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# **LI NING COMPANY LIMITED**

**李寧有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 2331)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016**

### **FINANCIAL HIGHLIGHTS**

- Registered net profit attributable to equity holders amounted to RMB643 million, which included:
  - Net gain on disposal of 10% equity interest in Double Happiness (DHS) of RMB313 million
- Net margin, excluded net gain on disposal of 10% equity interest in DHS, raised from breakeven to 4.1%:
  - Revenue up 13% to RMB8,015 million
  - Gross profit margin increased by 1.2 percentage points
- Operating cash flow further increased to RMB995 million.
- Cash conversion cycle improved (shortened) by 17 days (2015: 76 days/2016: 59 days)

### **OPERATIONAL HIGHLIGHTS**

- Continued business expansion:
  - 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

## ANNUAL RESULTS

The board of directors (the “Board”) of Li Ning Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2016, together with comparative figures of 2015, as follows:

### CONSOLIDATED BALANCE SHEET

		As at 31 December	
	<i>Note</i>	2016	2015
		<i>RMB'000</i>	<i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		827,677	740,305
Land use rights		77,887	79,788
Intangible assets		282,696	265,570
Deferred income tax assets		207,458	230,868
Available-for-sale financial assets		14,000	26,000
Investments accounted for using the equity method		625,008	27,796
Derivative financial instruments		319	–
Other receivables and prepayments		95,009	43,615
		<u>2,130,054</u>	<u>1,413,942</u>
<b>Total non-current assets</b>			
<b>Current assets</b>			
Inventories	4	965,422	959,652
Trade receivables	5	1,370,254	1,439,513
Other receivables and prepayments – current portion		360,175	309,389
Restricted bank deposits		1,001	495
Cash and cash equivalents		1,953,588	1,812,572
		<u>4,650,440</u>	<u>4,521,621</u>
Assets of disposal group classified as held-for-sale	13	–	961,895
		<u>4,650,440</u>	<u>5,483,516</u>
<b>Total current assets</b>			
		<u>6,780,494</u>	<u>6,897,458</u>
<b>Total assets</b>			

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2016</b>	2015
		<b>RMB'000</b>	<b>RMB'000</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares		<b>188,021</b>	177,492
Share premium		<b>2,539,355</b>	2,168,867
Shares held for Restricted Share Award Scheme		<b>(50,605)</b>	(2,084)
Other reserves		<b>1,171,526</b>	1,308,230
Retained earnings/(Accumulated deficit)		<b>146,302</b>	(472,602)
		<b>3,994,599</b>	3,179,903
<b>Non-controlling interests in equity</b>		<b>2,550</b>	230,637
<b>Total equity</b>		<b>3,997,149</b>	3,410,540
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
License fees payable		<b>44,464</b>	27,886
Borrowings		–	200,000
Convertible bonds		–	710,033
Deferred income tax liabilities		<b>6,799</b>	11,503
Deferred income		<b>56,824</b>	65,710
Derivative financial instruments		<b>1,343</b>	–
<b>Total non-current liabilities</b>		<b>109,430</b>	1,015,132
<b>Current liabilities</b>			
Trade payables	6	<b>1,047,323</b>	997,473
Other payables and accruals		<b>807,885</b>	696,168
License fees payable – current portion		<b>41,603</b>	63,357
Current income tax liabilities		<b>9,118</b>	3,777
Borrowings		<b>200,000</b>	366,499
Convertible bonds		<b>567,986</b>	12,500
		<b>2,673,915</b>	2,139,774
Liabilities of disposal group classified as held-for-sale	13	–	332,012
<b>Total current liabilities</b>		<b>2,673,915</b>	2,471,786
<b>Total liabilities</b>		<b>2,783,345</b>	3,486,918
<b>Total equity and liabilities</b>		<b>6,780,494</b>	6,897,458

## CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2016 RMB'000	2015 RMB'000
<b>Continuing operations</b>			
Revenue	3	8,015,293	7,089,495
Cost of sales	7	<u>(4,310,065)</u>	<u>(3,896,836)</u>
<b>Gross profit</b>		<b>3,705,228</b>	3,192,659
Distribution expenses	7	(2,969,341)	(2,720,361)
Administrative expenses	7	(424,129)	(346,149)
Other income and other gains-net	8	<u>74,047</u>	<u>30,920</u>
<b>Operating profit</b>		<b>385,805</b>	157,069
Finance income	9	7,460	6,343
Finance expenses	9	<u>(115,035)</u>	<u>(139,546)</u>
Finance expenses-net	9	(107,575)	(133,203)
Share of profit of investments accounted for using the equity method		<u>9,716</u>	<u>6,948</u>
<b>Profit before income tax</b>		<b>287,946</b>	30,814
Income tax expense	10	<u>(32,435)</u>	<u>(73,768)</u>
<b>Profit/(loss) for the year from continuing operations</b>		<b>255,511</b>	(42,954)
<b>Discontinued operations</b>			
Profit for the year	13	132,157	104,559
Gain on disposal of 10% equity interest in discontinued operations, net of income tax	13	<u>313,201</u>	<u>—</u>
<b>Profit for the year from discontinued operations</b>	13	<b>445,358</b>	104,559
<b>Profit for the year</b>		<b>700,869</b>	61,605
<b>Attributable to:</b>			
Equity holders of the Company		643,254	14,309
Non-controlling interests		<u>57,615</u>	<u>47,296</u>
		<b>700,869</b>	61,605

		<b>Year ended 31 December</b>	
	<i>Note</i>	<b>2016</b>	<b>2015</b>
		<b>RMB'000</b>	<b>RMB'000</b>
<b>Profit/(loss) attributable to equity holders of the Company arises from:</b>			
Continuing operations		<b>255,511</b>	(42,954)
Discontinued operations	<i>13</i>	<b>387,743</b>	57,263
		<b>643,254</b>	14,309
<b>Earnings/(losses) per share from continuing and discontinued operations attributable to equity holders of the Company for the year (expressed in RMB cents per share)</b>			
<b>Basic earnings/(losses) per share</b>			
From continuing operations	<i>11</i>	<b>11.53</b>	(1.99)
From discontinued operations	<i>11</i>	<b>17.50</b>	2.65
		<b>29.03</b>	0.66
<b>Diluted earnings/(losses) per share</b>			
From continuing operations	<i>11</i>	<b>11.50</b>	(1.99)
From discontinued operations	<i>11</i>	<b>17.45</b>	2.65
		<b>28.95</b>	0.66

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Profit for the year</b>	<b>700,869</b>	61,605
<b>Other comprehensive income/(loss):</b>		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>1,213</u>	<u>(990)</u>
<b>Total comprehensive income for the year</b>	<b><u>702,082</u></b>	<b><u>60,615</u></b>
<b>Attributable to:</b>		
Equity holders of the Company	<b>644,467</b>	13,319
Non-controlling interests	<u>57,615</u>	<u>47,296</u>
	<b><u>702,082</u></b>	<b><u>60,615</u></b>
<b>Total comprehensive income/(loss) attributable to equity holders of the Company arises from:</b>		
Continuing operations	<b>256,724</b>	(43,944)
Discontinued operations	<u>387,743</u>	<u>57,263</u>
	<b><u>644,467</u></b>	<b><u>13,319</u></b>

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.

These consolidated financial statements are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 22 March 2017.

**2. Basis of preparation**

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The accompanying consolidated financial statements of the Company have been prepared in accordance with all applicable International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by the financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

In December 2016, the Group completed the disposal of 10% equity interest in Shanghai Double Happiness Co., Ltd. (the “Double Happiness”, previously a 57.5% owned subsidiary of the Company) to a wholly-owned subsidiary of Viva China Holdings Limited (“Viva China”). Accordingly, Double Happiness is accounted for as an associate company of the Group as of 31 December 2016. The disposal transaction gave rise to a disposal gain of RMB330 million (before the income tax of RMB16 million). The related revenue, expenses, and other operating results before the completion of disposal and net disposal gain are presented as a single amount in the income statement as “Profit for the year from discontinued operations”. The assets and liabilities related to Double Happiness are presented as “held for sale” on consolidated balance sheet as of 31 December 2015.

**Changes in accounting policies and disclosures**

*(a) New and amended standards adopted by the Group*

The Group has adopted the following amendments to standards which are mandatory for the financial year beginning on 1 January 2016:

Annual Improvements Projects	Annual Improvements 2012-2014 cycle
Amendments to IFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendment to IAS 27	Equity method in separate financial statements
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment entities: applying the consolidation exception
Amendments to IAS 1	Disclosure initiative

The adoption of above amendments does not have any significant financial effect on these consolidated financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2016 are not material to the Group.

(b) *New standards and interpretations not yet adopted*

The following are new standards and amendments to standards that have been issued but are not yet effective for the financial year beginning on 1 January 2016 and have not been early adopted.

Amendments to IAS 12	Income taxes <sup>(1)</sup>
Amendments to IAS 7	Statement of cash flows <sup>(1)</sup>
Amendments to IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>(2)</sup>
IFRS 9	Financial instruments <sup>(3)</sup>
IFRS 15	Revenue from contracts with customers <sup>(3)</sup>
IFRS 16	Leases <sup>(4)</sup>

<sup>(1)</sup> Effective for the accounting period beginning on 1 January 2017

<sup>(2)</sup> The amendments were originally intended to be effective for the accounting periods beginning on or after 1 January 2016. The effective date has now been deferred

<sup>(3)</sup> Effective for the accounting period beginning on 1 January 2018

<sup>(4)</sup> Effective for the accounting period beginning on 1 January 2019

The Group will apply the above new standards and amendments to standards when they become effective. The Group is in the process of making an assessment of the impact of the above new standards and amendments to standards.

In relation to IFRS 9, the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

In relation to IFRS 15, the standard will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. IFRS 15 specifies how and when the Group will recognise revenue as well as requiring the Group to provide users of financial statements with more informative and relevant disclosures. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently analysing the impact of the new standard on the Group's financial statements and has initially identified areas which are likely to be affected, including identification of separate performance obligations, the determination of stand-alone selling price and its relative allocation. The Group will continue to assess the impact of the new rules on the Group's financial statements. IFRS 15 is mandatory for the accounting periods commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

In relation to IFRS 16, the standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of RMB823,014,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The standard is mandatory for accounting periods commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

### 3. **Revenue and Segment information**

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

Management considers the business from a brand perspective. During the year ended 31 December 2014, the Group had three reportable segments as follows, LI-NING brand, Double Happiness brand and all other brands segments. During the year ended 31 December 2015, the Group decided to dispose 10% equity interest in Shanghai Double Happiness Co., Ltd. ("Double Happiness") and announced its disposal plan on 23 October 2015. Double Happiness was classified as held-for-sale and discontinued operations as at and for the year ended 31 December 2015. The disposal transaction was completed in December 2016, upon which the Group stops consolidating Double Happiness and accounts for it as an associate company, thereby it was classified as discontinued operations for the year ended 31 December 2016 and it will not be a reportable segment of the Group in the future.



