



2012

ANNUAL RESULTS

March 2013



LI NING COMPANY LIMITED

李寧有限公司

(於開曼群島註冊成立之有限公司)

(股份代號：2331)



- This presentation incorporates information contained in the annual results announcement (the “Results Announcement”) for the period ended 31 December 2012 of Li Ning Company Limited (the “Company”). This presentation should be read in conjunction with the Results Announcement and is qualified in its entirety by the more detailed information and financial information contained in the Results Announcement.
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AGENDA

- **Review of Strategies**
- **Financial Highlights**
- **Business Review**
- **Future Outlook**
- **Open Forum**





Review of strategies

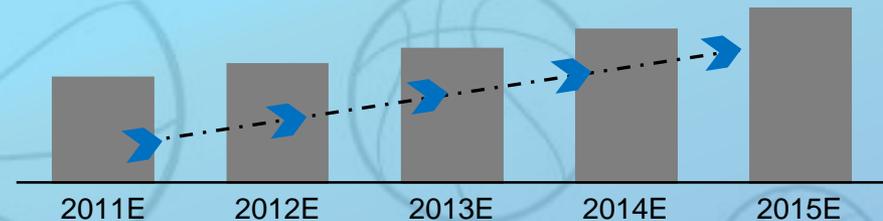
INDUSTRY CHALLENGES AND GROWTH DRIVERS



► Near Term Challenges

- Competition, over-expansion, excess channel inventory, cost pressure and wholesale model

► CAGR: Low to mid teens percentage



► Long-term drivers

- **Urbanization** ► Urbanization continues to move 1~2% rural population to urban area annually
- **Purchase frequency** ► Consumers continue to purchase more and participate in more sports as disposable income and sophistication increase (different category for different sports/occasion)
- **Trade up** ► Trade up across brands (to premium) and within brands (to better design/technology/ function) will benefit players with stronger brand and product in the long run

Long term industry potential

IMPACT ON LI NING



► Wholesale-oriented Model

Sell In > Sell Through

Current Challenges

Excess channel inventory

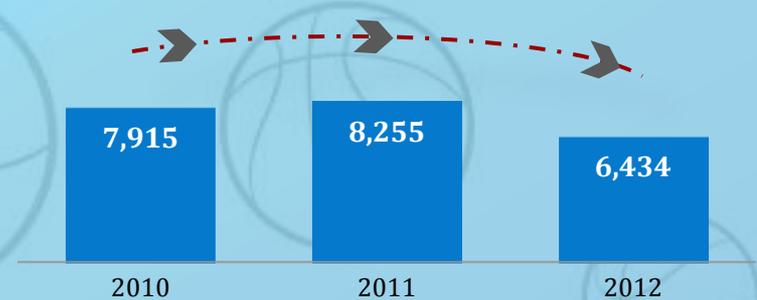
Higher mix of old products leading to heavy discounting

Declining retail performance

Lower distributor and sub-distributor profitability and cash flows

Current challenges within the channels resulting from the wholesale practice began to spill over into the company in 2011...

► Store Count



► Average Trade Receivable Days



... leading to store closures and working capital issues for Li Ning Company

YEAR OF 2012 IN REVIEW



January - Introduction of Strategic Investor

- ◆ Key strategic investor TPG was brought in for operational value add

July - Transformation plan

- ◆ Enhanced board composition and management execution capabilities
- ◆ Pioneers a new sports market-driven and retail-oriented business model

August - October: Key Sponsorship Programs

- ◆ Key sponsorships and events – Olympics, CBA, Dwayne Wade

December - Channel Revival Plan

- ◆ Key component of Transformation Plan



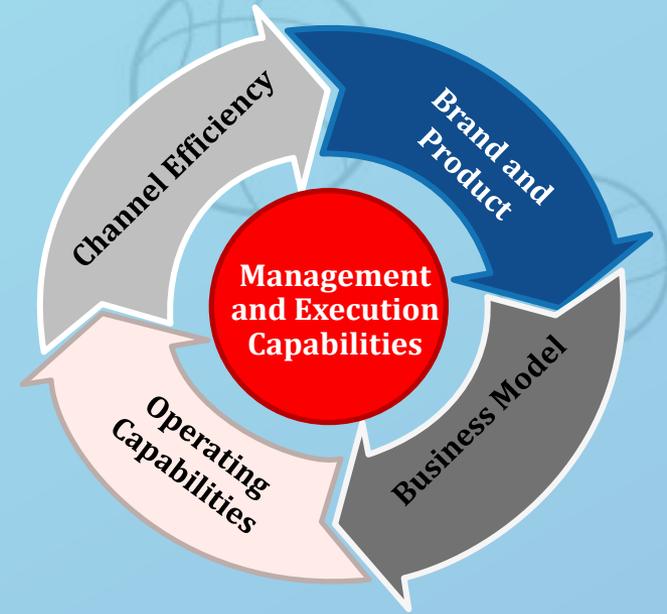
THREE STRATEGIC FOCUSES



Three core focuses



Retail-oriented business model



3 core focuses (China market, core brand and sports culture) + adopting a retail oriented, sports marketing-driven business model

2012 LONDON OLYMPIC GAMES



► China's five gold medal teams



40 medals in total, including 22 gold medals, over ½ of total gold medals won by Chinese team

► Other Delegations



Swedish Delegation



Spanish/Argentina Basketball Team



American Diving Team



Others

- Sponsored spiked running shoes and accessories for 4 international athletes
- Package for Eritrean Track & Field Team: 22 pieces

- ◆ **Swedish delegation: 1 gold, 4 silver, 3 bronze**
- ◆ **American diving team: 1 gold, 1 silver, 2 bronze**
- ◆ **Triple Jump athlete – Taylor: 1 gold**

CBA SPONSORSHIP



- ✓ **Promote the recognition of Li Ning brand's presence in basketball among young consumers**
 - ◆ **Creating new consumer groups**
- ✓ **Actively promote the performance of the basketball business**
 - ◆ **Eye-catching performance of new line of basketball products in 1Q13**
 - ◆ **Encouraging retail sell-through: increase in sales growth and sell out ratio year-on-year surpasses other products, sales revenue closely ranks behind running products**
- ✓ **Launching new CBA series products to achieve sales growth**
 - ◆ **Fast response retail model meets the rapid changes in consumer demand**

