



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)

2014 Interim Results Investor Presentation



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Agenda

- Results Overview and Business Highlights
- Strategy and Transformation Plan Update
 - Transformation Context
 - Building China's Leading Brand
 - Operating Results
- Financial Highlights
- Appendix



Results Overview and Business Highlights



Results Overview

Continued progress in retail business model and new product performance, but 2014 1H financial results challenged due to legacy issues and transformation investments.

- ➔ Revenue up 8% year-on-year mainly due to higher retail sales of new products
- ➔ Net loss increased from 184 Mil to 586 Mil RMB year-on-year mainly due to upfront investment in transformation initiatives, provision of doubtful debts and other items; core operating loss net of these factors improved meaningfully
- ➔ Excluding one-time costs, our platform overhead costs relative to revenue scale created significant negative leverage for our profitability and resulting in negative operating cash flow
- ➔ Transformation initiatives required upfront investments in 1) building out direct retail network to fill the gaps in the channels, 2) unique sports assets critical to the core strategy, and 3) investments to build the new platform for the brand
- ➔ New products focusing on 5 core categories continued solid double-digit growth, allowing the business to turn the corner on retail sales decline, just as depletion of old inventory started to contribute less to overall business and cash flow
- ➔ Transformation is on-track and entered the “build phase”, with promising early signs, but challenges remain with 1) about 10% of the weakest channel partners with concentration of old inventory, and 2) healthy business still being inadequate to cover platform costs as old inventory depletes; hence, full recovery needs more time
- ➔ Overall market faces headwinds, with greater pressures on commodity low-end segments, validating our strategy to focus on differentiation in 5 core categories

2014 1H Business Highlights

Operations

- ➔ Execution of new retail model on track and showing signs of success
- ➔ Old inventory level is down around 38% while new product inventory mix and sell-in began recovery, but about 10% of channels is still struggling and at risk
- ➔ Store count and retail sales stabilized, with direct stores replacing gaps in the channels and increasing profit contribution, but new direct stores burden cash flow and profit for first six to twelve months
- ➔ Scale is needed to support the platform, but growth needs investment and successful shift in strategy, leading to execution risks and earning pressure

Products

- ➔ New products continued with over 10% growth with strong sell out rates and pricing, largely making up for reduced sell-in and old product sale
- ➔ Shift to 5 categories with distinct value proposition across key price tiers has been working, driving higher growth than overall business

Marketing

- ➔ Aligned marketing strategy and shifted resources to 5 core categories and youth, shifting from traditional media to high-ROI digital campaigns and e-commerce, resulting in stronger brand equity among target consumers
- ➔ Optimization of non-core assets, focus on ROI, and cost reduction, to enable investment in critical assets such as national basketball leagues

Differentiated Products Offer Price-Value Proposition (Video)





Strategy and Transformation Plan
Update

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3 Phases of Careful and Decisive Business Resizing