Management assesses the performance of the operating segments based on operating profit. Segment information provided to Management for decision making is measured in a manner consistent with that in the financial statements.

Revenue consists of sales from LI-NING brand, all other brands from continuing operations and Double Happiness brand from discontinued operations, which are RMB7,925,439,000, RMB89,854,000 and RMB700,181,000 for the year ended 31 December 2016 and RMB6,971,894,000, RMB117,601,000 and RMB722,636,000 for the year ended 31 December 2015, respectively.

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

The segment information provided to Management for the reportable segments for the years ended 31 December 2016 and 2015 is as follows:

	<b>LI-NING brand RMB'000</b>	<b>Continuing All other brands RMB'000</b>	<b>Subtotal RMB'000</b>	<b>Discontinued Double Happiness brand * RMB'000</b>	<b>Total RMB'000</b>
<b>Year ended 31 December 2016</b>					
Total revenue	7,925,439	123,323	8,048,762	700,181	8,748,943
Inter-segment revenue	–	(33,469)	(33,469)	–	(33,469)
<b>Revenue from external customers</b>	<b>7,925,439</b>	<b>89,854</b>	<b>8,015,293</b>	<b>700,181</b>	<b>8,715,474</b>
Operating profit	361,432	24,373	385,805	170,827	556,632
Distribution expenses and administrative expenses	3,380,337	13,133	3,393,470	162,934	3,556,404
Depreciation and amortisation	312,795	4,831	317,626	–	317,626
<b>Year ended 31 December 2015</b>					
Total revenue	6,971,894	150,321	7,122,215	722,648	7,844,863
Inter-segment revenue	–	(32,720)	(32,720)	(12)	(32,732)
<b>Revenue from external customers</b>	<b>6,971,894</b>	<b>117,601</b>	<b>7,089,495</b>	<b>722,636</b>	<b>7,812,131</b>
Operating profit	127,817	29,252	157,069	137,833	294,902
Distribution expenses and administrative expenses	3,047,453	19,057	3,066,510	173,854	3,240,364
Depreciation and amortisation	222,421	7,515	229,936	23,940	253,876

\* Double Happiness brand has been classified as discontinued operations, the related revenue, expenses and income tax are presented as a single amount in the income statement under "Profit for the year from discontinued operations".

A reconciliation of operating profit to profit before income tax is provided as follows:

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
<b>Operating profit from continuing operations</b>	<b>385,805</b>	157,069
Finance income	7,460	6,343
Finance expenses	(115,035)	(139,546)
Share of profit of investments accounted for using the equity method	9,716	6,948
	<u>287,946</u>	<u>30,814</u>
<b>Profit before income tax from continuing operations</b>	<b>287,946</b>	30,814
<b>Operating profit from discontinued operations</b>	<b>170,827</b>	137,833
Finance income	2,236	1,347
Finance expenses	(155)	(108)
Gain on disposal of 10% equity interest in discontinued operations	329,612	–
	<u>502,520</u>	<u>139,072</u>
<b>Profit before income tax from discontinued operations</b>	<b>502,520</b>	139,072

#### Geographical information of revenue

	Year ended 31 December	
	2016 RMB'000	2015 RMB'000
<b>Continuing operations</b>		
The PRC (including the Hong Kong Special Administrative Region)	7,808,789	6,938,051
Other regions	206,504	151,444
	<u>8,015,293</u>	<u>7,089,495</u>
<b>Revenue from continuing operations</b>	<b>8,015,293</b>	7,089,495
<b>Discontinued operations</b>		
The PRC (including the Hong Kong Special Administrative Region)	653,129	668,257
Other regions	47,052	54,379
	<u>700,181</u>	<u>722,636</u>
<b>Revenue from discontinued operations</b>	<b>700,181</b>	722,636
<b>Total</b>	<b>8,715,474</b>	<b>7,812,131</b>

Revenue by geographical location is determined on the basis of destination of shipment/delivery.

The Group has a large number of customers. For the years ended 31 December 2016 and 2015, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

#### 4. Inventories

	2016 RMB'000	2015 RMB'000
Raw materials	1,763	1,319
Work in progress	2,727	3,172
Finished goods	1,104,135	1,124,858
	<u>1,108,625</u>	<u>1,129,349</u>
Less: provision for write-down of inventories to net realisable value	(143,203)	(169,697)
	<u>965,422</u>	<u>959,652</u>

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB4,214,265,000 for the year ended 31 December 2016 (2015: RMB3,789,740,000). Inventory provision and the amount of reversal have been included in cost of sales in the consolidated income statement for the years ended 31 December 2016 and 2015.

## 5. Trade receivables

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Accounts receivable	1,777,665	1,889,870
Notes receivable	<u>6,726</u>	<u>25,400</u>
	<b>1,784,391</b>	1,915,270
Less: allowance for impairment of trade receivables	<u>(414,137)</u>	<u>(475,757)</u>
	<b><u>1,370,254</u></b>	<b><u>1,439,513</u></b>

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

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
0 – 30 days	667,529	539,433
31 – 60 days	191,606	242,387
61 – 90 days	225,382	251,607
91 – 180 days	323,546	509,786
Over 180 days	<u>376,328</u>	<u>372,057</u>
	<b><u>1,784,391</u></b>	<b><u>1,915,270</u></b>

Customers are normally granted credit terms within 90 days. As at 31 December 2016, trade receivables of RMB699,874,000 (31 December 2015: RMB881,843,000) were past due. The Group's estimation of allowance for impairment of trade receivables and other receivables reflects its best estimate of amounts that are potentially uncollectible. This determination requires significant judgment. In making such judgment, the Company evaluates, among certain economic factors specific to each customer and other factors, the historical payment pattern and credit-worthiness of each customer, the default rates of prior years, ageing of the trade receivable, and the latest communication with individual customers. Management have been closely monitoring the credit risk of each customer and actively pursuing collection of those receivables until all efforts are exhausted. An allowance for impairment of RMB414,137,000 has been made as at 31 December 2016 (31 December 2015: RMB475,757,000).

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

As of 31 December 2016, trade receivables of RMB285,737,000 (2015: RMB406,086,000) were past due but not impaired. These relate to a number of independent customers for whom there is no significant financial difficulty and based on past experience, the overdue amounts can be recovered. The ageing analysis of these trade receivables is as follows:

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
91 – 180 days	<u>285,737</u>	<u>406,086</u>

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

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
<b>As at 1 January</b>	475,757	596,766
Reversal of provision for impairment of trade receivables	(61,121)	(120,832)
Trade receivables written off during the year as uncollectible	<u>(499)</u>	<u>(177)</u>
<b>As at 31 December</b>	<b><u>414,137</u></b>	<b><u>475,757</u></b>

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

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

## 6. Trade payables

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

	2016 RMB'000	2015 RMB'000
0 – 30 days	645,967	665,265
31 – 60 days	302,661	240,779
61 – 90 days	85,887	82,316
91 – 180 days	3,064	4,708
181 – 365 days	5,107	1,935
Over 365 days	4,637	2,470
	<u>1,047,323</u>	<u>997,473</u>

## 7. Expenses by nature

	2016 RMB'000	2015 RMB'000
Cost of inventories recognised as expenses and included in cost of sales	4,214,265	3,789,740
Depreciation on property, plant and equipment ( <i>Note a</i> )	270,059	181,881
Amortisation of land use rights and intangible assets	47,567	48,055
Advertising and marketing expenses	983,086	1,015,671
Commission and trade fair related expenses	117,435	61,279
Staff costs, including directors' emoluments	778,355	701,961
Operating lease rentals in respect of land and buildings and related expenses	771,091	758,051
Research and product development expenses ( <i>Note a</i> )	125,682	132,455
Transportation and logistics expenses	302,221	254,290
Reversal of provision for impairment of trade receivables	(61,121)	(120,832)
Auditor's remuneration	5,357	5,129
– Audit services	4,400	4,710
– Non-audit services	957	419
Management consulting expenses	50,144	54,079
Traveling and entertainment expenses	40,139	39,545

*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

	2016 RMB'000	2015 RMB'000
Government grants	53,658	17,549
License fee income	18,591	13,371
Profit on disposal of Available-for-sale financial assets	1,479	–
Financial assets at fair value through profit or loss	319	–
	<u>74,047</u>	<u>30,920</u>

## 9. Finance income and expenses

	2016 RMB'000	2015 RMB'000
<b>Finance income</b>		
Interest income on bank balances and deposits	7,460	6,343
	<u>7,460</u>	<u>6,343</u>
<b>Finance expenses</b>		
Amortisation of discount – license fees payable	(9,146)	(13,787)
Interest expense on bank and other borrowings	(15,401)	(30,205)
Interest expense on convertible bonds	(59,792)	(63,612)
Net foreign currency exchange loss	(4,642)	(8,994)
Others	(26,054)	(22,948)
	<u>(115,035)</u>	<u>(139,546)</u>
<b>Finance expenses – net</b>	<u>(107,575)</u>	<u>(133,203)</u>

## 10. Income tax expense

	2016 RMB'000	2015 RMB'000
Current income tax		
– Hong Kong profits tax ( <i>Note b</i> )	2,223	1,302
– The PRC corporate income tax ( <i>Note c</i> )	6,639	1,037
– Withholding income tax on interest income from subsidiaries in PRC ( <i>Note d</i> )	4,867	3,055
	<u>13,729</u>	<u>5,394</u>
Deferred income tax	<u>18,706</u>	<u>68,374</u>
Income tax expense	<u>32,435</u>	<u>73,768</u>

### Notes:

- (a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.
- (b) Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2016 (2015: 16.5%).
- (c) Provision for the PRC corporate income tax is calculated based on the statutory tax rate of 25% (2015: 25%) on the assessable income of each of the group companies.
- (d) This mainly arose from the interests due by the Company's subsidiaries in the PRC to other group companies in Hong Kong during the years ended 31 December 2016 and 2015, which are subject to withholding tax at the rate of 7%.

## 11. Earnings per share

### Basic

Basic earnings per share is calculated by dividing the profit/(loss) 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 year. 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 had completed the issuance of offer securities. The below market subscription price of these two events had effectively resulted in 70,553,000 ordinary shares (31 December 2015: 80,391,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share. The shares issued for nil consideration arising from the issuance of offer securities have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2015.

