



**LI NING COMPANY LIMITED**

李寧有限公司

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

**(Stock Code: 2331)**

## **Li Ning Company 2015 Interim Results Presentation - Chairman Section**

### **PPT slide 21**

Hello everyone! Let's have a review on the performance of first half this year. We prudently executed our strategy since last year, with three pillars — product, sales channels, and operations — as the operating platform to support the five core categories.

### **PPT slide 22**

These five categories, running, badminton, basketball, training and Sportslife, have a promising future in Chinese market, as well as room for growth. Our total sell-through increased by 10% in the first half on a year-on-year basis, which was contributed by the five core categories. By focusing on these five categories, all of the sell-through experienced a double-digit growth, with basketball and running are outperforming. Basketball products sell-through increased by 43% compared with last year. By comparing new products, which is defined as current and last season, the growth achieved 61%.

With the focus on the five categories, we allocated more resources on areas with higher profitability and growth potential. At the same time we made some readjustment on other business such as tennis and football. Apart from focused investment in the five core categories, we will better allocate our resources to capture future growth. Take football as an example, we lost many of our market share last year and what can we do to re-capture the share in this growing market in the future?

### **PPT slide 23**

As I have discussed before, digital business will be a major driver for the future of the Company. We expect that smart sports would become the major trend in the next five years. We have done many research and preparation here, that's why now we are able to produce smart products for running. The “digitization” is not simply selling a product online, rather is an incorporation process, through obtaining data and information from the market, together with our understanding of sports, our manufacturing and designing capacities. In another words, starting from we create a product and send it to the market, until it was sold and experienced by consumers, the whole process involves digital technologies and platforms, which is not just simple E-commerce.

E-commerce is not that simple as of our understanding on the market potential, impact and opportunities. When expanding the e-commerce business, key items to be considered are how to create this product and how can be profitable. By putting offline products online is not enough, so what we are doing is a digitized business, a new business model. As I mentioned before, that is an integration of demand, production skill, designing capacity, customer experience, and sports culture. Our first step of digitalized business is the launch of smart running shoe in cooperation with Huami.

The product was launched on July 28; up until yesterday, we have sold nearly 50,000 pairs of these smart shoes. Sales are realized through online channels, but also driven by offline interactions. All our channels are becoming one single interactive platform, a consumer experience.

We will launch a new basketball shoes on Aug 18, which is also a popular consumer product targeted on young people. We are planning to promote based on mobile internet platform, incorporating CUBA (Chinese University Basketball Association) games, CBA (Chinese Basketball Association) and different level basketball leagues, step by step building the sales of this product through customer experience and user experience. We have made investment and now we have seen some results, we will continue to invest and expand this business model gradually.

#### **PPT slide 24**

In terms of sales channels, we will continue to strengthen the cooperation with our partners (Distributors), although online channel has much room to expand, offline channel remains the mainstream. Offline channel is our foundation of the business. During the transformation in the past few years, we lost some of the channel capabilities and point of sales (POS) that we used to have. Starting from this year, our channel capabilities recovered gradually. During the first half, the number of our franchise POS recorded a net increase for the first time since 2011 with over 42% of the new stores are located in southern China, where market potential is higher and low-penetrated in the past.

In online sales, our growth rate for the first 6 months is impressive: nearly 100%. As for the whole strategy, we estimate that it would be ideal if our online revenue would account for 20-30% of total revenue in the next 3-5 years. We believe this is a reasonable and attainable levels that can allow us improve efficiency and profitability. This is not a simple business growth that just selling products online, but a digitized business model based on mobile internet would lead to future online growth. We have been started the integration of online and offline interactions, cash flows, and information flows; but we expected it would not be fully realized until year-end. We are putting in efforts this, and hope to achieve further progress in the next two to three years.

#### **PPT slide 25**

In retail operations, we are also making great progress. As we have discussed in the past, how we create a closed loop of product planning, product development, product sales mix, in-store retail, stock clearance and cash conversion, so as to ameliorate out ability in every season.

We recorded good results from operating data: the sell out rate of the Q2 is up by 7percentage point as compared same period last year, and the SSSG in Q2 have a double-digit growth. At the same time, the inventory level and operating cash flows both shows obvious improvement, but we still takes time to improve our inventory management ability. We believe that we are still behind our overall retail capability target, since there is still huge room for improvement in the two crucial aspects: product planning and product development and that requires season by season improvement. We have to invest more and require improvement in these areas in the second half and next year in order to better connect our channels, products, consumer demand, potential customers and our own abilities.