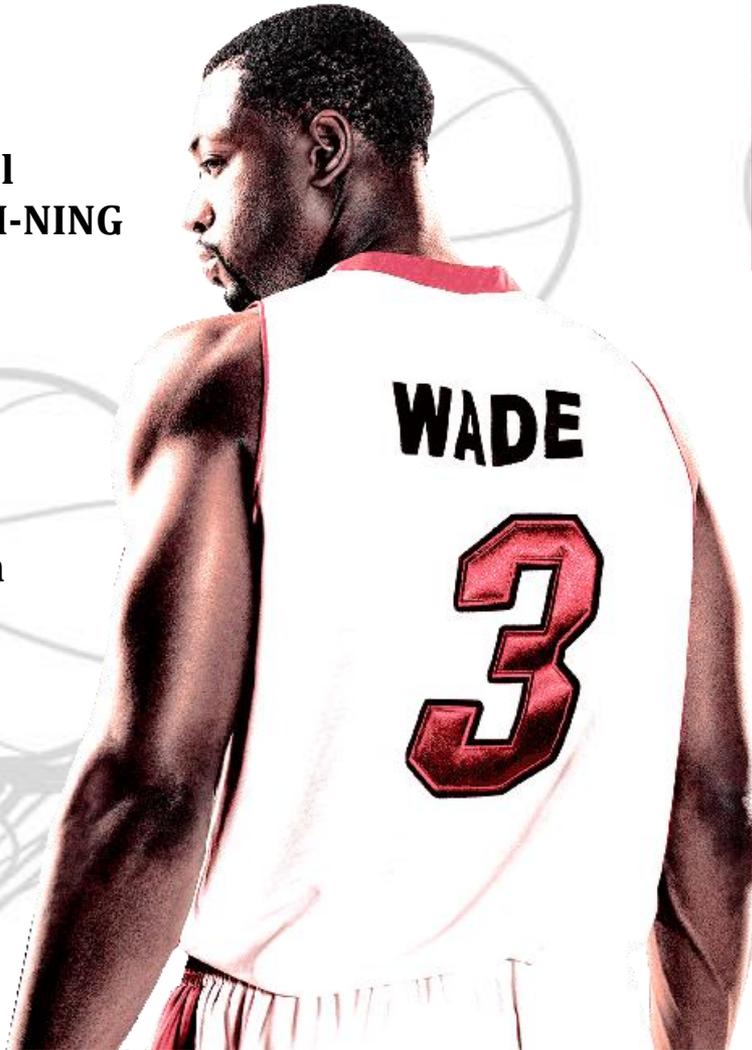


**Enhancing brand equity, creating business value,
achieving a new level of competitive edge**

WADE SPONSORSHIP



- ◆ Enhance the overall reputation of the LI-NING Brand
- ◆ Generate interest among young consumers and basketball fans
- ◆ Boost the intention to purchase LI-NING products





Financial Highlights

KEY FACTORS IMPACTING FINANCIAL RESULTS



Fix the Business

- ◆ Reduce inventory
- ◆ Reduce non-performing stores
- ◆ Improve channel profitability and cash flows
- ◆ Optimization of cost structure
- ◆ Focus on cash flows

Resize the Business

- ◆ Sell in reduction
- ◆ Support channels to improve sales and collections
- ◆ Resize network
- ◆ Business restructuring

Impact on P&L

- ◆ Revenue and gross profit reduction
- ◆ A/R & inventory provisions
- ◆ Restructuring costs
- ◆ Channel Revival Plan and Transformation Plan-related costs

SUMMARY OF INCOME STATEMENT



	FY2012	FY2011	Change
	For the 12 months ended 31 December 2012		
(RMB million)			
Revenue	6,738.9	8,928.5	-24.5%
Gross Profit	2,549.9	4,042.1	-36.9%
- Distribution costs *	2,635.4	2,909.9	-9.4%
- Administrative expenses **	1,675.6	644.6	159.9%
- Other income and other gains – net	168.8	143.4	17.7%
Operating Profit / (Loss) ***	(1,592.3)	631.0	-352.4%
Profit / (Loss) Attributable to Equity Holders	(1,979.1)	385.8	-613.0%
Basic Earnings per share (RMB cents)	(187.96)	36.70	-612.1%
Annual dividend (RMB cents)	Nil	11.13	-100.0%

* The decrease in distribution costs was due to the decline in channel expenditure in 2012

** The increase in administrative expenses in FY2012 was mainly attributed by the provision for impairment charge of trade receivables, extraordinary expenses that included the impairment provision for Lotto brand's license adjustment (around 128 million RMB), and expenses from organisational restructuring

***The operating loss for 2012 was due to declines in revenues and gross profit margin, as well as provision for impairment charge of trade receivables

PROFIT MARGINS AND EXPENSE RATIOS



	FY2012	FY2011	Change
For the 12 months ended 31 December 2012			
Gross Profit Margin	37.8%	45.3%	-7.5p.p.
Operating Profit Margin	-23.6%	7.1%	-30.7p.p.
Margin of Profit / (Loss) Attributable to Equity Holders	-29.4%	4.3%	-33.7p.p.
R&D Expenses (as % of revenue)	2.8%	2.6%	0.2p.p.
A&P Expenses (as % of revenue)	19.7%	17.6%	2.1p.p.
Staff Costs (as % of revenue)	10.9%	8.7%	2.2p.p.

