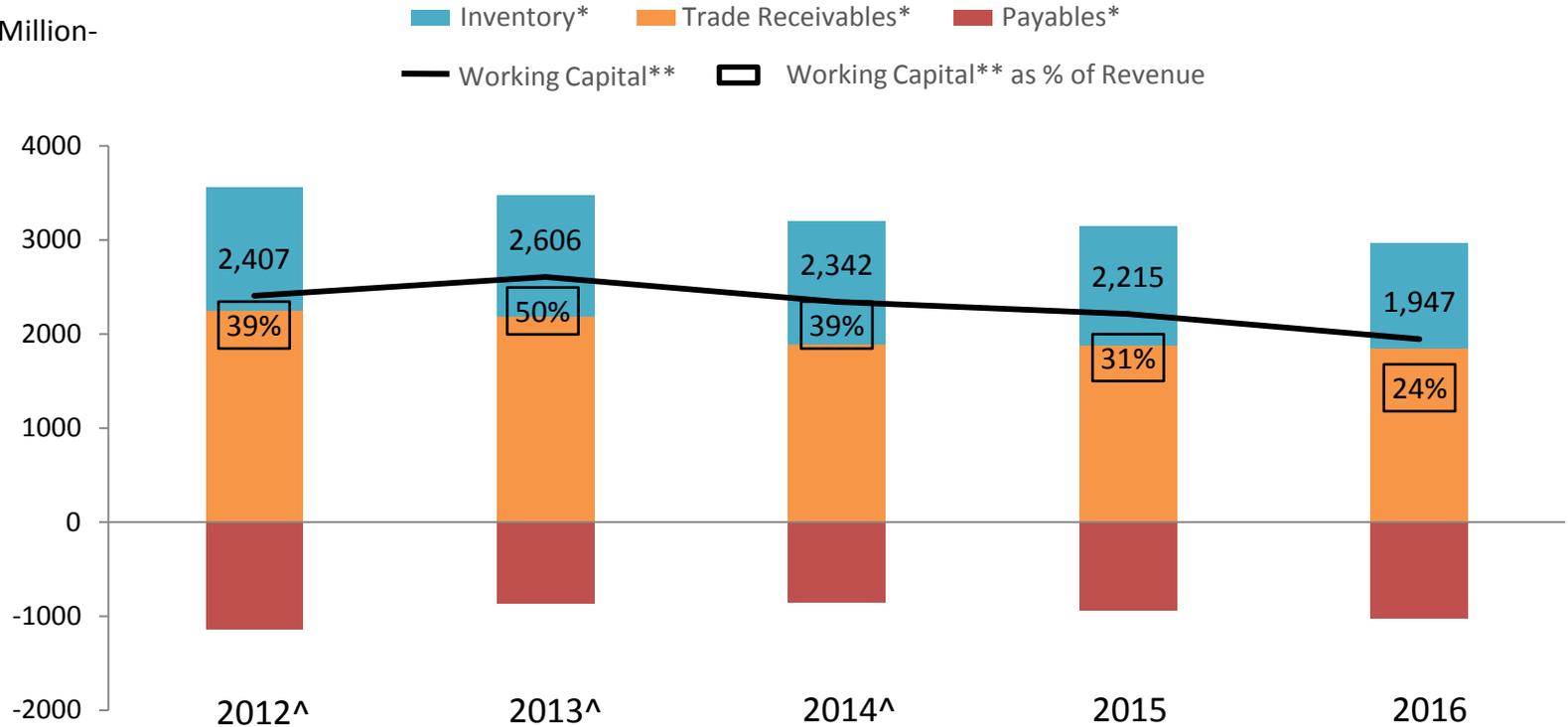


Receivables volume and aging improved simultaneously

*Excluded Double Happiness

Working Capital Efficiency

-RMB Million-



Business growth supported by healthy working capital

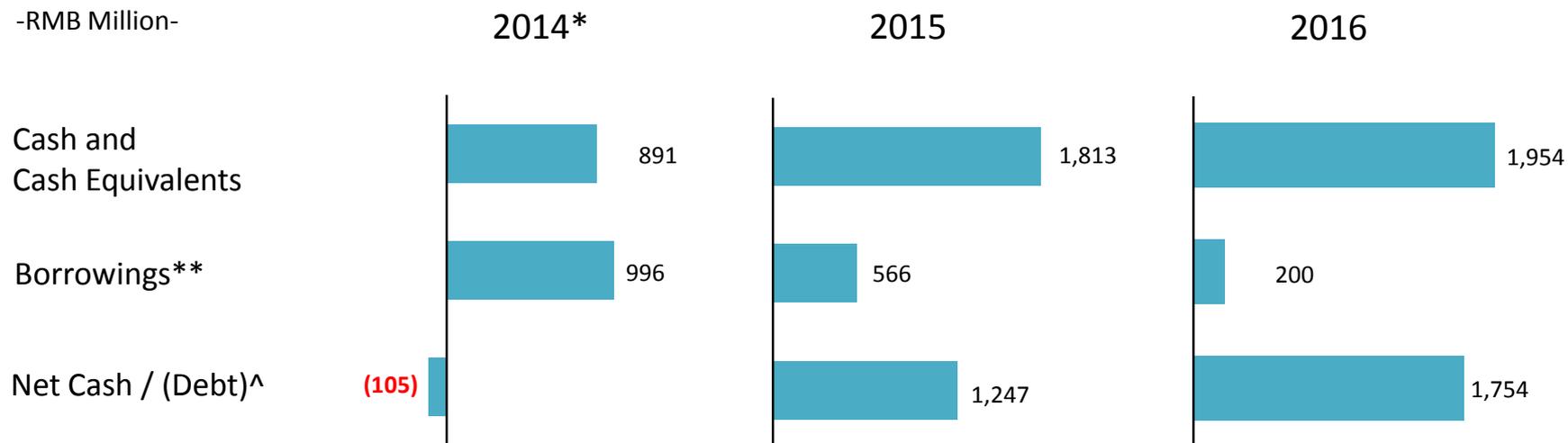
* Simple average between period opening and ending

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

[^] Excluded Double Happiness

Balance Sheet Summary And Cash Position

-RMB Million-



	2014*	2015	2016
Cash Conversion Cycle (Days)	102	76	59

	2014*	2015	2016
Current Period Operating Cash Flow*	(526)	549	835

* Excluded Double Happiness