	<b>2016</b> <b>RMB'000</b>	2015 <b>RMB'000</b>
Profit/(loss) from continuing operations attributable to equity holders of the Company	<b>255,511</b>	(42,954)
Profit from discontinued operations attributable to equity holders of the Company	<b>387,743</b>	57,263
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share ( <i>in thousands</i> )	<b>2,216,001</b>	2,158,877
Basic earnings/(losses) per share – from continuing operations	<b>11.53</b>	(1.99)
Basic earnings per share – from discontinued operations	<b>17.50</b>	2.65
Basic earnings per share ( <i>RMB cents</i> )	<b>29.03</b>	0.66

### Diluted

Diluted earnings per share is 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 convertible bonds, 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.

	<b>2016</b> <b>RMB'000</b>	2015 <b>RMB'000</b>
Profit/(loss) from continuing operations attributable to equity holders of the Company, used to determine diluted earnings/(losses) per share	<b>255,511</b>	(42,954)
Profit from discontinued operations attributable to equity holders of the Company	<b>387,743</b>	57,263
Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share ( <i>in thousands</i> )	<b>2,216,001</b>	2,158,877
Adjustment for the restricted shares ( <i>in thousands</i> )	<b>6,274</b>	–
Deemed weighted average number of shares for diluted earnings per share ( <i>in thousands</i> )	<b>2,222,275</b>	2,158,877
Diluted earnings/(losses) per share – from continuing operations	<b>11.50</b>	(1.99)
Diluted earnings per share – from discontinued operations	<b>17.45</b>	2.65
Diluted earnings per share ( <i>RMB cents</i> )	<b>28.95</b>	0.66

*Note:*

As at 31 December 2016, there were 14.7 million restricted shares have a dilutive impact on continuing operations; 43 million share options and 169 million ordinary shares assuming conversion of convertible bonds that could potentially have a dilutive impact on continuing operations in the future but were anti-dilutive during the year ended 31 December 2016. As at 31 December 2015, there were 64 million share options, 1.6 million restricted shares, and 225 million ordinary shares assuming conversion of convertible bonds that could potentially have a dilutive impact on continuing operations in the future but were anti-dilutive during the year ended 31 December 2015.

## 12. Dividends

The Board did not propose final dividend for the years ended 31 December 2016 and 2015.

## 13. Non-current assets held-for-sale and discontinued operations

The assets and liabilities related to Double Happiness, a former 57.5% owned subsidiary of the Company, have been presented as held for sale following the approval of the Group's Management and shareholders to dispose 10% equity interest in Double Happiness to a wholly-owned subsidiary of Viva China at a consideration of RMB124,992,000 on 23 October 2015, and 4 December 2015, respectively. Given Double Happiness is classified as discontinued operation, a single amount is presented in the income statement. Further, to the extent the shares of Double Happiness has not been listed on any major stock exchanges within four years following the completion of the disposal transaction, the Company has the right to call back the 10% equity interest and Viva China has a right to put back the 10% equity interest to the Company at a price of RMB124,992,000 plus 6.5% interest per annum after deducting the relevant cash dividends entitled. The disposal transaction was completed in December 2016.

### (a) *The assets and liabilities of disposal group classified as held for sale*

	2015 RMB'000
<b>Assets</b>	
Property, plant and equipment/Land use rights	470,884
Intangible assets	159,808
Deferred income tax assets	16,173
Inventories	123,842
Trade receivables	10,894
Other receivables and prepayments	3,601
Cash and cash equivalents	176,693
	<hr/>
<b>Total</b>	<b>961,895</b>
	<hr/> <hr/>
<b>Liabilities</b>	
Deferred income tax liabilities	60,009
Trade payables	76,792
Other payables and accruals	184,694
Current income tax liabilities	10,517
	<hr/>
<b>Total</b>	<b>332,012</b>
	<hr/> <hr/>

(b) *Discontinued operations*

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Revenue	700,181	722,636
Expenses	<u>(527,273)</u>	<u>(583,564)</u>
Profit before income tax	172,908	139,072
Income tax expense	<u>(40,751)</u>	<u>(34,513)</u>
Profit for the year	132,157	104,559
Gain on disposal of 10% equity interest in discontinued operations, net of income tax ( <i>Note</i> )	<u>313,201</u>	–
<b>Profit for the year from discontinued operations</b>	<b><u>445,358</u></b>	<b><u>104,559</u></b>
Attributable to:		
– Equity holders of the Company	387,743	57,263
– Non-controlling interests	<u>57,615</u>	<u>47,296</u>
<b>Profit for the year from discontinued operations</b>	<b><u>445,358</u></b>	<b><u>104,559</u></b>

*Note:*

In December 2016, the Group completed the disposal of 10% equity interest in Double Happiness. Accordingly, Double Happiness is accounted for as an associate company of the Group as of 31 December 2016. The disposal transaction gave rise to a disposal gain of RMB330 million (before the income tax of RMB16 million). Details of the gain on disposal are as follows:

	2016 <i>RMB'000</i>
Non-current assets	684,041
Current assets	<u>338,166</u>
Total assets	1,022,207
Non-current liabilities	60,009
Current liabilities	<u>375,547</u>
Total Liabilities	435,556
Non-controlling interest	<u>(211,414)</u>
Net assets disposed	375,237
Cash consideration received	124,992
Less: derivative financial liability	(1,343)
Gain on disposal - remeasurement of remaining 47.5% equity interest	<u>587,335</u>
Total	710,984
Less: disposal cost	<u>(6,135)</u>
Gain on disposal	<b><u>329,612</u></b>



(c) *Cash flows*

	<b>2016</b> <i>RMB'000</i>	2015 <i>RMB'000</i>
Cash flows from operating activities	<b>159,489</b>	137,939
Cash flows from investing activities	<b>(36,944)</b>	(22,022)
Cash flows from financing activities	<b>(96,391)</b>	(79,324)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	<b>26,154</b>	36,593
	<hr/> <hr/>	<hr/> <hr/>

**14. Events after the balance sheet date**

On 3 February 2017, convertible bonds with a carrying amount of RMB561,000,000 were converted into 168,629,000 ordinary shares of the Company. This conversion resulted an increase of ordinary shares of RMB14,937,000 and share premium of RMB546,063,000, with a corresponding decrease of the convertible bonds' reserve of RMB84,819,000.

**DIVIDEND**

The Board resolved not to distribute any final dividend for the year ended 31 December 2016 (2015: nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the year ended 31 December 2016 are set out below:

	Year ended 31 December		Change
	2016	2015	(%)
<b>Income statement items</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue (Note 1)	<b>8,015,293</b>	7,089,495	<b>13.1</b>
Gross profit	<b>3,705,228</b>	3,192,659	<b>16.1</b>
Operating profit	<b>385,805</b>	157,069	<b>145.6</b>
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 2)	<b>713,147</b>	393,953	<b>81.0</b>
Profit attributable to equity holders (Note 3)	<b>643,254</b>	14,309	<b>4395.5</b>
Basic earnings per share (RMB cents) (Note 4)	<b>29.03</b>	0.66	<b>4298.5</b>
<b>Key financial ratios</b>			
<b>Profitability ratios</b>			
Gross profit margin (%)	<b>46.2</b>	45.0	
Operating profit (%)	<b>4.8</b>	2.2	
Effective tax rate (%)	<b>11.3</b>	239.4	
Margin of profit attributable to equity holders (%)	<b>8.0</b>	0.2	
Return on equity attributable to equity holders (%)	<b>17.9</b>	0.6	
<b>Expenses to revenue ratios</b>			
Staff costs (%)	<b>9.7</b>	9.9	
Advertising and marketing expenses (%)	<b>12.3</b>	14.3	
Research and product development expenses (%)	<b>1.6</b>	1.9	
	<b>31 December</b>	31 December	
	<b>2016</b>	2015	
<b>Balance sheet items</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Total assets (Note 5)	<b>6,780,494</b>	6,897,458	
Capital and reserves attributable to equity holders (Note 6)	<b>3,994,599</b>	3,179,903	
<b>Key financial ratios</b>			
<b>Asset efficiency</b>			
Average inventory turnover (days) (Note 7)	<b>82</b>	100	
Average trade receivables turnover (days) (Note 8)	<b>64</b>	69	
Average trade payables turnover (days) (Note 9)	<b>87</b>	93	
<b>Asset ratios</b>			
Debt-to-equity ratio (%) (Note 10)	<b>69.7</b>	109.7	
Interest-bearing debt-to-equity ratio (%) (Note 11)	<b>19.2</b>	40.5	
Net asset value per share (RMB cents)	<b>200.56</b>	180.91	

*Notes:*

1. Including revenue for the period from 1 January to 30 September 2016: RMB5,486,910,000.
  2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on the sum of profit/(loss) for the year from continuing operations, income tax expense, finance expenses – net, depreciation on property, plant and equipment, and amortisation of land use rights and intangible assets.
  3. Including profit attributable to equity holders for the period from 1 January to 30 September 2016: RMB211,250,000.
  4. The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the year, divided by the weighted average number of shares in issue less ordinary shares held for Restricted Share Award Scheme.
  5. Total assets at 30 September 2016: RMB6,832,110,000.
  6. Capital and reserves attributable to equity holders at 30 September 2016: RMB3,580,802,000.
  7. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year (excluding Double Happiness), divided by cost of sales and multiplied by the total number of days in the year.
  8. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, (excluding Double Happiness) divided by revenue and multiplied by the total number of days in the year.
  9. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, (excluding Double Happiness) divided by total purchases and multiplied by the total number of days in the year.
  10. 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 year.
  11. The calculation of interest-bearing debt-to-equity ratio is based on total interest-bearing borrowings and convertible bonds divided by capital and reserves attributable to equity holders of the Company at the end of the year.
- \* *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 year ended 31 December 2016 amounted to RMB8,015,293,000, representing an increase of 13.1% as compared to that of 2015.

*Revenue breakdown by brand and product category*

	Year ended 31 December				Revenue change (%)
	2016	% of total revenue	2015	% of total revenue	
	RMB'000		RMB'000		
<b>LI-NING brand</b>					
Footwear	3,947,170	49.3	3,411,465	48.1	15.7
Apparel	3,514,339	43.8	3,118,303	44.0	12.7
Equipment/accessories	463,930	5.8	442,126	6.2	4.9
<b>Total</b>	<b>7,925,439</b>	<b>98.9</b>	<b>6,971,894</b>	<b>98.3</b>	<b>13.7</b>
<b>Other brands*</b>					
Total	89,854	1.1	117,601	1.7	-23.6
<b>Total</b>	<b>8,015,293</b>	<b>100.0</b>	<b>7,089,495</b>	<b>100.0</b>	<b>13.1</b>

\* *Including Lotto, Kason and Aigle.*

The Group's core brand, LI-NING brand, recorded revenue of RMB7,925,439,000, which accounted for 98.9% of the Group's total revenue, representing a year-on-year increase of 13.7%. The business of the Group has entered into a phase of steady growth primarily due to the following factors: (a) other than the badminton category, all the other key categories of the Company achieved satisfactory results, particularly for running, basketball and cross-training products which showed significant sales growth. Although the revenue from badminton category declined as a result of a tightening market, the impact thereof on the Group's overall performance was not material. Following the recognition of the Company's product categories in the market and distributors' confidence were both enhanced, the revenue from sales to franchised distributors recorded a year-on-year increase; (b) the Company made continuous efforts in developing mobile internet services, fostering rapid development of e-commerce channel with fast sales growth recorded for the second consecutive year; and (c) same-store sales of self-operated points of sales ("POS") also registered slight growth. All of the above factors have contributed to the Group's steady growth in revenue.