KEY OPERATIONAL INDICATORS



	FY2012	FY2011	Change
For the 12 months ended 31 December 2012			
Inventory Turnover (Days)	90	72	18
Average Trade Receivables Turnover (Days)	97	76	21
Average Trade Payables Turnover (Days)	112	93	19
Cash Conversion Cycle (Days)	75	55	20
Return on Equity (ROE)	-77.8%	11.3%	-89.1 p.p.
Return on Asset (ROA)	-29.6%	5.9%	-35.5 p.p.
CAPEX* (RMB million)	215.4	385.7	-44.2%

**Excluding the acquisition expenditures*

SUMMARY OF BALANCE SHEET



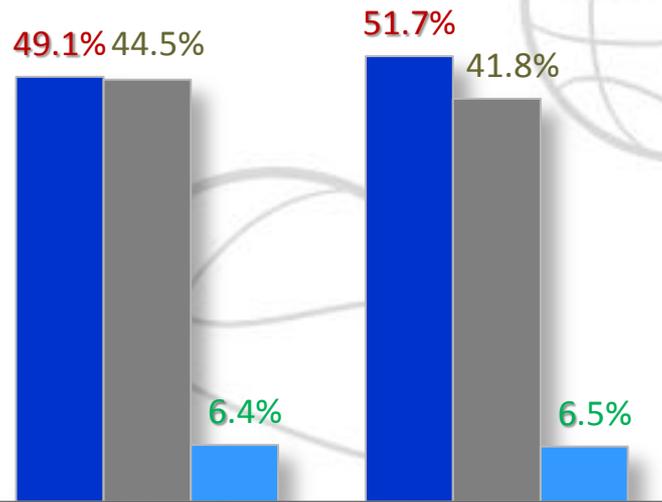
	2012-12-31	2011-12-31	Change
(RMB million)			
Cash and Cash Equivalents	1,248.6	1,196.5	4.4%
Bank Borrowings	1,447.2	838.1	72.7%
Convertible Bonds Liabilities	664.1	-	-
Net Cash / (Debt) *	-862.7	358.4	-340.7%
Current Liabilities	3,276.6	3,063.1	7.0%
Current Ratio (times)	1.20	1.56	
Total Liabilities to Total Assets Ratio	70.0%	50.0%	-20.0p.p.

* Net Cash / (Debt) = Cash and Cash Equivalents – Bank Borrowings– Convertible Bonds Liabilities

LI-NING BRAND REVENUE BREAKDOWN BY PRODUCT CATEGORY



► LI-NING Brand Revenue Breakdown by Product Category

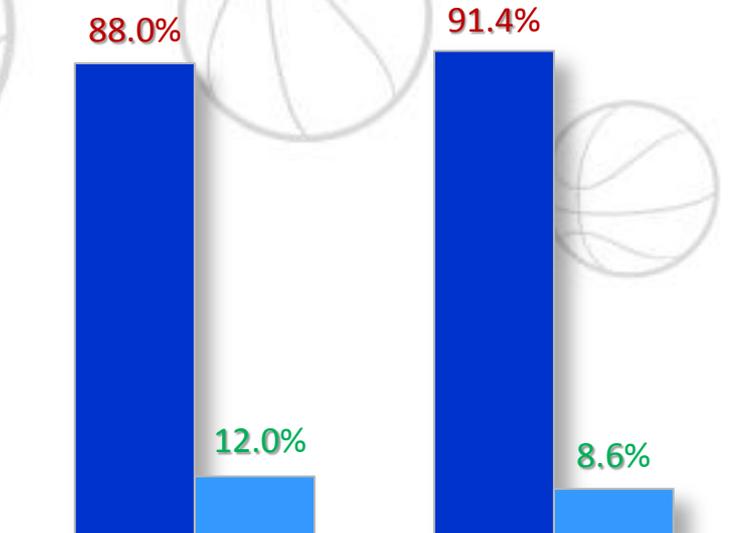


- LI-NING brand apparel
- LI-NING brand footwear
- LI-NING brand accessories / equipment