** Borrowings included Bank loans and Related Parties Loan

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



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李宁空气弧跑鞋

Business Review

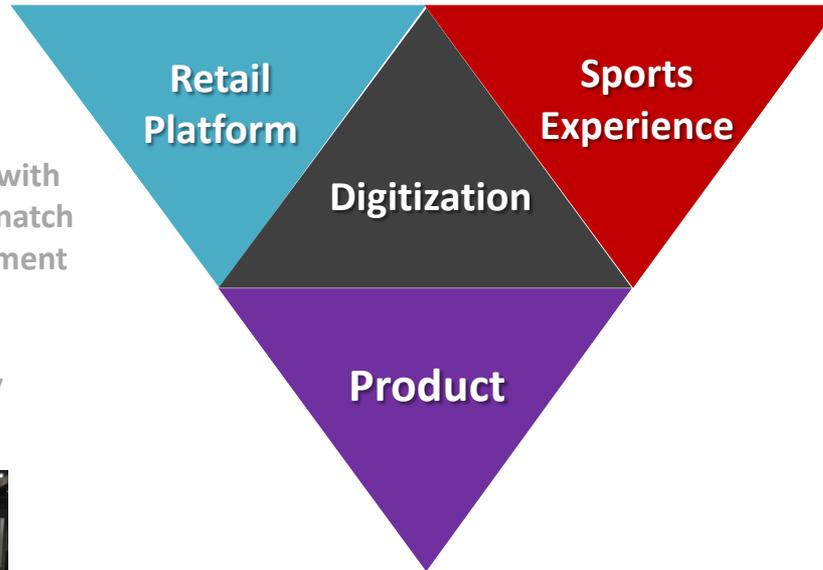
Foster The LI-NING Brand Value Through Experience, From Commoditized To “Smart With Quality”



Strengthen Retail Operation Through Digitization



- Support the projection for the group business development
- Further enhance the overall operating efficiency



- Classify stores by categories with own profitability model, to match product planning and assortment
- Improve in store user experience, enhance store productivity and profitability