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

	Year ended 31 December		Change (%)
	2016 % of revenue of LI-NING brand	2015 % of revenue of LI-NING brand	
<b>LI-NING brand</b>			
PRC market			
Sales to franchised distributors	51.2	55.4	(4.2)
Sales from direct operation	31.9	33.8	(1.9)
Sales from e-commerce channel	14.3	8.6	5.7
International markets	2.6	2.2	0.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	

During the year, the boom of e-commerce in China and the Group's continuous expansion of e-commerce channel contributed to the substantial increase in the weighting of the total revenue of sales from e-commerce channel.

*Revenue breakdown of LI-NING brand by geographical location*

	Note	Year ended 31 December		Revenue change (%)
		2016 % of revenue of LI-NING brand	2015 % of revenue of LI-NING brand	
		RMB'000	RMB'000	
<b>LI-NING brand</b>				
PRC market				
Northern region	2	3,889,212	3,557,500	9.3
Southern region	3	3,829,723	3,262,950	17.4
International markets		206,504	151,444	36.4
<b>Total</b>		<b>7,925,439</b>	<b>6,971,894</b>	<b>13.7</b>

*Note:*

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

### ***Cost of Sales and Gross Profit***

For the year ended 31 December 2016, overall cost of sales of the Group amounted to RMB4,310,065,000 (2015: RMB3,896,836,000), and overall gross profit margin was 46.2% (2015: 45.0%). Gross profit margin for this year increased mainly due to an improved tag-cost-ratio and the increase in the proportion of both sales of new products with higher gross profit margin and sales from e-commerce channel.

Cost of sales of LI-NING brand amounted to RMB4,257,717,000 (2015: RMB3,827,544,000), with gross profit margin of 46.3% (2015: 45.1%). During the year, the tag-cost-ratio was improved as the Company exercised effective control on procurement costs. Meanwhile, the structure of the sales of new and old retail and wholesale products was improved. The significant growth in e-commerce services also had positive effect on the gross profit margin. However, although this year the inventory provision was reversed accordingly with the clearance of obsolete inventory as in the previous year, the amount reversed was apparently less than that of last year, resulting that certain positive impacts were offset. Taking into account all the above factors, LI-NING brand's gross profit margin still represented a year-on-year increase of 1.2 percentage points in the year.

### ***Distribution Expenses***

For the year ended 31 December 2016, the Group's overall distribution expenses amounted to RMB2,969,341,000 (2015: RMB2,720,361,000), accounting for 37.0% (2015: 38.4%) of the Group's total revenue. The increase of distribution expenses are mainly due to the increase of variable expenses as a result of revenue increase.

Distribution expenses of LI-NING brand amounted to RMB2,961,481,000 (2015: RMB2,710,390,000), accounting for 37.4% (2015: 38.9%) of LI-NING brand's revenue. As the Group invested its resources mainly in channel expansion and user's shopping experience, the number of self-operated POS increased year-on-year, leading to a corresponding increase in staff costs of the POS and the corresponding depreciation on the asset investment. E-commerce channel developed rapidly, leading to a significant increase in the relevant commission fees. In addition, the sales growth resulted in the increase in logistics expenses. However, at the same time, the Group placed stringent control on the relevant advertising and marketing expenses. Based on market condition, the Group sharpened its focus on reducing marketing investment in the badminton category while investment in other categories remained steady. Taking into account all the above factors, although LI-NING brand's distribution expenses increased year-on-year, its percentage to revenue decreased.

### ***Administrative Expenses***

For the year ended 31 December 2016, the Group's overall administrative expenses amounted to RMB424,129,000 (2015: RMB346,149,000), accounting for 5.3% (2015: 4.9%) of the Group's total revenue.

Administrative expenses of LI-NING brand amounted to RMB418,856,000 (2015: RMB337,063,000), accounting for 5.3% of LI-NING brand's revenue, or 0.5 percentage points higher than the 4.8% of 2015. These expenses mainly comprised of staff costs, management consulting fees, office rental, depreciation and amortisation charges, taxes, provision for impairment of trade receivables and other miscellaneous expenses. The increase in administrative expenses during the year was mainly due to the impact of provision for impairment of trade receivables. During the year, the provision for impairment was reversed following the improvement of the distributors' business as in the previous year, but the amount reversed was apparently less than that of last year. Consequently, LI-NING brand's administrative expenses increased year-on-year.

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

For the year ended 31 December 2016, the Group's EBITDA (relating to continuing operations only) amounted to RMB713,147,000 (2015: RMB393,953,000), representing a year-on-year increase of 81.0%. This was mainly attributable to the improved performance of LI-NING brand.

EBITDA of LI-NING brand amounted to RMB674,066,000 (2015: RMB350,238,000). This was mainly attributable to the increase in revenue and gross profit of the Company and the decrease in expense ratio resulting from control of various expenses.

### ***Finance Expenses***

For the year ended 31 December 2016, the Group's net finance expenses amounted to RMB107,575,000 (2015: RMB133,203,000), representing 1.3% (2015: 1.9%) of the Group's total revenue. The decrease in finance expenses was mainly due to the decrease in interest expense on bank and other borrowings. The net finance expenses included the interest expense of convertible bonds amounting to RMB59,792,000 (2015: RMB63,612,000).

### ***Income Tax Expense***

For the year ended 31 December 2016, income tax expense of the Group amounted to RMB32,435,000 (2015: RMB73,768,000) and the effective tax rate was 11.3% (2015: 239.4%, primarily deferred income tax expense arising from the reversal of deferred income tax assets).

### ***Profit for the Year of Discontinued Operations***

In December 2016, the Group completed the disposal of 10% equity interest in Double Happiness to a wholly-owned subsidiary of Viva China. Accordingly, Double Happiness is accounted for as an associate company of the Group as of 31 December 2016. During the year, the net profit from Double Happiness, which is principally engaged in the operation of Double Happiness brand, and the gains relating to the equity transfer were thus classified as profit for the year from discontinued operations. During the year, the profit for the year of from discontinued operations attributable to equity holders of the Company amounted to RMB387,743,000, which included the net profit from Double Happiness amounting to RMB74,542,000 (2015: RMB57,263,000) and the gains relating to the equity transfer amounting to RMB313,201,000 (2015:nil). The increase in the net profit from Double Happiness was mainly attributable to the substantial improvement in gross profit margin and the effective control of administrative expenses.

### ***Overall Profitability Indicators***

The overall profitability indicators of the Group improved significantly during the year ended 31 December 2016, which was attributable to the increase in both the sales revenue and gross profit margin, and the decrease in expense ratios of the Group during the year. During the year, the Group's profit attributable to equity holders amounted to RMB643,254,000 (2015: RMB14,309,000). The corresponding margin of profit attributable to equity holders was 8.0%, and 4.1% when excluding the net gain on disposal of 10% equity interest in discontinued operations (2015: 0.2%). Return on equity attributable to equity holders was 17.9%, and 9.2% when excluding the net gain on disposal of 10% equity interest in discontinued operations (2015: 0.6%).

### ***Provision for Inventories***

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

As at 31 December 2016, the accumulated provision for inventories was RMB143,203,000 (31 December 2015: RMB169,697,000). With further clearance of obsolete inventory during the year, the structure of inventory ageing was improved, with a decrease in the balance of the overall provision for inventories.

### ***Provision for Doubtful Debts***

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

As at 31 December 2016, the accumulated provision for doubtful debts was RMB414,137,000 (31 December 2015: RMB475,757,000). As the business of our channel distributors improved, the balance of long aged trade receivables gradually decreased, the Group therefore reversed certain provision for doubtful debts during the period.

## ***Liquidity and Financial Resource***

The Group's net cash from operating activities (including continuing operations and discontinued operations) for the year ended 31 December 2016 amounted to RMB995,476,000 (2015: RMB687,043,000). As at 31 December 2016, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits held at banks with original maturity of no more than three months) amounted to RMB1,953,588,000, representing a net increase of RMB141,016,000 as compared with the position as at 31 December 2015. The increase was due to the following items:

<b>Item</b>	<b>Year ended 31 December 2016 RMB'000</b>
<b>Operating activities:</b>	
Net cash from operating activities	995,476
<b>Investing activities:</b>	
Net capital expenditure	(470,244)
Proceeds from the disposal of available-for-sale financial assets	13,479
Payment for investment in associates	(2,000)
Proceeds from the disposal of partial equity interests in subsidiaries	124,992
Recovery of proceeds from borrowings	5,237
Net cash from other investing activities	8,230
<b>Financing activities:</b>	
Net repayment of borrowings	(364,819)
Net cash used in other financing activities	(144,208)
	<hr/>
	166,143
	<hr/>
Add: Exchange gain on cash and cash equivalents	2,494
Less: Net increase in cash classified as held-for-sale	(27,621)
	<hr/>
<b>Net increase in cash and cash equivalents</b>	<b>141,016</b>

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

As at 31 December 2016, the Group's available banking facilities amounted to RMB1,100,000,000, amongst which outstanding borrowings amounted to RMB200,000,000. As at the end of the year, the ratio of outstanding borrowings and convertible bonds to equity attributable to equity holders (i.e. the gearing ratio) was 19.2% (31 December 2015: 40.5%).

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



### ***Foreign Exchange Risk***

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

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

### ***Pledge of Assets***

As at 31 December 2016, buildings and land use rights with net book value of RMB369,121,000 (2015: RMB386,548,000) and RMB77,804,000 (2015: RMB79,661,000) respectively were secured for acquiring the Group's borrowings.

### ***Contingent Liabilities***

As at 31 December 2016, the Group had no significant contingent liabilities.