Through our successful first half year's operation, our whole team has seen great advancement. We are confident that in the next 3 years, our operating capabilities will achieve significant improvement and enhance our competitiveness.

## **PPT slide 27**

I would like to take this opportunity to discuss about the prospect of the second half of this year. We will start make clearer marketing positioning strategies in second half, mainly through two strategies:

We are a sportswear and equipment company, what should we do in the professional products market? At the same time, as urbanization continues in China, more people are becoming interested in sports — this interest does not necessarily mean professional sports, but rather a kind of lifestyle and a way to relax. Consumers spending on fitness and lifestyle sports will increase. Therefore, we need to have more distinct strategies and clear positioning in both professional functionality and sports life segment. Products, sales channels and communication with the consumers are the areas that require more distinctive and accurate strategy and positioning. These two niche markets would play a crucial role in the expansion in sales, profits and future sustainability.

We have a clear positioning our current LI-NING label now: Sports Functionality products such as basketball and badminton. The current LI-NING label will maintain its image through R&D capability, channel communication and promoting sports profession. On the other hand, we will use the blue LI-NING label for Sports Life products. We will build our operations on the mass lifestyle trend, which is a demand for leisure and lifestyle sporting culture. Product design, communication channels establishment and image of stores will be based on such demand.

On my right is the revamped Wangfujing store on August 8, here is the Sports Life sector. In the meantime, as we promote professional and lifestyle sports, we hope to provide more in terms of customer experience. As we can see here, for professional sports, our Wangfujing store has established a running experience sector. We provide personalized services, helping you to choose the appropriate product based on tests of your foot shape, your running movements, and foot ergonomics. Apart from these, we also have some cooperative programs with fitness, training and rehabilitation organizations: you can receive training guidance such as how to avoid knee and ankle injuries, and how to train etc. This is a running experience store that we built a platform for consumers may ask their friend to run together in store, or to run on Chang'an Avenue.

We hope to integrate the sporting experience, consumer interactive, sales model and product experience all together, to develop our professional sports functionality market. As for Sports Life, we should cater for the trend that the people want. This is fashion; consumers will follow the trend. These two markets require two different strategies; I hope we can refine them later on.

## **PPT slide 28**

We put a lot of work in the first half this year and the KPI shows obvious improvement. Next step we will put more effort further refine our branding strategy, expand our sales network, with focus to increase our penetration rate in southern China. We will continue to improve cost control and operating efficiency. In the course of expansion, we should maintain control on inventory levels. As for cash flow management, we will continue to lower the funding cost. All in all, the management team has confidence in profitable by year end and back on profitable track.

Many shareholders and investors are paying close attention to the possible hiring of a new Chief Executive Officer (CEO), and I'll talk about this briefly. The board will look for a candidate to do this job, to lead LI-NING Company in the future. But before this new CEO on board, I will do my best to lead the company, fully devoting into the operations to put it back on track, and lay the foundation for the future 3-5 years.

## **PPT slide 29**

In short, though the Chinese economy has some fluctuations, the overall urbanization is unstoppable. The demand for leisure and healthy lifestyle is irreversible. To satisfy this demand, sports is the biggest and most active platform, which means a promising future. LI-NING Company has confidence in China's economic and social developments and obtaining growth potential for ourselves. Of course, we all know this industry is becoming more competitive, but LI-NING has always been a rather special company, for we are not simply a manufacturer, and we do not simply focus on a certain product. When we make a product, we still maintain our own values and ideals; we incorporate our idea, our understanding of product as well as sports into the whole business operation.

So it's not my personal decision, all our staffs, the management team and many customers all have high expectations — they even want to bring back the old slogan of “Anything is possible”. This company was conceived in my professional sports career, and established by athletes. Way back then I said I wanted a Chinese brand that is based on the “athletic gene”. What is the “athletic gene”? Something that can inspire our imaginations and stimulate our pursuit. That's why I think this slogan indeed better suits the company. But whatever the slogan says, the important thing is that our staff and our team are working with this gene.

Therefore, I am confident and my team is confident, that we can manage our business well, and build an outstanding sports brand. We can give our shareholders good returns, and we can make this company a competitive sports company in China as well as in the world.

Thank you!

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