

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



## **LI NING COMPANY LIMITED**

**( 李 寧 有 限 公 司 )**

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

**(Stock Code: 2331)**

### **ESTIMATED RESULTS FOR YEAR 2010 AND PROSPECTS AND STRATEGIES**

Li Ning Company Limited (the “**Company**”, together with its subsidiaries, collectively the “**Group**”), will be holding discussions with analysts and investors on the estimated results of the Group for the year 2010 as well as future prospects and strategies ahead of publication of its announcement of the annual results for the year ended 31 December 2010. Information set out in this announcement will be covered in those discussions.

This announcement is made pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. **Investors are advised to exercise caution when dealing in the shares of the Company.**

#### **RETAIL SALES FOR THE FOURTH QUARTER OF 2010**

Due to the ongoing distribution channel reform the Group has been conducting and the late arrival of winter, the same-store sales growth of LI-NING brand products for the fourth quarter of 2010 increased by approximately 3.6% as compared with the corresponding period of 2009, and approximately 3.9% for the full-year of 2010.

As at the end of 2010, the total number of LI-NING brand stores had exceeded the 7,900 target. The retail discount rate offered for the fourth quarter of 2010 was approximately 22%.

#### **ESTIMATED RESULTS FOR YEAR 2010**

The estimated key financial results of the Group for the year ended 31 December 2010 are as follows:

- The revenue growth rate of LI-NING brand products for 2010 is expected to be broadly in line with that of the China sporting goods industry.
- Due to changes in the market environment, the aggregate revenue of the Group’s other brands, including Double Happiness, Lotto, Z-DO, AIGLE and Kason recorded relatively slow growth, bringing down the Group’s total revenue growth for 2010. It is estimated that contribution from other brands to the Group’s total revenue in 2010 would maintain at about the same level as in 2009.
- Due to characteristics of the table tennis equipment business, Double Happiness, being the largest business among the Group’s other brands, saw a mid to high single digit growth in its revenue for 2010. Its contribution to the Group’s total revenue was at about the same level as in 2009.

- The Group's gross profit margin and net profit margin for 2010 were broadly in line with levels achieved in 2009.
- New store openings fell short of the target set at the beginning of 2010. Meanwhile, the Group was still conducting tests and fine-tuning the new image portrayed in the sixth-generation stores. The number of stores under renovation was fewer than that in the previous years. As a result, the Group spent less than what was originally budgeted on provision of support to stores. Advertising and promotion (A&P) expenses as a percentage of revenue for 2010 was close to 15%.
- In light of the retail environment in 2010, the Group intensified its support to distributors, resulting in an increase in account receivable days. Nonetheless, our bad debts were still maintained at low levels. As the Group continued to strengthen its supply chain management, the inventory turnover days in 2010 exhibited an ongoing improvement. The cash conversion cycle, while longer than that of 2009, was still shorter than that of 2008.

The above estimated results of the Group for the year ended 31 December 2010 are based on management's preliminary assessments of the Group's unaudited consolidated management accounts for the period. Such financial information is yet to be reviewed and confirmed by the auditors and the audit committee of the Company.

The annual results of the Group for the year ended 31 December 2010, containing the detailed financial information, are expected to be announced in mid March 2011.

## **PROSPECTS AND STRATEGIES**

### ***Our strategy for the long term remains intact, while implementation details are subject to fine-tuning to accommodate changes in the market environment***

As one of the leading players in the sporting goods industry in China, the Group has been adhering to its core strategy and mission – Focusing on branding and product innovation and competing on differentiation. Through our focus on the essence of sports, we inspire people's desire and power to make breakthroughs. This positioning has been underpinning the rapid growth of the LI-NING brand in the past decade. We will keep it this way.

In response to changes in the market environment, we have conducted a detailed analysis of the trends leading to changes in consumers' needs and developments in the industry value chain. While the trends for some of the external factors were in line with the Group's preliminary assessments, the speed at which these trends were developing was beyond the Group's expectation. We proactively initiated adjustments of a forward-looking nature in our strategy implementation. During the adjustment and reform process, we will stay firm on our strategic positioning as a sports brand and go the extra mile in improving our brand, products, distribution channels and supply chain to accommodate the trends in the sporting goods industry in China.