## **BUSINESS REVIEW**

During the year, influenced by various factors such as the macro economy, the consumer goods industry remained sluggish as a whole. Nevertheless, sporting goods industry maintained steady growth with the support of national policies and the increasing participation and passion for sports amongst the public. Meanwhile, national policies actively promoted the building of sharing and communication platform for sports enthusiasts. With regard to Li Ning Company, as we placed more emphasis on fostering LI-NING brand value through experience during the year, various operational indicators saw continued improvement and the revenue of the Group maintained steady growth, which successfully achieved the target of profitable growth.

During the year, we continued to enrich product experience, sports experience and shopping experience of our major categories including running, basketball and sports casual in product lines and retail end. Products were still the core development focus of the Company. In respect of smart products, we continued to leverage our advantage in product development to integrate innovative smart elements into the established technology platform. Meanwhile, carrying on LI-NING brand's DNA in professional sports, we launched a number of running shoes, namely "LI-NING Arc", "LI-NING Cloud" and "Super Light 13<sup>th</sup>", gaining positive recognition amongst consumers. With regard to sales channels, we maintained channel expansion in a healthy way and completed the POS expansion plan adopted in early 2016, achieving a net increase of 307 POSs. We also adopted a clearer channel classification based on category features to strengthen the image of the stores and enhance sports experience and shopping experience of retail outlets. In addition, we strived for better product design, assortment and sales process encompassing category features. As a result, the overall retail sell-through grew low-teens for two consecutive years, with a constant improvement in new product discount rate, including the stable growth of same-store sales for overall platform, including online and offline channels.

## LI-NING BRAND

### *Basketball*

#### *Legendary LI-NING basketball shoes: Tenth Generation of “YuShuai”*

Based upon the reputation of the “YuShuai” series, LI-NING basketball segment developed the brand new product “YuShuai X”. The trade fair orders of this product for the third quarter of 2016 broke the record among the “YuShuai” series. Meanwhile, the segment teamed up with “SOLE”, a sneaker magazine, to develop the crossover product “YuShuai X SOLE”, attracting long queues and driving hot sales among trendy brand stores. Such collaboration further boosted the professional reputation of LI-NING basketball products within basketball sneaker category.

#### *Continual leadership in the design of regional features of basketball teams: 16-17 CBA League apparel*

With the unique design, the CBA uniform, apparel and culture costume for fans in 2016 continued to deliver ground-breaking manifestation of the regional style of different basketball teams in a trendy and modern way. The apparels were proved to be popular among consumers.

#### *Innovative culture products for street basketball: basketball culture apparel*

The mixture of trendy street elements, features and basketball culture apparel provided consumers with choices of diversified all-season apparel and more matchings of street basketball style. The sell-out rate for woven fabric windbreakers for couples and the casual trousers for street basketball launched in the third quarter of 2016 ranked the top, which built a foundation for cross-seasonal woven fabric fashion product mix for southern regions and received good response in the market.

#### *New high-end sports fashion store: “Wade” image stores*

The first “Wade” image store was opened in INDIGO, Beijing in January 2016. As of the end of 2016, there was a total of nine “Wade” image stores spreading across high-end shopping arcades in eight cities such as Beijing, Shanghai, Zhengzhou and Shijiazhuang, offering Wade fans and the mass consumers with more enriching shopping experiences.

#### *The 2016 Wade China Tour – an event ignites fans’ passion*

Wade’s visit to China has been upgraded in 2016 from the manner of a single person event to Wade’s Team. The team visited six cities including Beijing, Shanghai, Zhengzhou and Shijiazhuang, and sold “Zen Panda”, the first pair of lifestyle footwear branded in the couple’s name, Wade and Union. Coupled with the finals of “Shot to Fame”, the event attracted more than 60 million viewers.

#### *Leveraging the wealth of top domestic basketball resources to create sports experience with focuses on events, players, city teams, fans and youth on campus*

##### – Chinese Basketball Association League (CBA)

- We effectively publicised the professional functions of our products and increased brand exposure through product sponsorship;
- In August 2016, the signed players of LI-NING, Zhao Jiwei and Guo Ailun represented the China national basketball team to play in the Rio Olympics. Zhao Jiwei showed his outstanding talent for the first time in a series of games;

- Through the expansion into Liaoning and leveraging on the local influence of signed resources, LI-NING attracted customers to retail outlets through interaction during the off-season and enhance customers' purchasing experience;
  - Sun Yue and Zhao Jiwei offered professional endorsement for LI-NING "one" basketball shoes;
  - Shanghai Team participated in the NBA Pre-season Games in the United States and offered high exposure for the relevance of basketball products and fan culture with the splash of fanpack products and team LOGO;
  - In August, LI-NING held the first youth training camp (青訓師訓練營) in Beijing, filling the gap of domestic youth training market and creating a new business model for the Company. In the same year, we opened a total of four LI-NING youth training camps which have been highly praised within and outside the industry.
- Building up communication channel with students and youth and enhancing the brand recognition and preference through domestic basketball student leagues: China Junior & High School Basketball Leagues and Chinese University Basketball Association League (CUBA)
- The 2016 China Junior & High School Basketball Leagues gathered 10,496 players from 656 participating teams of 22 divisions. The number of games reached 1,637 with accumulated actual visits of 180,000 people. Participating students are required to collect sponsored gears through LI-NING e-commerce platforms and offline outlets, from which LI-NING can obtain big data of core basketball consumption group on campus and attract more young consumers to visit LI-NING outlets;
  - For the 2015-16 season, LI-NING, taking advantage of the cultural dissemination driven by CUBA top 24 games and semi-finals, put a lot of effort to explore the potential of campus basketball, creating campus culture products for CUBA traditional basketball schools and triggering alumni resonance, which facilitated the development of basketball culture and established the recognition of LI-NING brand on campus. For the 2016-17 season, CUBA Leagues will continue to pursue the integration of gear collection by participating teammates with the channels so as to foster quality product experience for customers.

### *Grassroots Basketball Marketing*

- Summer League "Shot to Fame"

The LI-NING basketball segment held the Summer League "Shot to Fame" in the second quarter of 2016. We searched for elite grassroots basketball players from over a hundred basketball courts in 14 cities. Players were selected to compete for the "Shot to Fame" championship by going through three stages. Young consumers were given the purest street basketball experience with various levels of LI-NING basketball sports resources during different stages of the game.

- LI-NING 3+1 Winter Basketball League

During the fourth quarter of 2016, the LI-NING basketball segment continued to adopt the bundled experience model, which emphasises sports, products and consumption of consumers. Having suspended for years, our game IP "LI-NING 3+1 Basketball League" was resumed in the winter when grassroots games are generally almost unavailable. Benefited from the introduction of innovative competition systems including grouping and promotion in four cities, namely Beijing, Shanghai, Guangzhou and Xi'an, basketball consumers of different age groups of 10 to 35 took this opportunity to gain some bundled experience through game participation. In addition, the LI-NING basketball segment also coordinated with local basketball associations and student associations, which laid a good foundation for the expansion of coverage of the game in 2017.

- Cooperation with non-governmental training institutions and arenas

In view of the thriving non-governmental training institutions and private community arenas, since the third quarter of 2016, we launched contractual co-brand building cooperation based on LI-NING events and activities, and initiated specialised sales channels with a greater focus on the demand of teenagers and core basketball consumers. Up to now, our cooperation resources have reached over 80,000 people.

## ***Running***

### *Utilization of technology platform*

- LI-NING Cloud III

The newly upgraded Cloud III technology achieves better cushioning and rebounding, thus effectively reducing the likelihood of sport injuries. By incorporating the smart technology and building a smart ecosystem, LI-NING Cloud III can precisely record runners' running data, running route, calories consumed, foot strikes, frequency of stride, etc., assisting runners in knowing their own running status and enhancing their performance in sports. The protective LI-NING Cloud III Running Shoes which launched afterwards, adopted the wind-proof and water-proof watershell uppers. This would effectively prevent rain and snow, protecting athletes from biting wind, while keeping their feet dry and comfortable.

- Super Light 13<sup>th</sup> Running Shoes

We combine flexible yarn and MONO yarn to create an upper which balances breathability and supports functionality. The ultra-light design can reduce unnecessary fetters. Applying the "FOAMEVALite" midsole technology, the product is the first choice for runners.

- LI-NING Arc

The outsoles of LI-NING Arc offer effective buffering and protection through the deformation and resiliency of the hollowed bow structure. With the colorful "all in-one weaving" design, the products balance the attributes between breathability and support. The colorful glow-film (炫彩膜) design renders protection for night runners.

### *Development of Smart Platforms*

With the crossover of our smart running shoes with Mi Fit, the products can provide precise and accurate recordings of runners' statistics by displaying running routes, distance, burned calories, speed per hour and pace in a clear manner. Accordingly, we help runners to better understand their running habits and hence complete their sport plans.

During the year, we successfully launched the 2016 versions of "Rough Rabbit" (赤兔) and "Furious Rider" (烈駿). Meanwhile, we integrated smart elements into LI-NING's existing technological platforms. Smart running shoes, namely "LI-NING Cloud", was launched and well received in the market.

### *Running Apparel*

With strategic product innovation, products are designed for both professional runners and general runners, in which the former focus on professional products emphasizing the upgrade of functions, while the later concern about the provision of comfortable product experience.

- Innovation and upgrade of product functions: the running windbreaker series

Leveraging LI-NING’s ultralight technology platform, the products of the ultralight windbreaker series continued to make breakthroughs, such as lighter in weight and more practical design, to enhance the performance of the professional products. Based on the LI-NING’s technology platform, the protective running windbreakers were made of light materials with 3D fitting and fashionable workmanship, which enhanced the reputation among professionals and the sales.

- Integration of product performances and runners’ fashion: Seamless products

With the advanced seamless weaving, apparel was designed in the fashion styles favored by runners, fulfilling the runners’ demands on comfort and decency.

### *Innovative Marketing Approach*

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

- We have seen remarkable results in the implementation of an integrated marketing approach for our core products. For the launch of the “Super Light 13th” running shoes, we combined innovative advertising techniques with promotion on WeChat “Moments” to reach out to approximately 14 million target runners, a base identified through big data analysis. The promotional video accumulated a total of approximately 45.14 million views. This exemplified effective application of an integrated marketing approach as it connected online and offline channels to maximize return on investment;
- The division continued to develop the LI-NING Smart Running Ecosystem by integrating smart products, professional physical experience channels, communications based on mobile internet as well as users’ big data. As of 31 December 2016, there are already over 1.2 million runners using the smart running shoes and interacting through various online and offline channels;
- The division joined hands with Dr. Romanov, the developer of the world-renowned Pose Method, in the R&D and launch of the new version of “Certified Yunma Running Shoes of Pose Method”. The running shoes was a breakthrough attempt to apply the scientific and effective technical theory into running practice, which effectively raised the professionalism of running shoes and provided professional training methods and guidance to runners;
- The division also continued to strengthen and expand the LI-NING China 10K Running League and jointly hosted the LI-NING 10K Online Running League with multiple brands, thus enhancing our influence and involvement. Furthermore, the division effectively generated sales by drawing runners directly into online stores through online marketing activities.