FY2012

FY2011

► Revenue from LI-NING Brand to the Group Total

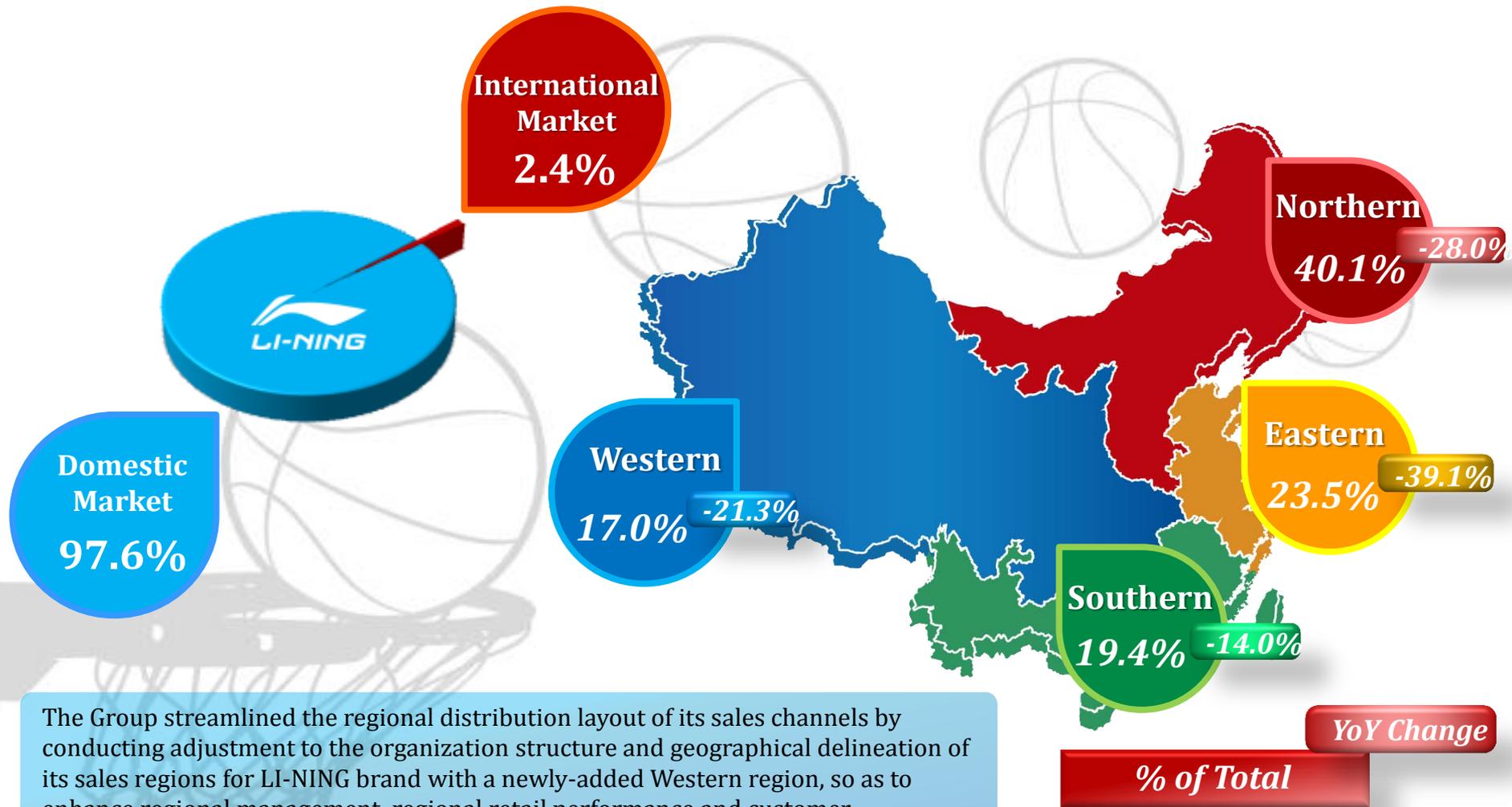


- Revenue from LI-NING brand
- Revenue from other brands

FY2012

FY2011

LI-NING BRAND REVENUE BREAKDOWN BY GEOGRAPHY



The Group streamlined the regional distribution layout of its sales channels by conducting adjustment to the organization structure and geographical delineation of its sales regions for LI-NING brand with a newly-added Western region, so as to enhance regional management, regional retail performance and customer management capability.

YoY Change

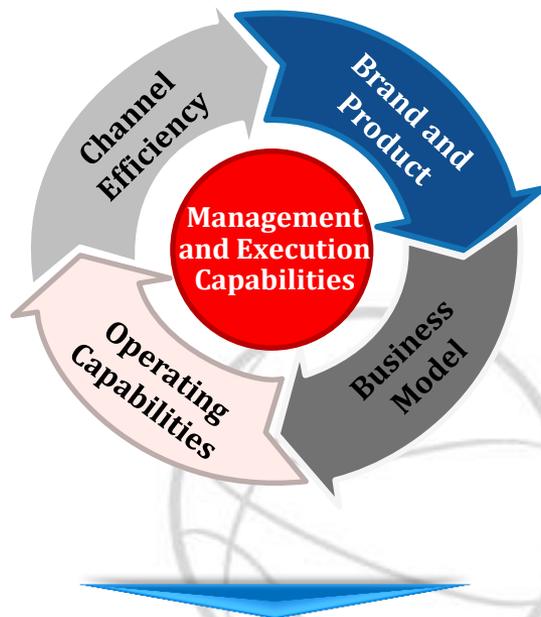
% of Total



Business Review

TRANSFORMATION PLAN

Building capabilities for the future



Vision: Solidify LI-NING as the leading brand in Chinese sportswear industry with world-class branding & retail capabilities

NEAR TERM

MEDIUM TO LONG TERM

#1

Management Team

#2

Distribution Channel

#3

Products and Merchandising

#4

Branding and Marketing

#5

Cost Structure

#6

Retail Business Model

OPERATIONAL INITIATIVES AND PROGRESS



#1 Enhanced team and internal process

Chairman and Vice Chairman



Founder /
Chairman



Vice Chairman

Introduce outstanding talents to build a strong management team

Chief Supply
Chain
Officer

Dell

Acting Chief
Sales Officer

Nike

Chief Product
Officer

Adidas,
Nike

Chief Designer

Nike,
Umbro

Chief Marketing
Officer

General Mills, P&G,
Johnson & Johnson

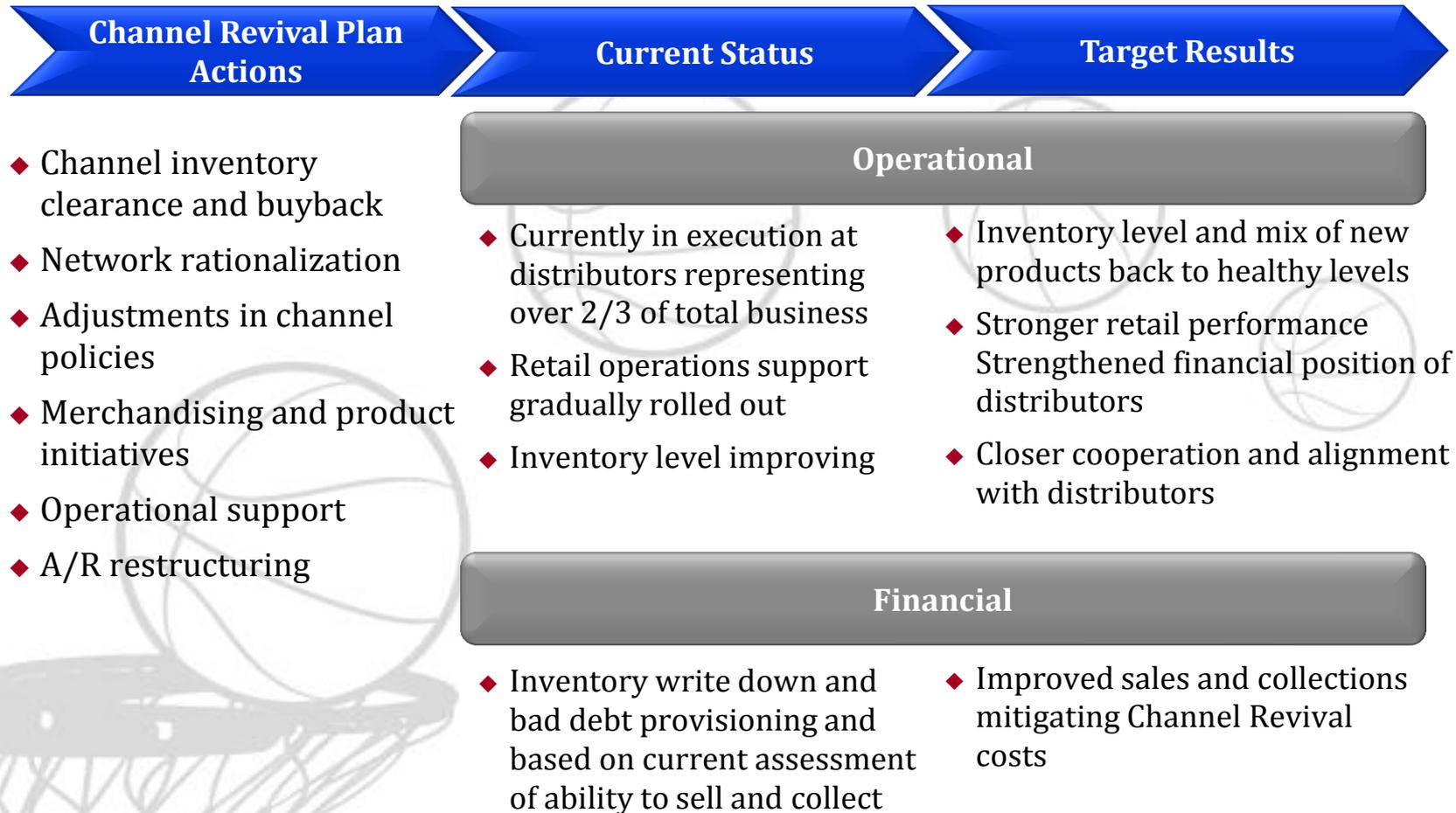
Enhancement of the management's execution capability

