



LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

Li Ning Company Reports Interim Results for 2013

Phase One of Transformation Plan completed;

Well positioned for continued improvement in Second Half of 2013

Financial and operational highlights

- *The Group recorded revenue of RMB2,906 million, which represents a decrease of 24.6% year-on-year, due to near-term focus on sell-in reductions, inventory clearance as well as store rationalization*
- *EBITDA for the six months ended 30 June 2013 was RMB58 million; Loss attributable to equity holders for the six months ended June 2013 was RMB184 million*
- *Operating cash flows improved and capital structure rationalized in 1H 2013*
- *The first phase of the Transformation Plan has achieved favourable results in (i) Improving the financial health of distributors through sell-in reductions and channel inventory clearance; (ii) Rationalising store network in keep with our transforming business model; (iii) Enhancing performance of new products*

2013 full year outlook

- *Based on the success of the initial phase of the Transformation Plan, the Group will continue to implement its strategic plan to create an industry-leading platform with a sports marketing-driven, retail-oriented business model*
- *In 2H of 2013, the Group expects to begin seeing returns from the investments made in 2012 and 1H2013 to lift its financial performance, and anticipates cash flow to continue to improve*
- *Macro-economic conditions and changing sportswear industry dynamics still pose uncertainties for the pace of growth from the Group's implementation of the Transformation Plan*

12 August, 2013 – Hong Kong – **Li Ning Company Limited** (“Li Ning” or the “Group”; HKEx stock code: 2331), one of the leading sports brand companies in China, announced today its results for the six months ended 30 June 2013. Revenue amounted to RMB2,906 million, representing a year-on-year decrease of 24.6%, partly due to sell-in reduction to release cash flow pressures for channels. Gross profits were RMB1,266.4 million, representing a year-on-year decline of 24.0%. Loss attributable to equity holders was RMB184.2 million compared to a profit of RMB44.3 million in the same period last year. Loss per share was RMB15.19 cents. The Board of Directors resolved not to declare an interim dividend for the six months ended 30 June 2013 considering current operating conditions.

The first half of the financial year was a time of transition for Li Ning Company as the early results of the Transformation Plan began to show real progress, while the Company continued to operate in a challenging environment. Li Ning Company’s management adhered to the three strategic pillars – core market (China), core brand (LI-NING) and sports culture, and achieved what it set out for the first phase of the Transformation Plan, particularly in the following areas: (i) improving channel financial health, including

channel inventory clearance and reduction of sell-in to ease cash flow pressures for channel partners; (ii) resizing the business, including rationalization of the store network; (iii) enhancing the performance of new products; and (iv) improving cash flows and rationalizing capital structure.

Mr. Li Ning, Founder and Executive Chairman of the Group, commented, "China's sports industry faces challenges including the hangover from over-expansion, competition from casual wear and the need to meet the more sophisticated consumer tastes of rising China. The market is currently choked with undifferentiated local brand products. As a leading sportswear brand with unique sportsmanship heritage, we think that taking a bold and differentiated strategy is the winning plan. I believe that China deserves a domestic sportswear brand champion and the transformation we've been undertaking will help us to realize this vision."

Mr. Li continued, "With a new Chief Financial Officer and Chief Human Resources Officer joining us in the first half of this year, our senior management is now fully in place. We have a first rate team with improved management systems and processes to unleash our full potential as we continue to execute against our strategic vision."

Speaking about the transformation in the past year, Mr. Jin-Goon Kim, Executive Vice Chairman of the Group, said, "We have achieved what we set out for the first phase of the Transformation Plan and believe the Company has turned the corner, underpinned by meaningful improvements in many aspects of our operations. Although the Group's financial results have not yet fully reflected the benefits from the investments we've made, we are pleased with the achievements of our Channel Revival Plan, as a majority of our distributors are seeing improved cash flow and productivity. I'm pleased to say that we believe the worst is behind us."

In the first half of this year, over 90% of Li Ning's distributors enrolled in the Channel Revival Plan. As a result, average channel inventory turnover has been reduced significantly from over 9 months at its peak to less than 7 months during the period ended June 30, 2013, nearing normalized levels, representing over 30% decrease in inventory value. Most of the Group's channel partners have also experienced improved productivity and cash flow during the first half of the financial year.

Li Ning Company continued to address earlier over-expansion through right-sizing its sales network and closed approximately 400 underperforming stores, while opening high-performing store formats operated directly by the Group and in partnership with top distributors. As at the end of 30 June 2013, the Group has 6,024 stores in total. The Group will continue to rationalize the sales network to achieve a healthier store mix in keeping with our transforming business model.

In addition, the new merchandising model featuring "prescriptive trade fair orders + fast replenishment + fast response" that was introduced at the beginning of 2013 has effectively improved order guidelines and stocking arrangements to distributors. This move to a retail-oriented model has meant that consumer demand is met on a timelier basis, both in and out of trade fair cycles. The strong performance of these products demonstrates the Group's ability to identify and capture market opportunities and improve store turnover.

Furthermore, the differentiated product strategy and brand and marketing strategy have proven highly effective. Under the fast response and fast replenishment models, the Group integrated production with research and development resources into front-end supply chains. This minimized logistics and transportation time and streamlined flows and processes throughout the supply chain, and resulted in the timely introduction and replenishment of best-selling products to satisfy market demand at a faster pace. The partnership with NBA star and three-time championship team player, Dwayne Wade, as well as the CBA sponsorship, have effectively enhanced LI-NING brand recognition and helped boost product sales. As digital marketing is becoming an increasingly important communication platform to young consumers, the Group has also rolled out several initiatives to increase visibility online and encourage more interactive

communications with our consumers.

Another key initiative introduced in the first half focused on strengthening retail operations. Internal capabilities have been enhanced in key areas including fast replenishment for products in stores to increase sales; faster introduction of new products in response to market opportunities, driven by improved data systems; and improvement of logistics infrastructure and supply chain capabilities to support direct distribution. In addition, a retail management program to improve store operating efficiency was launched for the top seven distributors and key stores in the first half of 2013, which has strengthened relationships between the Group and its clients. The program aims to deliver success through effective execution in results tracking, product management and store operating improvements. As at the end of June, the participating distributors and stores posted significant growth in retail performance compared to the periods prior to the launch of the program.

Mr. Kim continued, “We are encouraged by our early successes across a number of operational initiatives and pilot programs, which we believe will not only transform the Group but also make an impact on the way that the industry develops in China. We will continue to move forward in executing the next phase of the Transformation Plan and look forward to seeing the value come from these investments. For the full year of 2013, we expect the Company’s operating cash flow will continue its positive trend, along with our distributors’ profitability. The management team is confident we will deliver on the vision and strategy we promised to our shareholders in the coming years.”

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About Li Ning Company Limited

Li Ning Company Limited is one of the leading sports brand companies in China, mainly providing sporting goods including footwear, apparel, equipment and accessories for professional and leisure purposes primarily under the LI-NING brand. Headquartered in Beijing, the Group has brand marketing, research and development, design, manufacturing, distribution and retail capabilities. It has established an extensive supply chain management system and a retail distribution network in China, predominantly through outsourced manufacturing operations and franchised distribution.

In addition to its core LI-NING brand, the Group also manufactures, develops, markets, distributes and/or sells sports products under several other brands, including Double Happiness (table tennis), Kason (badminton), AIGLE (outdoor sports), and Lotto (sports fashion) which are either self-owned, licensed or operated through joint ventures.

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