### *Innovative experience*

The division continued to promote Running Corners in key stores, the LI-NING iRun Club, and the LI-NING running product specialty shops, while supporting the multi-store tactic of Sales Department in implementing targeted product planning and assortment. Until now, a number of iRun Clubs have been opened across the PRC such as Beijing, Shanghai, Chengdu, Changsha and Zhengzhou to organize a variety of experience events such as professional courses, physical training, foot shape analysis, meet-ups of running groups and a platform for finding running partners for tens of thousands of runners.

## ***Badminton***

In 2016, the badminton segment under LI-NING brand continued to expand on professional channel front. On the basis of the existing channel coverage, we sharpened our focus on developing professional channel customers and stores at badminton courts that LI-NING badminton business has not expanded into. Meanwhile, we have been exploring and improving the retail capability of professional channel stores. By smartening up the display, strengthening staff's product retail skills and implementing the racket stringer training across the board, the retail efficiency was enhanced.

- In 2016, we continued to develop new products on the basis of the "LI-NING badminton technology platform", maintaining the market awareness and sales momentum of high-end products. In the first half of 2016, we launched N99, the tailor-made racket for world champion Chen Long, and N80 II, a newly sponsored product. In the second half, N7 II and N9 II, developed via the "Energy Aggregation" technology platform, made their debut in the Olympic Games and supported Fu Haifeng and Zhang Nan in securing the Badminton Men's Doubles championship. These newly sponsored products demonstrated LI-NING's unrivalled racket research and development technology, craftsmanship, and coating design capability in the industry. Coupled with exposure in the Olympic Games and promotional campaigns, these newly sponsored products were well received and widely accepted by badminton fans;
- With respect to badminton apparels, LI-NING launched newly sponsored badminton apparels for the Chinese National Badminton Team at the 2016 Olympics. The design for these newly sponsored apparels was a bold breakthrough and innovation to the traditional Chinese style. The apparel featured traditional Chinese patterns such as dragons, seawaves, clouds and five-star as the master pattern with a wide range of Brazilian elements integrating into the design, including vividity, passion, Latin-styled parrots, butterflies and rainforest plants. The trendy design that highlighted the theme of Olympic Games was widely accepted by consumers after being exposed on the courts;
- In 2016, the product planning for LI-NING's badminton shoes emphasized on streamlining segregated product lines towards the demand of the long-term development of e-commerce platform. In line with the control of sales prices in our e-commerce channel, the product life cycle was prolonged. Meanwhile, we focused on the research and development of innovative products at Best level so as to get well-poised for the gradual update of products;
- In 2016, LI-NING brand badminton continued to receive significant attention on social media through top events, namely the All England Open Badminton Championships, Thomas & Uber Cup, and the Olympic Games. During the Thomas & Uber Cup tournament, a top badminton event held in Kunshan in May, LI-NING published over 250 news articles on our brand, products and tournaments. Our official WeChat account attracted over 500 thousand viewers, whereas our official Weibo attracted more than ten million views. The professional performance of LI-NING badminton brand in top events were promptly posted and exposed in physical and online stores nationwide and widely circulated and shared among badminton fans via different forms such as visually creative images, posters of product series and athletes as well as court diagrams.

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

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

## *Training*

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

### *Indoor Training*

- The indoor professional tights line was the key product launched in 2016 and was well received in the market. The Company launched products of diversified grades catering to different sports and intensity levels. At the same time, leggings, short-sleeved T-shirts, vests and bras are launched seasonally. Using the X-POWER shock-absorber cup with multi-dimensional shock absorption and the Race Back shoulder strap design, our bras can effectively fix the breast to avoid sliding of shoulder straps and relieve the pressure on shoulder, and provide extra support by means of professional sport mechanics.

### *Outdoor Training*

- The outdoor water-proof jacket line is environmentally-friendly due to the use of fluorine-free materials and features a water-proof layer with good breathability. Moreover, it further launched an upgraded waterproof woven line with improved elasticity and protection and 3D fit so as to replace the traditional thickness product. The jacket has won high market recognition with positive sales performance;
- By using the Carbon Dioxide Extraction technique to produce coffee yarn fabric, an environmentally-friendly, warm and antibacterial jacket set has been launched;
- Winter elastic shell down apparel product which can achieve structurally elastic effect and enhance comfortability and convenience during sports through a special knitting technique;
- Patented down jacket in shape of a U-shaped cushion which features the rapid change of a conventional down jacket into a U-shaped cushion. The product has significantly upgraded and went beyond the fundamental function of a down jacket toward customers;

## *Sports Casual*

LI-NING's sports casual is committed to satisfying the customer demand of the general public on the combination of sport and fashion so as to drive the recognition and loyalty of LI-NING's brand by mainstream customers from various regions.

### *Apparel*

- To cheer for the 2016 Rio Olympics, we merged the Chinese traditional dragon motifs with the DNA of LI-NING brand into our packaged Olympics products, which embodied, in a cultural manner, the Olympic spirit: "anything is possible"!
- In 2016, the Company continued to collaborate with Marvel Studios and launch the relevant products aligned with the release of Marvel's movies. They attracted a large group of young consumers and were well received in the market.

## *Footwear*

- Remake the Classics, “Exceed” the tradition and revive

In memory of the modern Olympics and paying tribute to all the athletes who pay efforts on their own dream, LI-NING launched a limited collection “EXCEED”. With reference to the “Stegosaurus”, the winning shoes in 1996 Atlanta Olympic Games, and integrating with LI-NING “smart technology”, “LI-NING Cloud” shock-absorbing technology and “elastic and seamless weaving” upper technology, classic “Stegosaurus” has revived and evolved as a new model.

- Family of air cushion products

Having been gradually rolled out since 2016, the products are integrated with various popular styles (e.g. minimal, vintage and functional). Leveraging the combination of the inner arched structure and TPU cushion material, they can offer dual cushioning and supporting performance. Filled with nitrogen (a kind of noble gas), the air cushion can reduce reshaping and enhance protection, integrating visualized functionalities and fashion.

## *Outdoor*

In 2016, LI-NING brand strived to launch more professional and fashionable products for the categories of cross country running and outdoor sports products, attracting the endorsements from consumers.

### *Cross Country (mountain) Running Shoes for Professional Competitions*

Launched in the first quarter of 2016, the men’s and women’s products for professional competitions offer cross country running players and amateurs a cushioning, gripping, supporting and breathable experience, which are suitable for outdoor cross country (mountain) running under various conditions. With seamless fit TPU shoe faces made of Sandwich Mesh, the shoes are more breathable. The unique sock liners offer good coverage to the foot. With functions of anti-bacterial, anti-mould and bacteria inhibition, the hemp seeds in hemp insoles can keep dry and comfortable environment in shoes.

### *Light Windbreaker and Wading Shoes*

As the featured products of LI-NING Outdoor in the second quarter of 2016, the light windbreaker and wading shoes both gained recognition from consumers. Using ultra-light and tear-resistant 15D nylon fabrics, the light windbreaker combines the functions of water and ultraviolet protection. With lightweight, breathable and permeable functions, the wading shoes use open mesh surfaces. The design of slip-on structure creates convenient experience for users.

### *3 in 1 Jackets, Outdoor Wind/Water-proof Shell Down Coats and Walking Gear on Snow*

These three types of products were launched as the key products of the outdoor series of LI-NING brand in the fourth quarter of 2016. The 3 in 1 Jackets were made of two layers of wind/water-proof fabrics. The inner layer, which was made of thermal proof fleece, is detachable from the jacket to improve flexibility wearing. The shell down coats were made of wind/water-proof fabrics with grey goose down lining for thermal-proof. The Warmshell outdoor thermal-proof walking shoes were made of high quality and soft genuine leather on the top layer of the uppers and protective rubber at the toe cap.



## **LNG**

LNG has a brand essence which focuses on the culture of urban sport lifestyle and the demands for high-end products encompassing the stoic fashion trend. Based on high quality functional fabrics, LNG values comfortability, fine details, and simplistic design as its core brand culture. The brand offers collections which cater for the lifestyles of sportswear gurus and adhere to high quality and unique design positioning, producing highly fashionable urban sportswear.

LNG is anchored in metropolitan cities, including Beijing, Shanghai, Guangzhou and Shenzhen, and first-tier cities and continuously penetrated into second- and third-tier cities, with primary focus on the fashion floors of large shopping malls and mid-to-high end shopping arcades, and secondary on the sports and leisure areas.

### *Star Products – Apparel*

#### – Marble Pattern Series

It was launched for sales in the second quarter of 2016. The apparel motifs and designs were inspired by marble patterns, styling simplicity, fashionable theme and brand-new attempts;

#### – Washed denim series

It's the first time to adopt the innovative tencel washed denim fabric in the series. With its denim look, silhouette and comfortable wear, the washed denim series has won the recognition of consumers once being launched for sales;

#### – Long shell down coats

It was launched for sales in the fourth quarter of 2016. Featuring the far higher down content than major products (down content of 350G), fabrics imported abroad and fashionable silhouette, the product still won consumers' high recognition with its excellent quality, unique silhouette and cutting despite a high selling price which had no impact on consumers' buying needs. It became the hot sale item under LNG label in the last quarter of 2016 accordingly.

### *Star Products – Footwear*


In 2016, independent shoe designs were introduced under the LNG label. Themed sock-like structure with fake shoelace knot and integrated body are easy wear and off, aligning more with the fashion trend. More quality fabrics are used in the design, such as genuine granular leather, LYCRA and genuine-leather incorporated anti-fur. As for the design, integration of various couplings are employed, such as anti-fur and TPU or genuine leather and anti-fur, enriching the product spectrum of diverse LNG shoe designs. Series of color are introduced for apparel mix and match of consumers (e.g. transitional colors, color tones and contrast, etc.), highlighting the uniqueness and compatibility of our LNG shoe products.

### ***International Business***

Pursuing the strategies of the international business of LI-NING brand, the Group aims to enter the international market with its brand names, promote and sell the brands from China. Under the business modes of sole distributor or authorized sole agent, we established LI-NING exclusive stores or shop-in-shop in the region to sell major products and badminton-oriented products of LI-NING brand. Meanwhile, we actively provided customized products for the local markets in response to the market demand. Distributors were responsible for marketing, sponsoring and organizing the local sports events, while the Company provided support to and monitored them in order to optimize the uses of resources and improve efficiency. Currently, our business covers 44 countries across Asia, Europe and the Americas. It is expected that developing countries in Asia will remain the key markets in the future.