OPERATIONAL INITIATIVES AND PROGRESS



#2

Distribution Channel

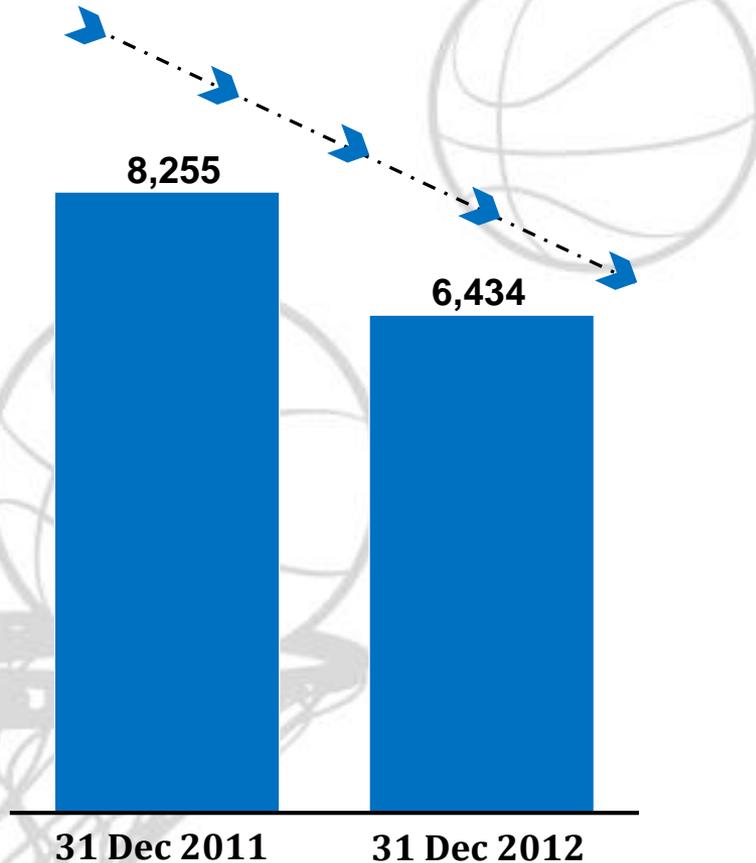


OPERATIONAL INITIATIVES AND PROGRESS



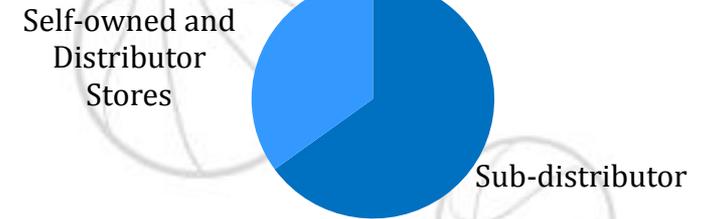
#2 Distribution Channel (Cont'd)

2012 vs. 2011 LI-NING Brand distribution channel network



Store closure structural analysis

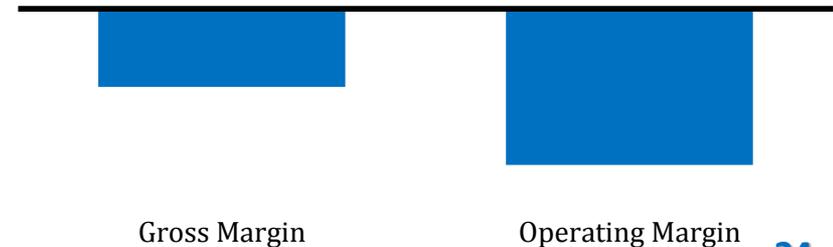
Closed store breakdown



Store productivity (RMB / store)



Profitability of closed stores compared to all stores (% margin difference)