For illustration only



Phase 1

- Sell in > Sell Through
- Old inventory build-up
- High AR
- Negative cash flow

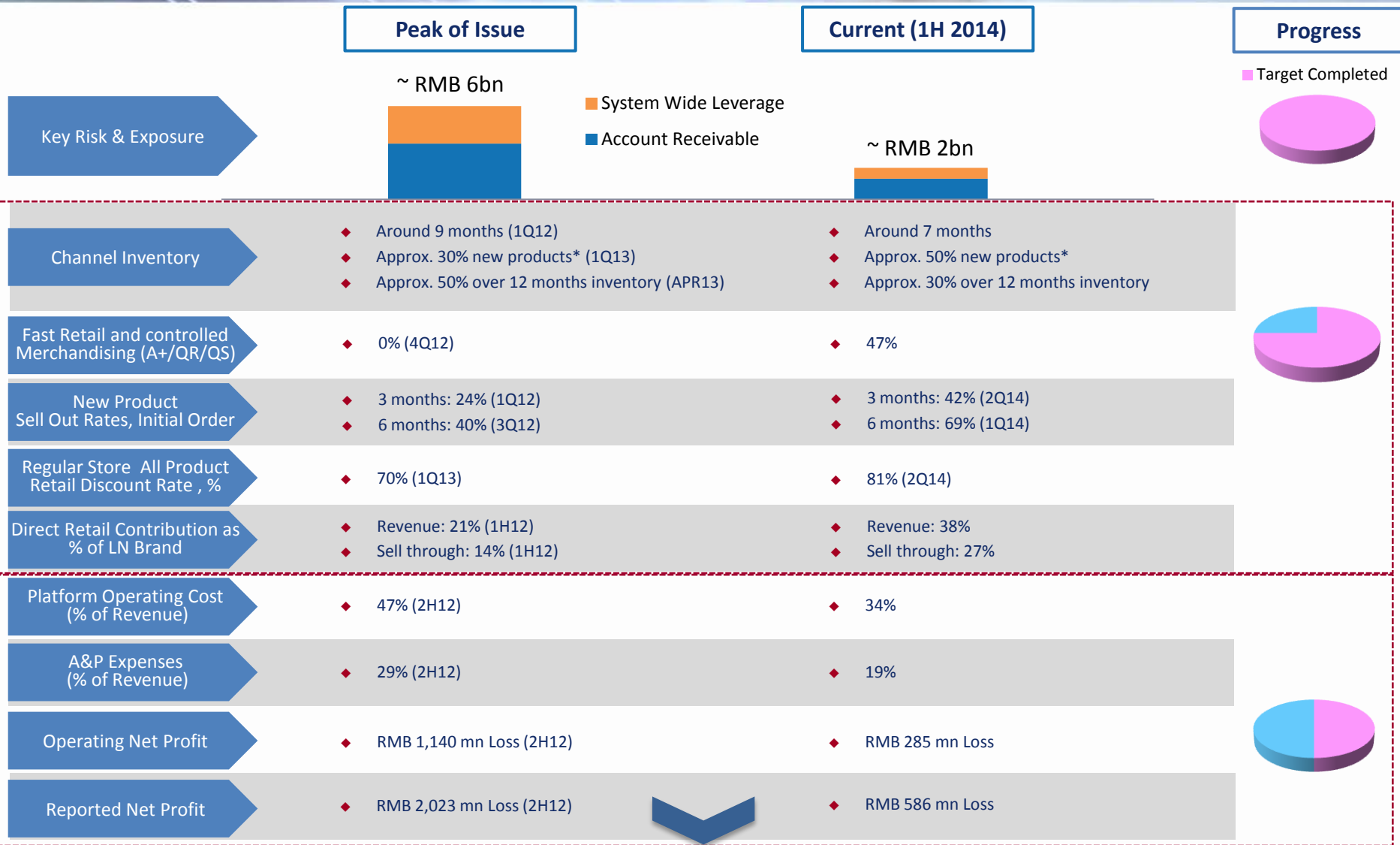
Phase 2

- Sell Through > Sell in
- Old inventory depletion
- Cash flow recovery
- Negative profit

Phase 3

- Sell Through recovery led by sell in rebound
- Higher mix of new product sell through and higher GM%
- Profit and positive cash flow

Transformation Results : We are Half-way Through It



Fundamentals have improved but will take time to be reflected in the financial results

*New Product: Last, current and next season products

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Strengthening Our Unique Strategic Advantages

1 Top brand, getting stronger and younger

- Top 20 brands associated with “Chinese Dream”
- On par with the leading global brands in brand strength
- LN’s appeal to the youth has increased significantly and on par with leading global brands at 82.5% purchase consideration*
- CBA & CUBA sponsorships, along with Jessica collaboration, have greatly enhanced brand awareness among the youth*
- Stronger than all other brands in “Pride for Chinese”, “authentic” and “inspirational”; outstanding brand image in “reliable”, “spirit of challenging”, “transcending yourself”*

*Source: Millward Brown, 2014 IMC study

3 Products with distinct value proposition is working across wide price range

- Chinese consumers’ requirement for physical fit, style and functionality preferences, and price-value expectations



New Design Concept
Rebirth



Optimized Technology
tailor made for wider Chinese feet



2 Focus on core categories is working

5 category specific strategies show promising early signs:

- Retail experience and brand positioning
- Product value proposition and design
- Go to market and marketing plans



4 Continue execution of industry’s first direct-retail and fast-fashion model

- Replaced passive wholesale with active management of merchandising and retail operations, to enhance consumer retail experience and keep up with rapidly changing consumer demand
- Industry’s first end-to-end supply chain management that enables direct retail has been implemented to large part of the direct and indirect store network
- 50% of business in guided order and fast-fashion based on local differences and store formats, enhanced by in-season product reallocation based on actual retail sales

1 Top Local Brand

Top Brand in Sportswear and Across All Categories

1 CHINESE BRANDS THAT MATCH THE CHINESE DREAM

Only brand in sportswear and fashion

These Chinese brands, from a wide variety of categories, are the most matched with the Chinese Dream.

