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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)**

### **(1) BOARD APPROVAL OF CHANNEL REVIVAL PLAN (2) PROFIT WARNING**

This announcement is made by the Board of the Company pursuant to Rule 13.09(1) of the Listing Rules.

The Board wishes to provide an update on the Group's business review, its on-going Transformation Plan as well as details of its Channel Revival Plan.

The Board also wishes to inform the shareholders of the Company and potential investors that, based on its preliminary review of unaudited consolidated management accounts of the Group for the eleven months ended 30 November 2012, the Group will record a substantial loss for the year ending 31 December 2012.

A copy of the Company's presentation materials to investors relating to this announcement could be obtained at the Company's website at [www.lining.com](http://www.lining.com).

**Shareholders of the Company and potential investors are reminded to exercise caution when dealing in the shares of the Company.**

This announcement is made by the board of directors (the "**Board**") of Li Ning Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Reference is made to the Company's announcement dated 4 July 2012 (the "**Previous Announcement**"). The Board wishes to provide an update on the Group's business review, its on-going Transformation Plan as well as details of its Channel Revival Plan in the section headed "Board Approval of Channel Revival Plan" below.

## **BOARD APPROVAL OF CHANNEL REVIVAL PLAN**

### **Business review**

The Board believes that the Group's previous wholesale business practice, which had allowed the Company to quickly capture market share in the Chinese sporting goods industry through aggressive network expansion, was no longer able to respond quickly to the dramatic slowdown and saturation of the industry in the last few years. The Board also notes that over-expansion has caused the build up of inventory for our channel partners, which has adversely affected their store productivity and profitability and has led to continuous deterioration of their cash flows and financial positions. The Board understands that it will be very difficult for many channel partners to break out of this situation merely by their own internal operational improvement.

Over the past two years, problems in the Group's sales channels gradually surfaced and have impacted the Company's overall sales, profitability and working capital. When the situation deteriorated further in 2012, the management of the Company acted quickly by devising and implementing a comprehensive transformation blueprint ("**Transformation Plan**") as disclosed in the Previous Announcement. One of the key components of Transformation Plan is to have a one-time channel revival plan ("**Channel Revival Plan**") in a scale large enough to resolve the problems that had developed in the sales channels over the last few years.

### **Update on Transformation Plan**

As discussed in the Previous Announcement, the Transformation Plan is to improve the Group's financial performance and to position the Company for profitable and sustainable growth. Since then, the management of the Company has been making good progress on (i) enhancing the product pricing and merchandising, (ii) optimizing the cost structure, (iii) investing in branding and product development, and (iv) building better supply chain and retail operations for the Group. The Group had also successfully brought in new talents over the past few months.

More importantly, since 4 July 2012, the management of the Company has refined and set out further details for the Transformation Plan. At the same time, the Group worked closely with several top channel partners and has successfully launched pilot tests of the Group's key initiatives that are devised to restore profitability to the channel partners. The Board has also approved the proposal to expand the plan to assist a larger group of channel partners to (i) clear excess inventories, (ii) restore healthy cash flow, and (iii) improve financial strength performance, through the one-time, large-scale Channel Revival Plan.

### **Channel Revival Plan**

As a result of focused diagnosis and field testing, the management of the Company concluded that reducing old inventory, improving product freshness and optimizing merchandising, coupled with network rationalization, is the best path to recovery for the Group's sales channels. To achieve this, the management of the Company has formulated the Channel Revival Plan that replaces old and stale

inventory in the stores with a new product mix that better matches the demographics of customers. The Channel Revival Plan also aims at helping sales channel partners to strengthen their financial position and cash flow for growth.

The results of the pilot scheme for the Channel Revival Plan have been highly encouraging and the Company believes these actions are critical to ensuring the long-term success of the sales channels. As at the date of this announcement, a number of our top channel partners (representing a majority of our business) have agreed to participate in the plan even though doing so will trigger significant one-time accounting losses to them. The Company believes they recognise that participating in the plan is the best way to improve their operational and financial position.

Due to the success of the pilot scheme for the Channel Revival Plan, the Board has approved the Group's Channel Revival Plan with expected one-time cost of RMB 1.4-1.8bn, which includes a range of initiatives focusing on support for channel partners' inventory clearance, inventory buy-back, sales network rationalization as well as customized programs to restructure the accounts receivable from individual participants. The Company has also revamped its channels policy to support channel partners with strong retail sales capabilities. The cost associated with the Channel Revival Plan will be mostly non-cash and take the form of accounts receivable offsets. While the Group will aim to implement the Channel Revival Plan as soon as possible, the exact amount will ultimately depend on the scale and timing of actual execution of the Channel Revival Plan.

The Board believes that the above combined actions will restore the healthy profitability of the Group's channel partners. The Board also believes that the initiatives will be critical to leading the Group and its channel partners to not only weather through the increasingly severe inventory buildup issues faced by the industry, but also to create a new model that will result in profitable long-term growth for the business overall. The Company's management team will work closely with those partners to finalize and execute the revival programs over the next few months under the guidance of the Board.

## **PROFIT WARNING**

Reference is made to the Company's interim results announcement dated 22 August 2012 where it was disclosed that, among other things, (i) the Group's profit before taxation and profit attributable to equity holders for the full year of 2012 will have a rather substantial decline as compared to 2011; and (ii) the Group may post loss attributable to equity holders for the year ending 31 December 2012.

The Board wishes to inform the shareholders of the Company and potential investors that based on its preliminary review of unaudited consolidated management accounts of the Group for the eleven months ended 30 November 2012, the Group will record a substantial loss for the year ending 31 December 2012.

Such information has not been reviewed or confirmed by the auditor of the Company. Further details of the Group's financial results for the year ending 31 December 2012 will be disclosed in the Company's 2012 annual results announcement. The Directors believe that the loss is primarily attributable to the one-time costs relating to the implementation of the Transformation Plan, including the Channel Revival Plan as highlighted in the section above.

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**Shareholders of the Company and potential investors are reminded to exercise caution when dealing in the shares of the Company.**

By Order of the Board  
**Li Ning**  
Chairman

Hong Kong, 17 December 2012

*As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Jin-Goon Kim and Mr. Zhang Zhi Yong. The non-executive directors are Mr. Chu Wah Hui, Mr. James Chun-Hsien Wei and Mr. Chen Yue, Scott. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei, Mr. Chan Chung Bun, Bunny and Mr. Su Jing Shyh, Samuel.*