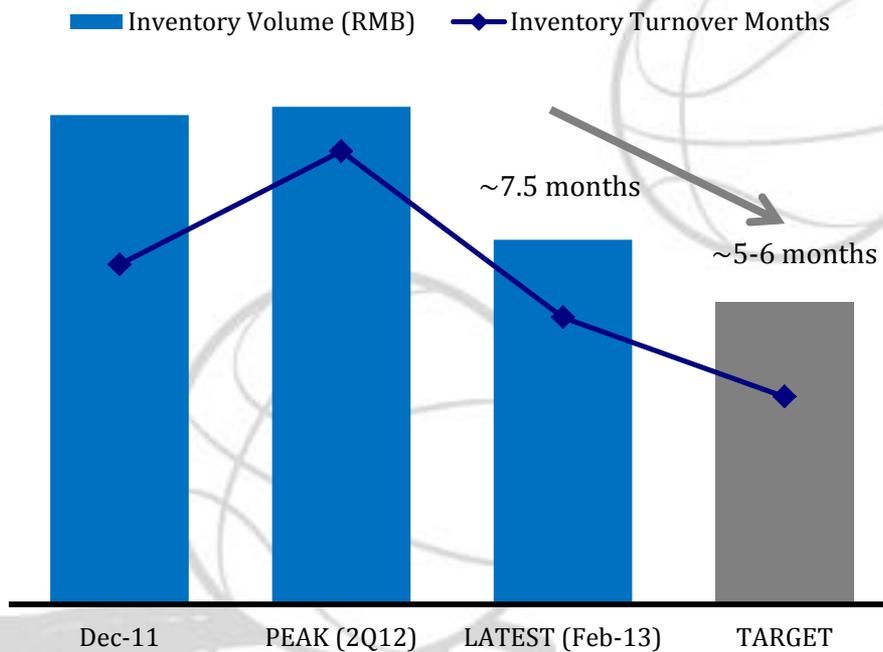


OPERATIONAL INITIATIVES AND PROGRESS



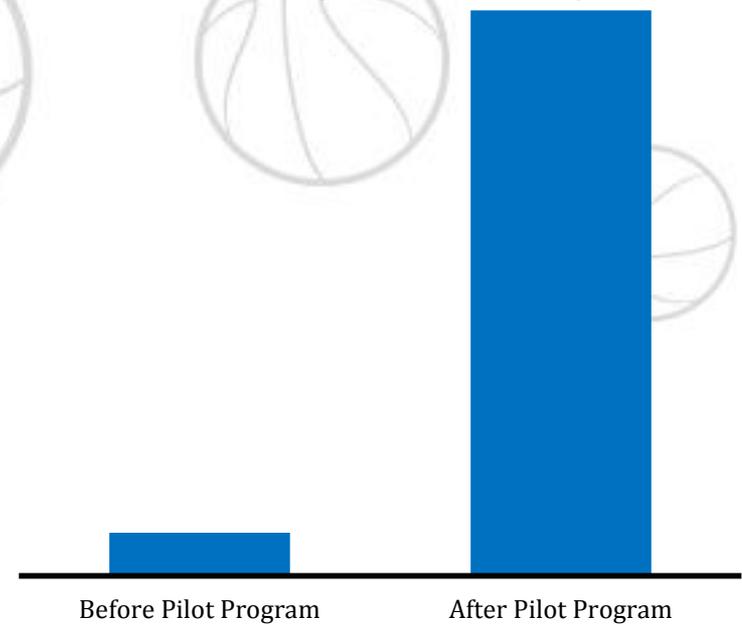
#2 Distribution Channel (Cont'd)

Channel Inventory and Turnover Months



Channel inventory clearance on track

Sell-Through Y-o-Y growth of pilot distributor compared to all stores (% difference)



Retail operations support boosting distributor performance

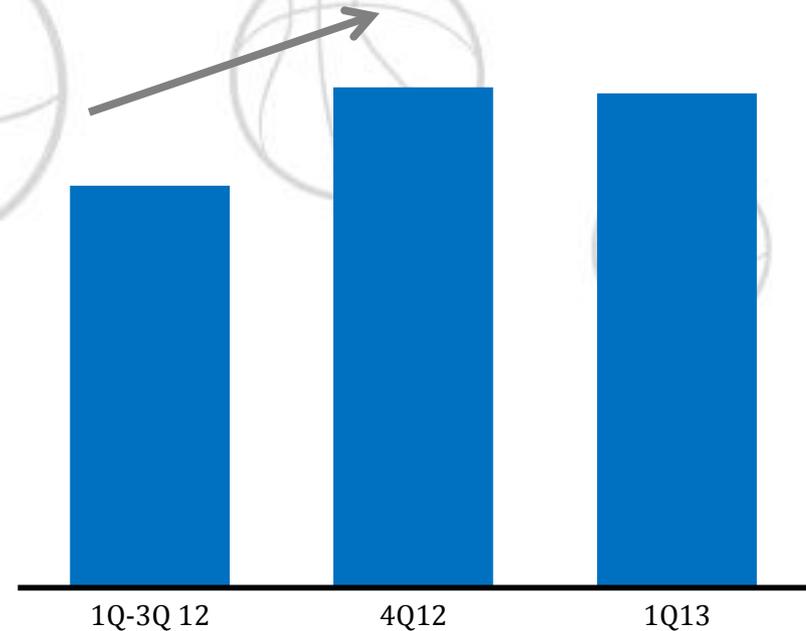
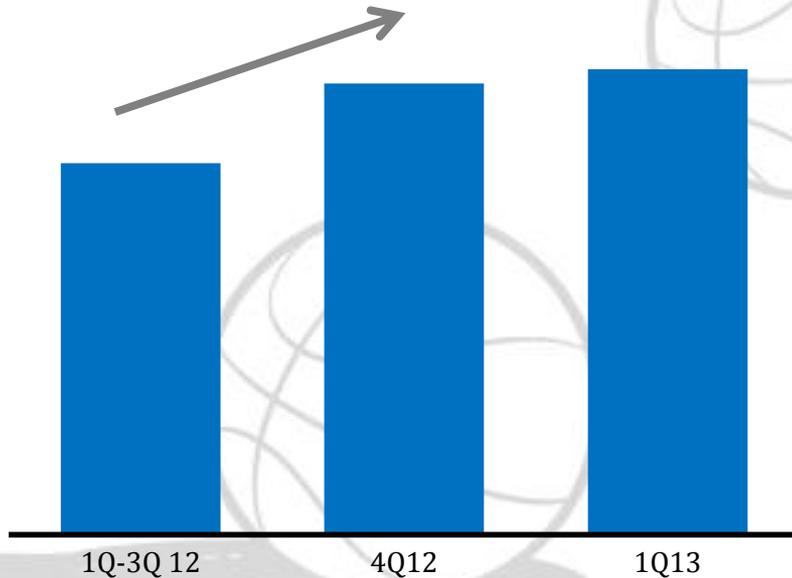
OPERATIONAL INITIATIVES AND PROGRESS



#3 Products & Merchandising

▶ Retail pricing of current season products (as % tag price)

▶ Sell out rates of current season products (%)