- Enhanced sports functionality adhered, integrate trendy elements into design
- Differentiated product assortment and management



- Develop LI-NING sport events and tournaments
- Exploit the advantages to the full, deepen professional brand image through events and sports resources marketing



Product: Five Core Categories* Drove Business Growth

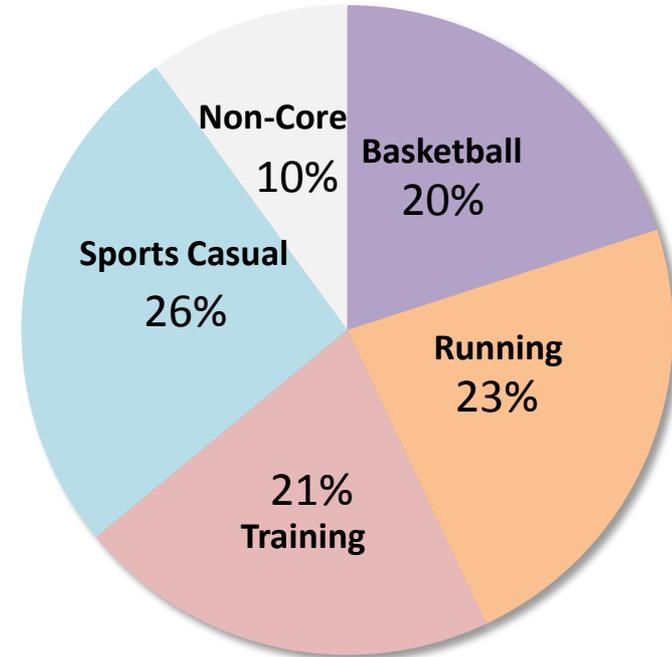
Retail Sell-through–YoY Change

Total Value		↑ 8%
	Basketball 	↑ 10%
	Running 	↑ 34%
	Training 	↑ 15%
	Sports Casual 	Flat
	Non-core 	↓ 23%

Sell-in –YoY Change

	Badminton* 	↓ 19%
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Retail Sell-through - Mix



*The "Five Core Product Categories" include basketball, running, training, sports casual and badminton
Sales of badminton products are shown with sell-in data for reference as they are mainly distributed via professional channels

Running Product: Functional Series Widely Recognized

	LI-Ning Arc	LI-NING Cloud		Super Light Series
Design Focus	<ul style="list-style-type: none"> • New shock absorbing technology for the sole • More comfortable 	<ul style="list-style-type: none"> • Upgraded Cloud technology provide better cushioning and rebounding • Soft and lightweight, enhance sports performance 		<ul style="list-style-type: none"> • Single-piece knit upper to allow air permeability and enclosure • Lightweight midsole to enhance comfort and reduce energy loss
Key Product	<p>Li-ning Arc Single-piece Knit Running Shoes</p>  <ul style="list-style-type: none"> • Launched in 16Q3 • Tag price: RMB 439 	<p>Cloud 3 Smart Running Shoes</p>  <ul style="list-style-type: none"> • Launched in 16Q1 • Tag price: RMB 499 	<p>Cloud 3 Smart Water-proof Running Shoes</p>  <ul style="list-style-type: none"> • Launched in 16Q4 • Tag price: RMB 499 	<p>Super Light 13th Single-piece Knit Running Shoes</p>  <ul style="list-style-type: none"> • Launched in 16Q2 • Tag price: RMB 469
2016 Sales Performance*	<ul style="list-style-type: none"> • Sell-out rate: 75% • Sales volume: Approx. 470,000 pairs 	<ul style="list-style-type: none"> • Sell-out rate: 86% • Sales volume: Approx. 320,000 pairs 	<ul style="list-style-type: none"> • Sell-out rate (3-months Only): 65% • Sales volume (3-months Only): Over 360,000 pairs 	<ul style="list-style-type: none"> • Sell-out rate: 80% • Sales volume: Approx. 730,000 pairs