Brand	Category
 AIR CHINA 中国国际航空公司	Air China Airline
 CITS 中国国旅	CITS.com.cn Travel Agency
 万科	Vanke Real Estate
 HUAWEI	Huawei Technology Provider/ Consumer Electronics
 中国平安 PING AN	PingAn Bank Banking
 lenovo 联想	Lenovo Consumer Electronics
 ZTE中兴	ZTE Technology Provider
 htc	HTC Consumer Electronics
 sina 新浪网 sina.com.cn	Sina.com.cn Internet Technology
 伊利	Yili Dairy

Brand	Category
 Bai du 百度	Baidu Internet Technology
 Haier	Haier Home Appliances
 LI-NING	Li-Ning Sports Goods
 MOUTAI	Moutai Alcohol
 中国銀行 BANK OF CHINA	Bank of China Banking
 PetroChina	PetroChina Oil and Gas
 360 www.360.cn	360.com.cn Internet Technology
 TSINGTAO 青岛啤酒	Tsingdao Alcohol
 Tencent 腾讯	Tencent Internet Technology
 双汇集团 SHUANGHUI GROUP	Shineway Food

Most Recognized sportswear brands

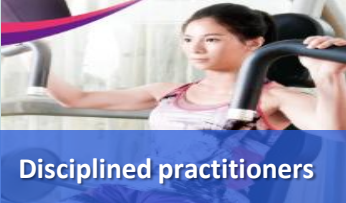


Data source: WPP Nov 2013 Survey

	First mention	Total mentions (Unaided)
Nike	18	70
Adidas	20	71
Li Ning	18	68
Anta	12	44
361	12	53
X-Step	4	25
Peak	1	9

On Par

2 Category Initiatives Building Brand and Driving Sales



Focusing on 5 Core Categories Requires Different Strategies and Initiatives

	Core Target Consumers	Selected Key Initiatives in 2014 1H	Examples of Achievement
Basketball	 <p>Cool campus sports enthusiasts & players</p>	<ul style="list-style-type: none"> CBA campaign, including: <ul style="list-style-type: none"> Li-Ning Cloud launch via CBA All-star event "This is My House" CBA fanpack campaign "Team Wade" digital campaign "Dominate the Court" college town event Continuation of three tier pricing position strategy 	<ul style="list-style-type: none"> 5.1 million viewers in 3 days for CBA All-star CBA fan pack grew +231% Y-O-Y >90% positive feedback & 1,000% ROI on "Team Wade" 22,000 participants in college town event High double-digit growth in basketball business
Running	 <p>Working sports lovers & committed runners</p>	<ul style="list-style-type: none"> Super Light "Floating" launch, digital and TVC Li-Ning 10K expansion to multiple cities Li-Ning professional line product launch Customized running experience (media camp, Olympic park running group, 约上TA running event) 	<ul style="list-style-type: none"> "Floating" digital campaign >60 Mil RMB media value >130% Y-O-Y in 10K participation with younger profile Strong sales of professional product on e-commerce Grass-roots brand building among core runners
Training	 <p>Disciplined practitioners</p>	<ul style="list-style-type: none"> "AT challenge" digital program KOLs seeding expansion among gym trainers Seasonal product exposure among Gold Medal team Launched best-of-breed performance products with leading global supplier partner 	<ul style="list-style-type: none"> "AT challenge" 20 times of media value vs. investment High-end product endorsement by local gym trainers Participation of athletes in digital and retail marketing Successfully entered high-end market at value pricing
Sports Life	 <p>Trendy, stylish youths with sports inspiration</p>	<ul style="list-style-type: none"> Li Ning Premium (LNP) launch with Korea design studio Let's Play launch with Hong Kong design studio Top K-Pop Star campaign (Jessica of Girls Generation): <ul style="list-style-type: none"> Industry's first crossover collaboration "Like Star" digital launch College campus activation campaign 	<ul style="list-style-type: none"> Launched premium sports fashion with good retail sales Let's Play integrated weibo, RenRen, E-C, PR and retail, to generate massive word-of-mouth and reach 40 Mil Jessica launch generated 4 times of highest ecommerce traffic, #1 on weibo topic with 67 Mil (mostly young) readers, generating over 60 Mil RMB media value
Badminton	 <p>Committed amateur sports enthusiasts</p>	<ul style="list-style-type: none"> Thomas Cup/Uber Cup digital & PR campaign British Open digital & PR campaign Introduced products for non-professional market 	<ul style="list-style-type: none"> Thomas/Uber Cup digital campaign attracted new Li-Ning wechat fan by +22% Good initial response for lower-pricing in mass market