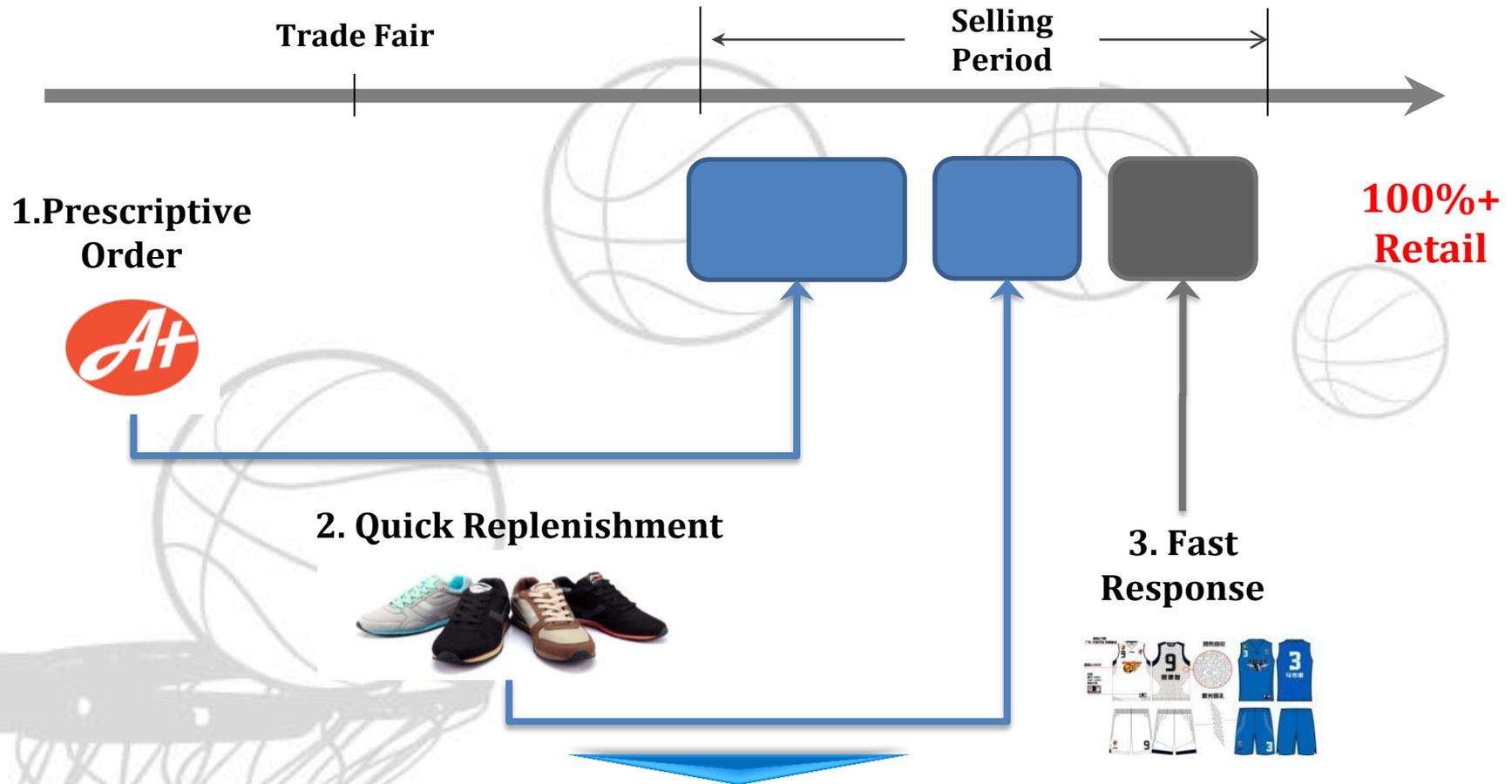
SKU rationalization starting in 4Q12 leading to improved performance of current season products

OPERATIONAL INITIATIVES AND PROGRESS



#3

Products & Merchandising (Cont'd)



Retail-oriented ordering model characterized by “prescriptive orders + replenishment of best-selling SKUs + fast response products”

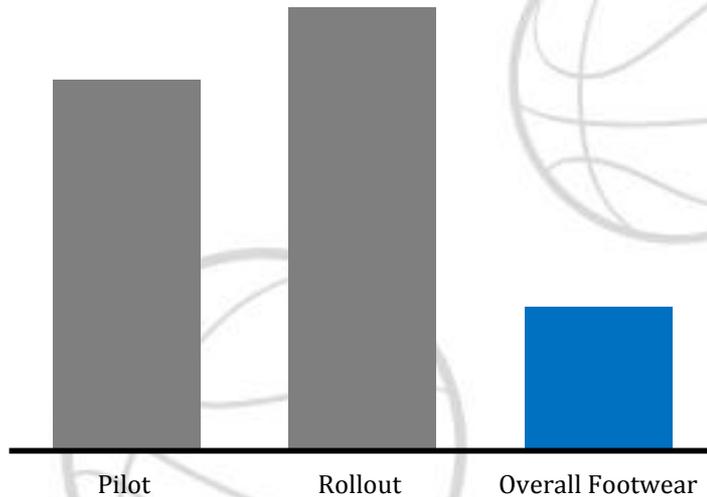
OPERATIONAL INITIATIVES AND PROGRESS

#3

Products & Merchandising (Cont'd)



► “Combat 1” Series Sell Out Rates (%)



- ◆ 5 successful pilots completed and being commercialized
- ◆ Monthly calendar for commercializing quick strike products

OPERATIONAL INITIATIVES AND PROGRESS



#4 Branding & Marketing

NATIONAL TEAMS

- ◆ Five gold medal teams, representing over 1/2 of gold medals that China won at the last Olympics



CORE SPORTS

Basketball

- ◆ CBA:
 - Main professional basketball league in China
 - Largest and most popular sports league in China
- ◆ Dwayne Wade:
 - One of the top NBA players



Track & Field/Running

- ◆ A key driving force of China's running culture through sponsorship of large-scale marathons and grassroots events
- ◆ Industry leader with technologically advanced functional products (e.g. LI-NING Ultralight, LI-NING Arc, LI-NING Bow)



Badminton

- ◆ Leading sponsorships including national team and players (e.g. Lin Dan) in China
- ◆ Integrated promotions via multi-brand, multi-channel and multi-platform strategy