*2016 sales performance: Total sales since launched until the end of 2016

Basketball Product: Combination Of Function And Fashion

	Basketball Court Shoes	Way of Wade	Basketball Culture
Design Focus	<ul style="list-style-type: none"> • “Bounce +” technology provide cushioning and rebounding • Carbon fiber board provides support and prevents sprains • Design inspired by the traditional Chinese opera facial makeup 	<ul style="list-style-type: none"> • Apply polymer materials to midsole • Enhanced anti-collision design to toe, provide all-round protection • Triangle floral design adds fashion sense 	<ul style="list-style-type: none"> • Trendy and stylish sports casual • Casual and all-match, simple but fashion • Provide choices of diversified all season products
Key Product	<p>CBA Sonic Speed IV Basketball Shoes</p>  <p>• Launched in 16Q2 • Tag price: RMB 569</p>	<p>Wade All City4 Cushioning Basketball Shoes</p>  <p>• Launched in 16Q1 • Tag price: RMB 499</p>	<p>Wade Apparel Series</p> 
2016 Sales Performance*	<ul style="list-style-type: none"> • Sell-out rate: 69% • Sales volume: Over 100,000 pairs 	<ul style="list-style-type: none"> • Sell-out rate: 78% • Sales volume: Approx. 40,000 pairs 	<ul style="list-style-type: none"> • Sell-out rate: 74% • Sales volume: Over 1,200,000 units

*2016 sales performance: Total sales since launched until the end of 2016

Training Product: All-weather Products Combination

	Training Footwear		Training Apparel	
Design Focus	<ul style="list-style-type: none"> Breathable one-piece knit EVA light sole provide flexibility 	<ul style="list-style-type: none"> Reinforced support provide good protection Elastic big sole enhances flexibility 	<ul style="list-style-type: none"> Keep warm: far-infrared WARM AT FAR INFRARED Quick-dry: AT DRY/ AT DRY FREEZE Protection: AT PROOF WIND/ AT-BACTERIA 	
Key Product	<p>One-piece Knit training shoes</p>  <ul style="list-style-type: none"> Launched in 16Q2 Tag Price: RMB 359 	<p>Super Trainer Flexible Training Shoes</p>  <ul style="list-style-type: none"> Launched in 16Q4 Tag Price: RMB 369 		
2016 Sales Performance*	<ul style="list-style-type: none"> Sell-out rate: 83% Sales volume: Approx. 60,000 pairs 	<ul style="list-style-type: none"> Sell-out rate (3-months Only): 65% Sales volume (3-months Only): Over 90,000 pairs 	<ul style="list-style-type: none"> Sell-out rate: 73% Sales volume: Over 6,000,000 units 	

*2016 sales performance: Total sales since launched until the end of 2016

Sport Casual Product



Channel: Strengthen The Competitiveness Of E-commerce Through Continued Innovation

2016 Major Marketing Event



Channel: Improve E-commerce Operating Efficiency Through Catering Consumer Preference

More Accurate and Fast

- Accurate product planning, efficient supply chain and product lifecycle management
- Enhance customer loyalty through optimizing user experience
- Continuously increase O2O Interaction to seek for business breakthrough
- Accurately capture the fast changing online business opportunities

More Trendy & Fun



Rough Rabbit 2016, RMB199

In 2016, sales volume (including 2015 & 2016 version) of Rough Rabbit over 330,000 pairs



•Classic leather casual shoes, RMB299



•In 2016, sales volume over 80,000 pairs

Channel: Classified Stores Categories

To Improve Product And Sales Efficiency



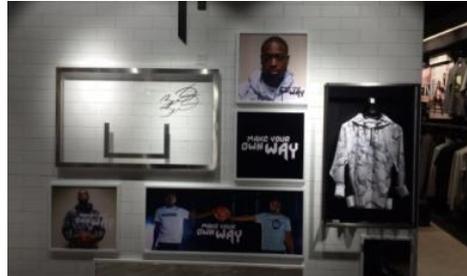
Channel: Showcase To General Consumers Through Full-categories Stores

Full categories stores showed integrated brand image through coverage of all categories
Main categories: basketball, running, training, sports casual, etc.