In early 2016, our international business segment started to tap into cross-border e-commerce business and reached strategic cooperation with AliExpress in November 2016 with LI-NING's official flagship store on AliExpress launched. Cross-border e-commerce will remain the main task of our international business segment in 2017. We strive to let more consumers in the international market experience LI-NING's products and services and promote our brand value via the cross-broader e-commerce platform.

### ***Sales Channel Expansion and Management***

As at 31 December 2016, the number of LI-NING brand (including LNG and “”) conventional stores, flagship stores, factory outlets and discount stores amounted to a total of 6,440, representing a net increase of 307 POS as compared to 31 December 2015. The number of distributors was 39, representing a net decrease of 17 as compared to 31 December 2015. POS breakdown as at 31 December 2016 is as follows:

#### *Number of franchised and directly-operated POS*

<b>LI-NING Brand</b>	<b>31 December 2016</b>	31 December 2015	<b>Change</b>
Franchised	<b>4,829</b>	4,618	<b>4.6%</b>
Directly-operated retail	<b>1,611</b>	1,515	<b>6.3%</b>
<b>Total</b>	<b>6,440</b>	6,133	<b>5.0%</b>

#### *Number of POS by geographical location*

<b>LI-NING Brand</b>	<b>31 December 2016</b>	31 December 2015	<b>Change</b>
Northern Region ( <i>Note 1</i> )	<b>3,151</b>	2,999	<b>5.1%</b>
Southern Region ( <i>Note 2</i> )	<b>3,289</b>	3,134	<b>4.9%</b>
<b>Total</b>	<b>6,440</b>	6,133	<b>5.0%</b>

#### *Notes:*

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

In 2016, the Company continued its efforts in building retail capacity and strengthened management and reform on product decision, ordering and assortment, store visual identity and merchandising, retail promotion, retail training, omni-channel operation, inventory clearance and logistics, which enhanced the overall operating efficiency and retail performance.

### *Building Product Management Decision Platform*

The Company endeavored to establish the retail model based on single store profits and cultivate the core competence of product planning and management in order to provide products that are in line with the market demand. The Company established the product management decision platform, by which the Company coordinated and made management decision on operation flows of merchandising including product planning, design, development, sampling, ordering, production and supply, product launch and promotion as well as end-user retail operation. The platform enhanced product input-output efficiency towards consumers' specific needs whilst improving the product lifecycle management and sales performance of stores based on the classification of store categories.

### *Strengthening Management on Single Store Order and Assortment Based on Store Classification*

In 2016, the Company optimised the store classification based on product categories and further impelled single store order and assortment of retail outlets, resulting in more refined orders, ensuring procured goods better suit into the feature of retail outlets, improving consumers' shopping experience and enhancing store profitability.

In the meantime, the Company strengthened control on overall orders and enhanced order quality, which resulted in enhanced product sell-out ratio and reduced inventory level. In terms of tag price, trade fair orders for LI-NING brand products from franchised distributors registered a year-on-year growth for thirteen consecutive quarters. The orders from the latest trade fair, which are for the third quarter of 2017, registered a low-single digit growth on a year-on-year basis, meeting our target based on more precise trade fair order strategy.

### *Visual Identity*

Based on the features of lead categories in stores, the Company further defined the feature of business district and consumer segmentation to enhance and improve the function and sports experience of multi-brand stores and specialty stores. By adding LNG, kidswear and other categories, the Company continued to improve sports experience, product experience and shopping experience of segmented consumer group gained from LI-NING stores.

### *Visual Merchandising*

Through the product decision platform and integrating marketing meetings, the Company continued to strengthen the collaboration between retail outlets and our product department, and effectively utilized the marketing resources of product categories to improve product operation of stores. Based on the assortment by store types, the Company developed appropriate display standards and promotional events. Besides, the Company formulated professional display guidelines based on product categories with an aim to enhance the integrated expression of product feature, professionalism and color and deepen the overall experience of store image, lead categories, marketing events and store display.

### *Marketing and Establishment of Membership Platform*

By linking categories and store ends based on integral marketing, the Company planned marketing events for signature products and promoted crowd-pleasing sports entertainment and interactive promotions that better cater to the tastes of consumers. The membership system and internet-based 3D marketing boosted customer flows on both online and offline platform, which improved product sell-out rate with enhanced product experience and brand interaction.

### *Enhancing Retail Operations and Strengthening Execution Capability*

Based on the monthly and quarterly assessments, the Company strengthened the performance management of various retail management such as managers and regional heads of the Company to enhance its operation and execution capability. Moreover, the Company updated and improved the SOP manual on operating procedure management in order to improve the standard and planning of store operation.

In 2016, the sales efficiency at the Company was effectively improved. In respect of LI-NING brand POS which have been operating since the beginning of the fourth quarter last year, the same-store-sales growth of LI-NING brand products for the overall platform (including e-commerce business) increased by mid-teens on a year-on-year basis for the fourth quarter ended 31 December 2016. In terms of channels, the retail (direct operation) and wholesale (franchisee) channels increased by high-single and low-single digits on a year-on-year basis while the e-commerce virtual stores business registered a mid-nineties growth on a year-on-year basis.

### *Operation of Omni-channel*

The Company initially established the all-in-one and all-channel O2O inventory system, which enhanced the operating efficiency of online purchase and offline delivery. Meanwhile, offline store shopping guide continued to promote the use of digital sales tool to make up for the loss of opportunities as a result of out of stock (in terms of color and size) and limited display space and enhance shopping experience of end users.

After various mega events including Double 11 in 2016, the omni-channel operating channel achieved interworking linkage of the online and offline platform through integrated merchandise management and marketing events, which enhanced the overall brand influence. In the future, the Company will, through the implementation of omni-channel strategy, break the inventory barriers at all levels of channels to realise inventory pooling, which will lay the foundation to further improve inventory structure and enhance inventory turnover month.

### *Logistics Reformation*

In 2016, we completed the business process re-engineering and information upgrade of all Regional Distribution Centers (RDC) and National Distribution Centers (NDC). Accordingly, we are able to provide wholesale logistics, retail logistics and e-commerce logistics, which enables us to directly serve online customers. Therefore, we have preliminarily established an all-channel logistics service system, covering all sales networks throughout the PRC.

The Company continued to optimize the operation model to enhance the efficiency in use of logistics resources and provide highly efficient services to cater for various business requirements. In future, we will focus on retail logistics, all-channel logistics and information logistics and constantly uplift our services and ability to deliver feedback, and optimize the control on the efficiency in the uses of resources.

### *Supply Chain Management*

In 2016, the Company continued to focus on the workmanship and details of product quality and improve product wearing comfort, which achieved continuous improvement and upgrade in product quality and gained positive feedback and good reputation from consumers. On the cost front, the Company practiced the concept of cost management throughout the development and production process, by which the procurement costs have been effectively managed and the gross profit of our products registered a year-on-year growth. At the same time, consumers could enjoy their benefits as the price-value of the products got further improved.

In response to the differentiated demand on various types of products or markets as well as the new parallel business model (online and offline), the Company continued to enhance the flexibility and elasticity of the supply model with the aim to cater to the differentiated supply cycle demands on various products. As regards to R&D and innovation, the Company continued to put efforts in the research of a variety of sports such as running/basketball/badminton/table tennis so as to improve professional performance of our products in the field of sports. With regards to supply chain development, the Company continued to tighten the requirements on environmental protection and human rights to ensure sustainable development.

### ***E-Commerce***

In 2016, the overall growth of the e-commerce industry slowed down and there was ongoing intense competition within the online sports industry. Under such macro-environment, the e-commerce business of LI-NING still sustained strong growth momentum and registered a year-on-year increase of approximately 90% in annual revenue, with the proportion to the revenue of LI-NING brand increasing to 14%.

During the year, our e-commerce business continued to improve various key business links such as product planning and supply chain management, product lifecycle management and front-end business structure management. Meanwhile, the extension of O2O business effectively facilitated the resources allocation between offline stores and service outlets, which boosted flows of goods and enhanced user experience.

In 2017, the main goal of our e-commerce business will remain to improve the e-commerce digital operation whilst maintaining profitability in a bid to maintain reasonable and sustainable growth.

## **NEW BUSINESS**

### ***Danskin Brand***


In October 2016, Li Ning Company announced the cooperation with Danskin, the 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. Established in New York in 1882, Danskin brand is a professional dancewear brand for women in the United States. Nowadays, Danskin has developed into a comprehensive sports lifestyle brand for women and its market has expanded from the United States to Japan, Europe, Brazil, Latin America, Middle East (including Dubai), Israel, Southeast Asia, etc. Danskin's fashion philosophy emphasises the pursuit of lifestyle and cherishes the elegant and healthy attitude to life.

In China, the sportswear market is huge and the consumer base is broad. Excluding the sectors related to sports competition, there is still enormous potential to be explored in the women's leisure sportswear market and female-themed professional sports market. It can be expected that the sports market will be showing a tendency towards segmentation, and this accounts for the reason why Li Ning Company values the women's sports market as the new growth driver of the sports market.

Coupled with the Company's insight of Chinese consumer demand in the sports fashion segment, LI-NING brand will cooperate with Danskin brand and gradually launch fashionable fitness products built on professional dance and yoga, which are tailor-made for female consumer group in China. This will continue to maintain Danskin brand's mid-high end market positioning in the European and Japanese licensed markets. It is estimated that the brand will open 5 to 10 pilot stores in core business districts of metropolitans and first-tier cities in the second half of 2017, with an aim to expand into the target market steadily.

Based on the foregoing, Li Ning Company can further develop the sports casual segment, which epitomizes the brand's product concept of creating exclusive selections with the promotion of the creative inspiration "Sports X Fashion". Such approach will enable Li Ning Company to further expand into women's professional sports segment. More importantly, Chinese female consumers can be exposed to more choices and unique lifestyle experience.

## Label

In 2016, the brand continued to maintain its channel expansion plan in a prudent manner. The brand fine tuned and optimized its business through exploratory tests in areas such as product and channel. After these adjustments, the  label is still 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. Its sales channels are predominantly influential arcades and shopping malls located in central business districts in second-tier and third-tier cities. Its products are mainly styled to cater for modern creative lifestyle.

With the use of bright colors, the brand created a vivacity image that integrates different kind of lifestyle themes, giving it the most attractive appearance visually among the new generation. Meanwhile, by providing casual-sportswear with affordable prices that are convenient and comfortable to put on, the brand enabled consumers to express their aesthetic values and personality, regardless of gender and age, and introduced the idea that dressers can match up different styles on their own.