Leading sportswear brand and closest association with Chinese sports

OPERATIONAL INITIATIVES AND PROGRESS



#5

Cost Structure Optimization

- ◆ Overseas procurement
- ◆ Optimize / Centralize purchasing
- ◆ New suppliers for healthy competition

- ◆ More effective use of channel support

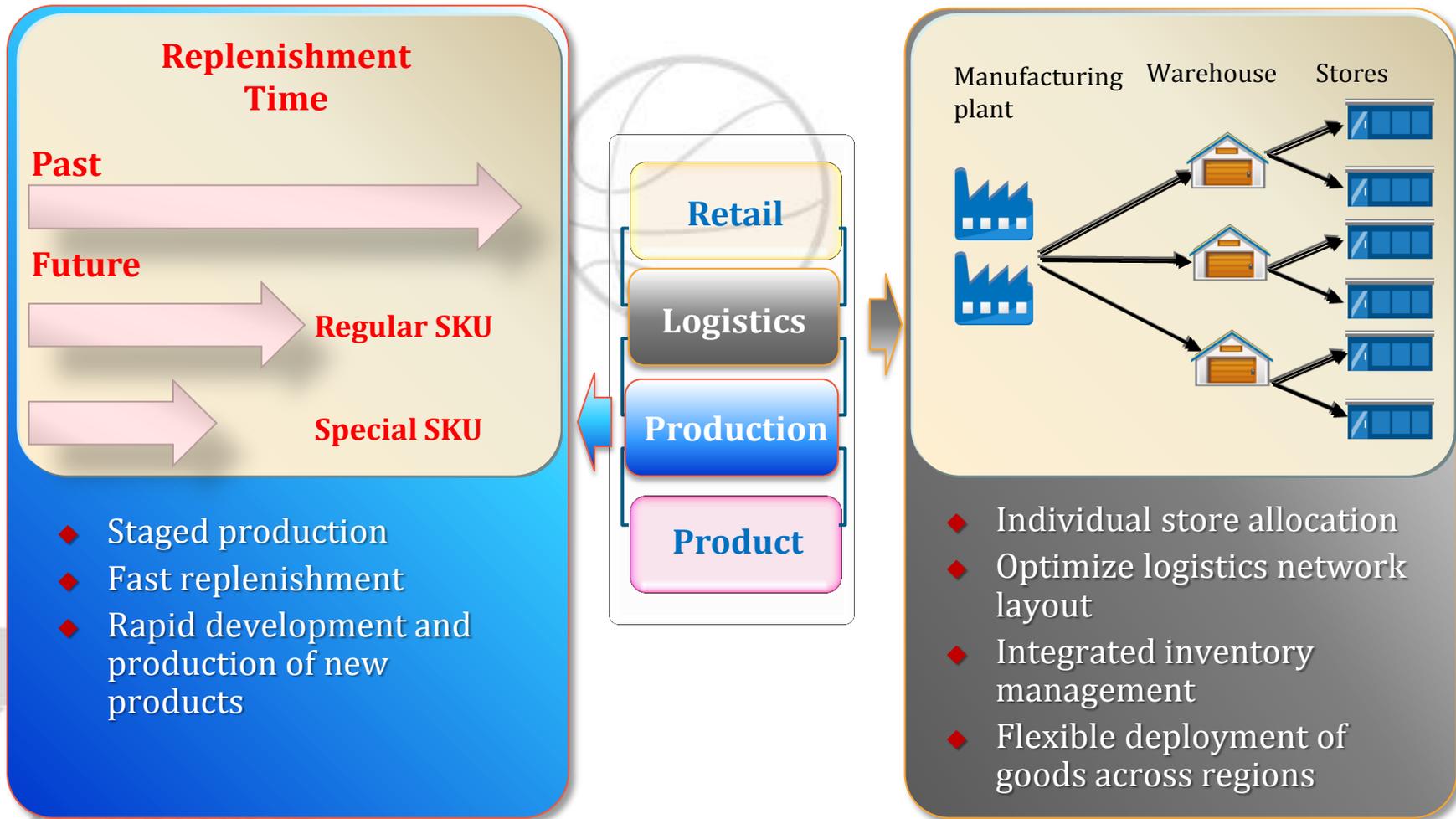


- ◆ Optimize marketing, operational and organizational costs
- ◆ Improve product cost through DTV, material consolidation and higher R&D efficiency

OPERATIONAL INITIATIVES AND PROGRESS



#6 Retail Business Model



OPERATIONAL INITIATIVES AND PROGRESS



#6 Retail Business Model (Cont'd)

▶ Sell Through YoY Growth (%) during Pilot Period



▶ New Products as % of Total Sell Through

Pilot Stores



Other Retail



Pilot Stores outperform other retail stores

OTHER BRANDS



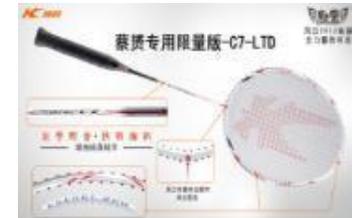
- Provided unique on-site equipment in the London 2012 Olympic Games for both table tennis and badminton events
- Reinforce its competitive edge in Table Tennis and maintain collaborative relationships with top-notch table tennis athletes and clubs
- Strengthen product research and development



- Business remained stable with on-going growth in retail sales
- Achieved higher brand reputation and recognition among consumers



- Continue to comprehensively enhance Kason's brand positioning, product structure, research and development and sales channel
- Grew rapidly in product sales



- Readjusting market strategy
- Amended the license agreement to lower the finance cost





Future Outlook



Short-term

- **Challenging near term industry outlook poses uncertainty**
- **Further operational transformation, and reducing reliance on the wholesale model**
- **Transformation plan will take time to have positive impact on financial performance**
- **Continuing optimization of cash flow and channel inventory**
- **Fund raising in support of transformation**

Long-term

- **Positive long-term on China's sportswear industry**
 - Rapid pace of urbanisation
 - Increasing disposable income
 - Increasing participation in sports
 - Consumer needs for better brand and products
- **Return to long-term, sustainable profitability**
- **Strengthen position as the leading sportswear brand in China**





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