Channel: Category Focus Stores ***To Offer More Precise Shopping Experience***

Category focus store is a combined platform of professional equipment, professional test and sports & social



Retail Capability: Enhance End User Experience

- Improve end user experience through optimization of retail operation

Product Experience



Store classification management

- Establish standards for store classification
- Identifying profitability model based on store categories

Sports Experience



Enhance Store image

- Establish store image standards based on store categories
- Strengthen in store staff sports expertise

Shopping Experience



Advanced Omni-channel operation and customer service

- Achieve efficient inventory management
- Increase customer loyalty through marketing on CRM platform

Retail Capability: Optimizing Retail Operations Platform

- Identify store image by categories
- Optimize the design process

- Refined store operation standards
- Establish evaluation system
- Establish training system for store managers
- Upgrade training courses



- Standardized layout and display
- Efficient sports resources marketing by categories
- Marketing in new media and multi-channels
- Membership experience and interaction
- Accurate marketing based on big data analysis

- Initially established online and offline all-in-one inventory system
- Achieve interworking linkage of the online and offline inventory management

Retail Capability:

Strengthened The Retail Operation “Closed Loop”

Offline Channel Sales Performance

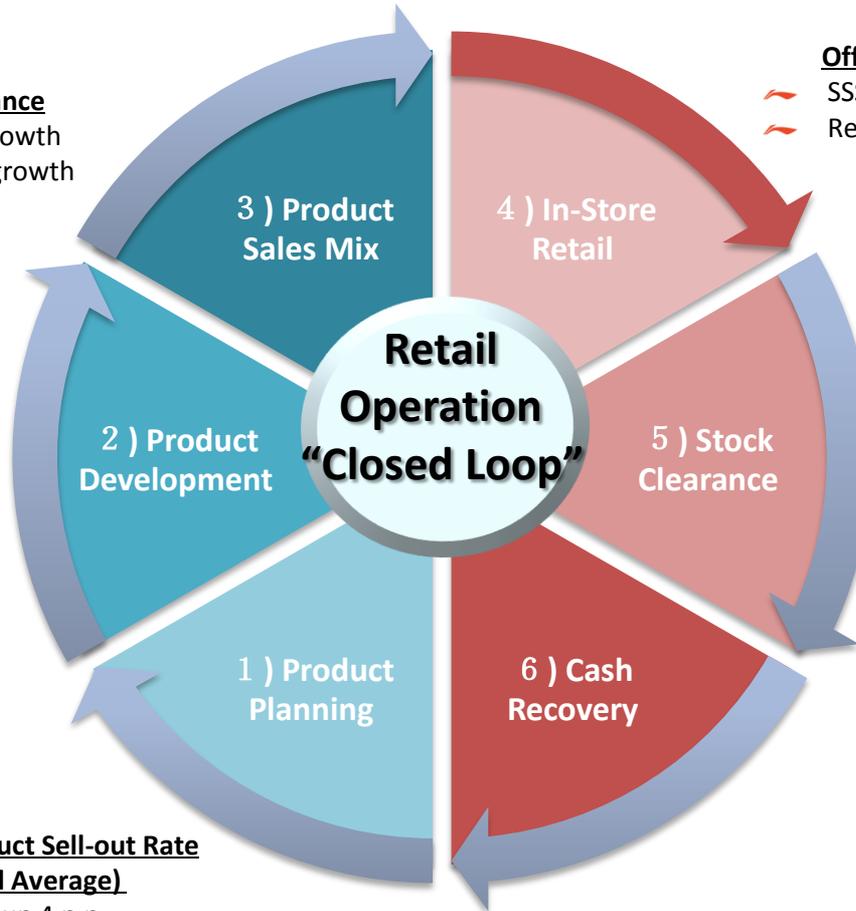
- ~ Sell-through: high single-digit growth
- ~ Sales Volume: high single-digit growth

News Product Performance

- ~ Contribution to total sales: up 7 p.p.
- ~ Sell-through: increase by approximately 16%

New Product Sell-out Rate (Weighted Average)

- ~ 3 months: up 4 p.p.
- ~ 6 months: up 2 p.p.



Offline Channel Sales Efficiency

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

Over 12 months inventory mix

- ~ Channel: declined (improved) 2 p.p.
- ~ Company: declined (improved) 2 p.p.