As of the end of December 2016, the brand has opened about 40 POS in more than 20 cities including Beijing, Shanghai, Shenzhen, Hefei, Nanning, Wuhan and Chongqing. Going forward, the brand will develop its sales network based on the directions and findings from past experiences of fine tuning the business.

## **LI-NING YOUNG**

The Company started strategy development for LI-NING KIDS, the existing LI-NING kidswear brand, during the second half of 2016. The new kidswear will, on the basis of retaining the existing elements of LI-NING KIDS, target teenagers aged between 3 to 12, and great emphasis will be placed on launching the new logo: LI-NING YOUNG, a LI-NING teenage brand. The Company always believes that sports can help children to grow more healthily and energetically and will thus aim to provide comfortable, safe, fashionable and colorful sports products and sports experience to help them keep up their stamina by upholding its character as a confident, truthful and fashionable brand. Meanwhile, the Company will leverage the market influence of LI-NING to expand sales coverage and explore new target consumers, so as to further enhance the competitive edges of LI-NING.

In 2017, the brand will take excellent product quality, utilisation of environmentally friendly and low-carbon materials as well as fashionable and simple product designs as the core values of its products, in a view to satisfy the needs of teenagers from different age groups for professional sports and leisure sports products. Sales channels policy will seek to accommodate the development requirements of the retail market. With a combination of various sales channels, the brand will seek to facilitate the integration of its online and offline business in an effort to establish a healthy business model for sustainable development.



The logo of LI-NING teenage brand merges the blue English characters “YOUNG” with the signature red flag icon that highlights the inheritance of sportsmanship of LI-NING Brand. The logo demonstrates the brand’s interpretation of the features of Chinese youth sports: youthful, energetic, fashionable and pure. It also signifies that LI-NING YOUNG will support and facilitate the healthy development of Chinese youths with the power of sports, thus creating infinite possibilities in the future.



The colorful LI-NING KIDS logo, comprising four joyful colors of red, blue, yellow and green, gives a strong visual effect with a sense of playfulness. LI-NING YOUNG simplified the original logo by reserving the English characters “KIDS” and the signature red flag icon of LI-NING Brand, which signifies that the brand belongs to LI-NING YOUNG series. The logo is mainly applied to apparel for children aged between 3 and 6, reflecting the market segmentation of products under LI-NING YOUNG.

## **Other Brands**

### **Double Happiness Brand**

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

Double Happiness continued to adopt “promotion by sports stars and sponsorship of sports events” as its marketing philosophy. In 2016, the brand continued to sign up outstanding table tennis players in China as endorsers for its table tennis equipment, including Ma Long (馬龍), Ding Ning (丁寧), Li Xiaoxia (李曉霞), Fan Zhendong (樊振東), Fang Bo (方博), Yan An (閔安), Zhu Yuling (朱雨玲), Chen Meng (陳夢), Wang Hao (王皓) and Wang Liqin (王勵勤). Meanwhile, the brand also actively sponsored various domestic and international professional tournaments. In 2016, it successfully completed the equipment provision and marketing promotion for the 52<sup>nd</sup> World Table Tennis Championships in Kuala Lumpur, Malaysia. The brand continued to provide professional equipment for events such as the Table Tennis World Cup, International Table Tennis Federation (ITTF) World Tour, China Table Tennis Super League and China Table Tennis Championships. Table tennis equipment under Double Happiness brand were successfully selected as the equipment for the Rio 2016 Olympics, the fifth time in a row that the brand appeared in the Olympics. Double Happiness signed an agreement with ITTF in respect of the provision of equipment for the world table tennis competitions from 2017 to 2020, pursuant to which it will provide equipment for major events such as 2020 Tokyo Olympic Games, World Team Table Tennis Championships 2017 to 2020 and the Table Tennis World Cup.

Double Happiness introduced and successfully launched over one hundred new products in 2016. Meanwhile, the brand continued to improve the product manufacturing efficiency and product capacity level by reinforcing the upgrade and transformation of automated production and environmental friendly production.

Double Happiness products are mainly distributed via wholesale and integrated sporting goods stores. The brand has adopted a wholesale model for its domestic business, with a relatively stable client base across each provinces and municipalities in China. In 2016, Double Happiness continued to put great effort into refined and standardised management on customer behaviors and sales policies and opened offline experience stores, with an aim to enhance user experience. In terms of e-commerce channels, Double Happiness implemented a strict authorisation and management over e-commerce dealers and conducted differentiated product development. Double Happiness brand topped the sales charts of sports products on major e-commerce platforms.

## **AIGLE Brand**

Under China's New Normal Economy, the Chinese retail market entered into the L-shaped balanced growth period. In 2016, the overall growth of total retail sales of social consumer goods has slowed down compared to the previous years. However, leveraging its precise market positioning, well-planned expansion strategy, high-quality products balancing design and function, and professional retail management, in 2016, AIGLE sustained the strong momentum of positive double-digit growth and continued to maintain its leading position as one of the outdoor and leisure brands in the market.

In 2017, AIGLE brand will continue to focus on implementing the following major operation strategies with the aim to improve customer experience and boost brand recognition and loyalty by focusing on customized services so as to ultimately promote continuous growth of its operating results:

- Continue to open new retail shops under unified global brand image in first-tier cities such as provincial capitals;
- Capture the growth opportunities for shopping malls, outlets and e-commerce markets;
- Closely monitor and follow up on the feedback from distributors to ensure a steadily growing distribution business;
- Enhance online and offline shopping experience of customers, explore and channel the demand of post-80s and post-90s customers;
- Increase product procurement efficiency, and continue to upgrade inventory management and improve sell-out ratio;
- Sustain efforts to upgrade retail sales management and training and to improve frontline customer service.

## **HUMAN RESOURCES**

In 2016, the Company continued to improve the organisation of its product and sales department and the incentive and talent management system. Our human resources team rolled out various important measures to optimise the organisational structure, control labour costs, optimise the talent structure as well as the incentive mechanism based on core performance indicators, and to safeguard the corporate culture of performance and trust. The outcome was encouraging.

Regarding organisational optimisation and culture construction, we established a flat product organisation structure, refined the management structure of sales districts, and offered incentives to staff with excellent performance. Furthermore, we cut down low-output positions and personnel in various departments, in order to enhance the input-output ratio of personnel and strengthen the healthy and benign corporate culture.

With regard to talent management, we built up a retail and product talents identification, assessment and training system to support the Company's strategic approach in enhancing products and retail capabilities. Moreover, we initiated development plan for management trainees specialised in sales and product, so as to build our own key personnel for future business expansion.

In terms of remuneration, we continued to provide incentives to key positions based on their performance to increase the market competitiveness of the remuneration of core talents.

Regarding performance management, we established the regional and store incentive mechanism based on the principle of profit sharing. Leveraging the product performance management system based on key financial goals, we attempted to establish incentive mechanism for product innovation so as to enhance product and retail operation efficiency.



Regarding employer brand-building, an official LI-NING WeChat account was set up as a window to showcase the Company's activities and achievements in this area, such as the anniversary celebration of the Company and Creativity Competition. This year, the Company was once again named in the "2016 Top 100 Most Attractive Employers in China" Award, and topped the domestic sportswear industry in the award. Meanwhile, the Company was awarded several employer brand awards, including "2016 Best Employer in China" and "2016 Top 100 Excellent Employer in China".

Looking ahead, we will adhere to the goal of achieving better product experience, sports experience and shopping experience in strengthening our organisational performance management and our talent team building. We wish to effectively control our cost on human resources, while continuing to strengthen our organisational capability and enhance the performance of our staff, in order to give full support to the Company's strategic goal and enhance the management and operational capability of each business unit.

As at 31 December 2016, the Group had 1,975 employees in total (30 June 2016: 1,956 employees), including 1,800 employees at the Group's headquarters and retail subsidiaries (30 June 2016: 1,770 employees), and 175 employees at the Group's other subsidiaries (30 June 2016: 186 employees).

## OUTLOOK

Looking forward, we will continue to strengthen and improve the following business focuses based on our major tasks which were accomplished in 2016, in order to maintain healthy and sustainable profit growth for the Company in the future:

- We will push forward the building of supporting platform for retail operations in order to constantly enhance the profitability of retail outlets. We will analyze those key business segments with correlated products and channels based on categories and optimize the overall retail business model, aiming to drive the profitability of retail outlets;
- Developing LI-NING brand value through experience: Taking into account the actual needs of consumers, we will refine their product experience, shopping experience and sports experience in terms of products and channels so as to create value in experience that meet consumer needs and habits and enhance the brand value and influence among consumers;
- We will, relying on the big data, analyze and grasp the spending habits and differentiated needs of consumer groups to support the projection of the Company's long-term development in the future;
- We will exercise reasonable and prudent use of resources to explore new businesses with business opportunities and market potentials, including sports market other than the five major categories, kidswear market and "LI-NING" label, to foster new opportunities for the Company's future profit growth in the long run.

With the increasing participation and passion for sports amongst the public, their professional awareness about the sports category they participate has gradually enhanced and it is expected that they will have a better understanding of their own sports habit. Meanwhile, the population effect of sports participation is gradually emerging where the sports population group is more inclined to share their sports experience and obtain professional sports guidance and advices via different communication platforms. These changes bring companies in sports industry both new challenges and new opportunities. In order to accommodate the changing market environment, developing LI-NING brand value through experience will remain as the theme of the Company's future development. We will provide flexible experiences according to differentiated consumer habits with an aim to 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 year ended 31 December 2016. Except for the purchase of shares by the trustee of the Restricted Share Award Scheme pursuant to the trust deed and the rules of Restricted Share Award Scheme, neither the Company nor any of its subsidiaries purchased or sold any shares of the Company during the year.

## **CORPORATE GOVERNANCE**

The Company is committed to upholding a high standard of corporate governance by continued review and enhancement of its corporate governance practices, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in a timely and effective manner. During the year ended 31 December 2016, the Company has complied with the code provisions of the Corporate Governance Code (“Code Provisions”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), except for the following deviation with considered reason as explained below.

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 year of 2016, Mr. Li Ning, the Executive Chairman and Interim CEO of the Company, assumed the role of chief executive officer. 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.

Details of the corporate governance practices of the Company will be set out in the Corporate Governance Report contained in the 2016 annual report of the Company.

## **AUDIT COMMITTEE**

The Audit Committee of the Company, consisting of three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed the auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2016.

## **ANNUAL GENERAL MEETING**

The annual general meeting (“AGM”) of the Company will be held at 11:00 am on Friday, 16 June 2017.

The notice of the AGM will be despatched to the shareholders together with the 2016 annual report of the Company on or about 7 April 2017 and published on the website of the Company (<http://ir.lining.com>) and the “HKExnews” website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

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

Hong Kong, 22 March 2017

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