### ***Target at the mainstream market***

The Group believes that while the sporting goods industry in China will maintain a low double digit growth in the coming years, some changes on the industry's development trends are brewing.

First of all, sports goods share some of the basic attributes of casual clothing and footwear products, such as convenience, comfort and good visual appeal, etc. These attributes have been the major growth drivers of the sporting goods industry in China in the past. If the industry were to continue to rely on these drivers, sports brands will experience difficulties in competing with leisure and casual wear brands on differentiation, making the broader competitive environment more complicated. The Group believes that the core competence of sporting goods rests in their branding and sports attributes. This competence capitalizes on improvements of some of the fundamentals for the development of sports including growth in the sporting population, increase in the number of sports events, the increasing popularity of sports culture and the building of more venues for sports. While these fundamentals are not improving as fast as they should be, we believe this phenomenon is just temporary. As the environment in cities in China continues to improve, coupled with the continued increase in number of sports venues as well as the development of community or youth-based sports events, the sporting population is expected to increase, which will lead to a better prospect of the sporting goods industry.

Secondly, though the consumer market in China is highly segmented, there is an impending trend for consumers to trade up their consumption experiences. Currently, high-end market segments are increasingly counting on value as the growth driver, whereas low-end market segments still rely on volume for their growth. As income of consumers continues to increase and the fundamentals for the development of sports continue to improve, consumers will look more for brand personalities, essence of sports and product functionalities and performance.

Thirdly, escalating costs of raw materials, labour and retail rentals inflict substantial pressure on each of the segments within the whole industry chain.

On the back of these trends, the Group is of the view that the sporting goods market is entering a critical stage of transformation that will bring about very substantial changes in the industry's business model probably in the next five years. The market will be further categorized into:

- **Mainstream market** – This market relies on brand building and product innovation to create better brand and product experiences such that brand operators will be able to charge premium pricing to meet the escalating costs in every segment of the industry value chain. This market will become the mainstay in the future. The target consumers are more mature and value-oriented.
- **Basic market** – This market strives to minimize spending on brand promotion and product research and development such that basic products can be provided at lower prices and pressure on costs can be mitigated via flexible management of the supply chain to effectively meet the needs of price-conscious consumers.

At the moment, metropolitan and first-tier cities have already exhibited mainstream market attributes while second- and third-tier cities are speeding up their ascendance to become mainstream markets. The Group believes that targeting at the mainstream market is a choice of the LI-NING brand, a decision made in accordance with our capabilities, brand positioning, external environment and corporate vision.

***Execution strategy – brand enhancements as the core, optimization in distribution channels and product upgrades***

To accommodate the future development trends and the choice we made, the Group has started in-depth adjustments to the brand, the distribution channels and the products.

- **Instilling more value to the brand: invest more on branding to upgrade the brand image and win recognition from consumers**
  - Further increase spending on brand marketing and promotion and strengthen the management of efficiency of the investments in branding
  - Further upgrade the brand image by highlighting brand personality and differentiation while strengthening professional sports attributes of the products
  - Target at value-oriented consumers in cities in China, win support from target consumers through better products and better integrated marketing, and implement customized promotion activities for different market segments
  - Be prepared for the 2012 London Olympics
  - Increase the number of sixth-generation stores through new store opening and renovation of existing stores in the metropolitan, first-tier and second-tier cities, to effectively realize consumers' experience of the new brand assets at the retail end

- **Pursue a healthier growth model: enhance retail efficiency through deepening reforms in the distribution channels**
  - Strengthen the cooperation with large multi-brand distributors in order to secure our foothold in retail channels that possess better competitive advantages
  - Consolidate low efficiency sub-distributors
  - Optimize store structure and improve product lifecycle management
  - Strengthen professional training for distributors/sub-distributors in order to enhance their retail management capability which in turn will raise their profitability
  - Implement a new wholesale discount policy to maintain or improve the profit margin of the distributors/sub-distributors
- **Bring more value to our consumers: improve the product offering structure and raise product competitiveness**
  - Establish a product innovation structure that works consistently with the Group's brand positioning
  - Offer products that are closer to market needs and are more suitable to the preferences of different regions
  - Offer consumers better experiences on product value in order to support the Group's brand positioning and product pricing
  - Raise the proportion of footwear in the product portfolio and enhance the competitiveness of our footwear products in the mid- to high-end market segments
- **Establish a corporate culture that stresses on management by objectives and high efficiency**
  - Enhance staff cohesion with the Company's culture as the core
  - Increase investment in human resources in professional fields such as brand marketing and product design and research and development as well as in corporate management to attract high calibre talent
  - Strengthen implementation of business strategies and measurement of performance