Working Capital and Operating Cash Flow

- ~ Cashflow from operating activities*: RMB835 million net inflow
- ~ Net Cash: increased by RMB507 million
- ~ Trade receivables before provisions: Decreased by RMB131 million
- ~ Cash conversion cycle: decreased(improved) by 17 days

New Business

	 <p>YOUNG Aged 6 to 12</p> <p>KIDS Aged 3 to 6</p>	
<ul style="list-style-type: none"> ➤ Established in New York in 1882, Danskin is a professional dancewear brand for women in the United States, developed yoga, training and other sub-categories products afterwards ➤ The target market has expanded from the United States to Japan, Europe and other countries and regions ➤ Company obtained the exclusive licensing right of the Mainland China and Macao and is responsible for building operation team, brand positioning, product design & production, sales and supply chain etc. ➤ Planned to open 5 to 10 pilot stores in the second half of 2017 ➤ The expected negative impact on net profit is approximately RMB35 million for 2017 	<ul style="list-style-type: none"> ➤ Previously licensed to an independent third-party. The licensing deal will expire by the end of 2017 ➤ More than 300 stores by the end of 2016 ➤ Strategy development started from second half of 2016 ➤ Based on the existing wholesale channel to develop retail operations ➤ The expected negative impact on net profit is approximately RMB30 million for 2017 	<ul style="list-style-type: none"> ➤ Fine-tuned and optimize the business through exploratory tests in areas such as product and channel ➤ Positioned as a fast fashion brand featuring sports and leisure attire, and caters to the demand of general public for the functionalities of sports brand. ➤ Channels are predominantly influential arcades and shopping malls located in central business districts in second-tier and third-tier cities ➤ The expected negative impact on net profit is approximately RMB25 million for 2017



Appendix

Summary of Income Statement

(RMB million)	2016	2015	Better/(Worse)
	Period ended 31 December		
Revenue	8,015	7,089	13%
Gross Profit	3,705	3,193	16%
Distribution costs	-2,969	-2,720	(9%)
Administrative expenses	-424	-346	(23%)
Other income and other gains – net	74	31	139%
Operating Profit	386	157	146%
EBITDA*	713	394	81%
Profit Attributable to Equity Holders[^]	330	14	2,257%
Basic Profit per share(RMB cents)[^]	14.89	0.66	2,156%

*Excluded Double Happiness

[^] Excluded the net disposal gain arising from the sale of the 10% equity interest in DHS and a gain on remeasurement of the remaining stake (47.5%)

Profit Margins And Expense Ratios

	2016	2015	Better/(Worse)
	Period ended 31 December		
Gross Profit Margin	46.2%	45.0%	1.2 p.p.
Operating Profit Margin	4.8%	2.2%	2.6 p.p.
EBITDA Margin	8.9%	5.6%	3.3 p.p.
Margin of Profit Attributable to Equity Holders [^]	4.1%	0.2%	3.9 p.p.
R&D Expenses(as % of revenue)	1.6%	1.9%	0.3 p.p.
A&P Expenses(as % of revenue)	12.3%	14.3%	2.0 p.p.
Staff Costs(as % of revenue)	9.7%	9.9%	0.2 p.p.

[^] Excluded the net disposal gain arising from the sale of the 10% equity interest in DHS and a gain on remeasurement of the remaining stake (47.5%)

Key Operational Indicators

	2016	2015	Better/(Worse)
	Period ended 31 December		
Average Inventory Turnover(Days)	82	100	18
Average Trade Receivables Turnover(Days)	64	69	5
Average Trade Payables Turnover(Days)	87	93	(6)
Cash Conversion Cycle(Days)	59	76	17
Return on Equity(ROE)^	9.2%	0.6%	8.6 p.p.
Return on Asset(ROA)^	4.8%	0.2%	4.6 p.p.
CAPEX(RMB million)*	433	347	(24%)

^ Excluded the net disposal gain arising from the sale of the 10% equity interest in DHS and a gain on remeasurement of the remaining stake (47.5%)

*Excluded Double Happiness

Summary of Balance Sheet

(RMB Million)	31 Dec 2016	31 Dec 2015	Better/(Worse)
Cash and Cash Equivalents	1,954	1,813	8%
Borrowings [^]	200	566	65%
Convertible Bonds Liabilities	568	723	21%
Net Cash*	1,754	1,247	41%
Current Liabilities	2,674	2,472	(8%)
Current Ratio(times)	1.7	2.2	(0.5x)
Total Liabilities to Total Assets Ratio	41.0%	50.6%	9.6 p.p.

*Net Cash = Cash and Cash Equivalents – Borrowings