

*For immediate release*



**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 2014**

*Transformation Entered Build Phase and Poised for Steady Growth*

### **Financial and operational highlights**

- *The Group recorded revenue of RMB3,137 million, which represents an increase of 8.0% year-on-year, mainly due to the higher retail sales of new products with the Group's expanding self-owned retail store network*
- *EBITDA for the six months ended 30 June 2014 was loss of RMB351 million; loss attributable to equity holders for the six months ended 30 June 2014 was RMB586 million*
- *Excluding one-time costs, our platform overhead cost relative to revenue scale created significant negative leverage for our profitability and resulting in negative operating cash flow*
- *The Transformation Plan has achieved anticipated results in improving sell-through momentum on new products and rationalizing store network and supply chain*

### **Outlook**

- *The Group will unswervingly implement the Transformation Plan, but the benefits will take time to be reflected financially as well as to reach full profit potential and achieve long-term sustainable growth*
- *The Group will continue to focus on enhancing brand image through core sports resources, optimizing channel efficiency and cost structure, improving value proposition of products and consumer experience in stores, to create value for our shareholders*

14 August, 2014 – 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 2014. Revenue amounted to RMB3,137 million, representing a year-on-year increase of 8.0%, mainly due to higher retail sales of new products with the Group's expanding self-owned retail network. Gross profit was RMB1,399.6 million, representing a year-on-year increase of 10.5% due to different cost structure of these retail operations. Loss attributable to equity holders was RMB585.8 million compared to a RMB184.2 million loss last year. The loss was mainly due to (i) net loss excluding bad debt provision impact and other items, which was in line with that for the same period last year and mainly due to upfront investment to implement the Transformation Plan and reduced sell-in following a period of channel inventory de-stocking; (ii) provision for doubtful debts to further address the risks in the Group's path to recovery; and (iii) other expenses which were primarily one-time in nature. However, core operating loss net of these factors reduced year-on-year.

The Board believes that these are critical initiatives for the implementation of the Transformation Plan, and it will take time for the benefits of the Transformation Plan to be reflected financially and for the Group to ramp up to its full profit potential.

During the first half of 2014, the Group carried forward upfront investment in line with the Transformation Plan initiated in July 2012, including the investments in direct-retail network expansion to fill gaps in the channels, unique marketing assets within core sports categories and building the new platform for the LI-NING brand. Meanwhile, the Group closely monitored sell-in during the channel inventory clearance period with a view to strike a balance between destocking the old inventory and the sell-in of new products. These key initiatives will allow the Group to gradually release its full earnings potential<sup>1</sup> in the long run. However, the Group faces challenges including about 10% of the weakest channel partners with concentration of old inventory, and healthy business still being inadequate to cover the platform costs as old inventory depletes; therefore, full recovery needs more time. In the short term, the Group still faces pressure against its financial performance indicators. As of 30 June 2014, the Group's net debt was RMB267 million (after bank borrowing and convertible bonds liabilities).

Mr. Li Ning, Founder and Executive Chairman of the Group, commented, "With the increasingly sophisticated consumers' taste and emphasis on value-for-money, we further aligned our marketing strategy to shift resources and focus on connecting with consumers in core sports categories. We also rationalized non-core sport marketing assets to enable investment in critical ones, resulting in stronger brand equity among our target consumers. Even though it takes time for the transformation effort to be reflected in our financial performance, we strongly believe that the vision of building LI-NING as China's leading sportswear brand with authenticity and unique market assets is the right path for the Group. Under this direction, we will continue to pursue obtaining a dominant position in key assets to realise the full potential of the brand's value, as well as providing consumers the latest innovations in our product offerings, and enhancing the overall retail experience."

Commenting on the transformation progress, Mr. Jin-Goon Kim, Executive Vice Chairman and Interim Chief Executive Officer of the Group, said, "Our transformation is on-track and now entering the build phase, with promising early signs. We extended our market coverage across price segments during the first half of 2014. We've seen encouraging results on new product performance and good progress on delivering a well-designed, enhanced price-to-value proposition, achieving better sell through rates and higher margins. These results reaffirmed our confidence on the progress of the Transformation Plan and the ground work we've invested in the past two years to strengthen our retail platform and capability across supply chain, merchandising, sales network and marketing."

In executing the differentiated product strategy, the Group's reforms in product design, supply chain and retail promotion resulted in continuous improvements in new product sales, as witnessed by the higher selling prices and sales velocity as well as the significantly increased proportion of new products with improved gross profit margin in the first half this year.

During the first half of 2014, the Group continued to execute its merchandising model of combining trade fair, A+, Quick Replenishment (QR)/Quick Strike (QS) to support its product launches. The contribution of such guided orders continued to grow steadily. Meanwhile, progress was also made in implementing the IT integrated full retail platform for all self-owned and parts of distributor-owned stores. In order to minimise the supply and replenishment time, the Group rolled out one common planning tool to suppliers to ensure quick response to market demand changes.

In branding and marketing, the Group continued to take a focused approach in investing its resources to promote the LI-NING brand. Its disciplined cost cutting measures enabled bold investment in strategic marketing around core sports resources. The Group strengthened interaction with target consumer groups, particularly the growing middle class consumers, with a focus on the five mostly popular core sports categories, namely basketball, running, badminton, training and sports life. Besides leveraging top domestic resources to enhance sports experience of events, the Group also brought LI-NING brand closer to the growing youth market through campus platforms, as well as further solidifying brand loyalty through innovative digital marketing.

Mr. Kim concluded, “We believe that our efforts and continued investment in carrying out the Transformation Plan will be gradually reflected in the Group’s financial performance. I’m very proud of the strategic direction we’ve set in the transformation and the vision of building the leading retail brand in China, and believe it is the best way to deliver the highest value for stakeholders in the medium to long term.”

- End -

### **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.

*For further information, please contact:*

### **Brunswick Group Limited**

[LNC@brunswickgroup.com](mailto:LNC@brunswickgroup.com)

**Cindy Leggett-Flynn**

Tel: +852 3512 5000

Mobile: +852 9131 2601

**Siobhan Xiaohui Zheng**

Tel: +852 3512 5000

Mobile: +852 9131 5202

**Monica Wong**

Tel: +852 3512 5000

Mobile: +852 6323 3681