The Group believes that the sporting goods industry in China is undergoing a transformation and that the Group is still at an investment stage in nurturing its long term competitiveness. The Group needs to appropriate its resources to areas such as branding and product research and development in a reasonable and effective manner. This is a necessary choice that the Group has to make to achieve its strategic goals. Therefore, whereas certain financial indicators of the Group are expected to experience changes in the coming years, we still believe that these moves are critical to the Group's long term and healthy development:

- The Group will conduct the 2011 third and fourth quarter trade fairs for the LI-NING brand in the first half of 2011. As the distribution channel reform and the improvement of retail environment take time, it is expected that these two fairs will not achieve order growth rates higher than the levels achieved for the last two quarters.
- In light of the new wholesale discount policy and the escalating production costs, the Group expects to see a modest decline of 1 percentage point in its gross profit margin as compared with previous years.
- As the Group will continue to increase its investment in branding, A&P expenses as a percentage of revenue will increase by 2 percentage points.
- The Group will also continue its investment in talent and expects its human resources expenses as a percentage of revenue to increase slightly.
- These factors will result in lower operating profit margin and net profit margin for the Group.

### *Translating value-driven growth to stable, long term development*

The reform exercise will take time and challenges will inevitably arise during the process. Nevertheless, the Group's professional management team, strong brand assets, sound strategic analytical judgment and solid execution capability will empower ultimate achievement of the reform objectives. The Group had similar experience when it had to make critical choices of its development path about a decade ago – a lack of product focus, less well-defined sports assets and encounter of invisible obstacles that had once stemmed the Group's further development. The management initiated an in-depth analysis of the market environment of the time as it diligently reviewed the Group's competences. The management then made a decisive move to shift the Group's strategic positioning and establish the sporting goods industry as the focus of the LI-NING brand, accompanied by major restructuring of the Group's marketing, product structure and business model. Though faced with huge challenges, the restructuring was successful and established a firm footing supporting the Group's decade-long spectacular growth and reinforced the LI-NING brand's leading position today. More importantly, the restructuring had brought about a host of more valuable soft power to the Group – solid strategic management experiences and a well-defined organizational structure. We strongly believe that this soft power will play a pivotal role in supporting and ensuring that the Group will execute the reform exercise well today.

There will be short term pain during the reform exercise in the next two years. The Group will focus its efforts on enhancing retail efficiency and will place indicators such as same-store sales growth, retail inventory, retail discount, future order execution rate, overall retail growth rate and distributor management capability as key measurements for business performance. We believe that this reform exercise will usher the Group's performance to a healthier development path.

We stand by our belief that a day will come when China's homegrown sports brands successfully luster on the world stage. This is the aspiration of our founder and the Group. We believe now is the best timing for us to make proactive choices.

During the past 20 years, the Group has experienced all kinds of challenges, which have enabled us to grow stronger and nurtured our experiences and capabilities in steering changes. These competitive edges will enable the Group to fully seize the business opportunities in the sporting goods industry in China, to better prepare for the opportunities afforded by the 2012 London Olympics, to further solidify the leading industry position of the LI-NING brand and hence realizing our vision to become a world-class China sports brand. "Make the Change"!

By order of the board  
**Li Ning Company Limited**  
**Li Ning**  
*Chairman*

Hong Kong, 17 January 2011

*As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Zhang Zhi Yong and Mr. Chong Yik Kay. The non-executive directors are Mr. Lim Meng Ann, Mr. Chu Wah Hui and Mr. James Chun-Hsien Wei. The independent non-executive directors are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei and Mr. Chan Chung Bun, Bunny.*