3 Distinct Value Proposition in All Key Price Tiers


Basketball Shoes Example

Li Ning 2014 basketball season Hero Products; only brand to succeed across multiple price tiers

Categories	Target Consumers	Value Proposition		Sales Performance
Premium (Enter New Business – Signature)	<ul style="list-style-type: none"> DWade fans Semi-pro or serious amateur players Sneaker collectors 	<ul style="list-style-type: none"> Designed with DWade for NBA competition 40+ unique color way combinations 30% to 50% cheaper than Nike Signature 	<p>RMB 899-1305</p> 	WOW Lei Fung edition: complete sell out within hours across both EC and select store channels
Premium (Enter New Business – Best)	<ul style="list-style-type: none"> Experienced outdoor and indoor players 	<ul style="list-style-type: none"> Wade Signature elements reflected Li-Ning Technology Platform Unit Bow Distinct color way combinations 	<p>RMB 599</p> 	Avg. Sold Out Rate: 20% in first 5 Weeks
Core (Enhance Existing Business - Better)	<ul style="list-style-type: none"> CBA fans Basketball subculture enthusiasts 	<ul style="list-style-type: none"> Midsole carbon fiber shank providing advanced midsole support TPU film upper reinforces lightweight design CBA promoted 	<p>RMB 499</p> 	Avg. Sold Out Rate: 44% in first 8 Weeks
Entry (Claim Back Business – Entry)	<ul style="list-style-type: none"> Students with frequent playing Basketball enthusiasts on budget 	<ul style="list-style-type: none"> Quality construction available in a variety of commercial colour options High value at an affordable price Sleek, distinct Li-Ning branding 	<p>RMB 299</p> 	Avg. Sold Out Rate: 39% in first 8 Weeks
















3 It Also Works Across All Five Categories

Examples of Successful Enhancement of Selling Points

	Product Item	2013 1H	2014 1H
Basketball	 <p>LN Rebirth Butterfly</p>	<ul style="list-style-type: none"> • Conservative color way and style • Lack of promotional support • Sell out rate: 17% in first 13 weeks 	<ul style="list-style-type: none"> • Li-Ning heritage story • Bold, impactful color coordination and design • Promotional support at market • Sell out rate: 30% in first 8 weeks
Running	 <p>LI NING CLOUD</p>	<ul style="list-style-type: none"> • 13Q1 Lining Bow 	<ul style="list-style-type: none"> • New material, enhanced cushioning technology and updated fit construction • Sell-out rate: Sell through volume per 12 weeks up by over 50%
Training	 <p>ATDRY FREEZE TEE</p>	<ul style="list-style-type: none"> • Limited functional benefit from base material; designed for comfort first • Sell-out rate: 39% in first 14 weeks 	<ul style="list-style-type: none"> • New ATDRY FREEZE fabric maintains comfortable hand feel and adds performance benefit • Sell out rate: 56% in 14 weeks
Sports Life	 <p>Big fonts sweat</p>	<ul style="list-style-type: none"> • Base colors are too aggressive and bright • Sell-out rate: 22% in first 16 weeks 	<ul style="list-style-type: none"> • Add commercial color way and fabric combinations (blue heather) • Sell out rate: 52% in first 16 weeks
Badminton	 <p>Hero II TD</p>	<ul style="list-style-type: none"> • Performance technology and innovation is understated in the design • Sell-out rate: 21% in first 2 weeks 	<ul style="list-style-type: none"> • Take down of the National Team sponsorship model (replicated design element) • More cost effective with reduced material and technology prices; increases commercial success • Sell-out rate: 67% in first 24 weeks

2 3

Distinct Value Proposition Applied Across Key Price Tiers For All Five Categories

Categories	Basketball	Running	Sports Life	Training	Badminton
Premium (enter new business)	 <p>RMB 1305 WOW Lei Fung</p>	 <p>RMB 549 Strike transition</p>	 <p>RMB 549 Galaxy 8 in 1</p>	 <p>RMB 369 BEIFU BB Base Layer</p>	 <p>RMB 1099 Light-Fly</p>
Core (enhance existing business)	 <p>RMB 499 BB Lite 2</p>	 <p>RMB 439 Li Ning ARC</p>	 <p>RMB 399 Knt Wvn mix sweat</p>	 <p>RMB 269 Knt Wvn mix sweat</p>	 <p>RMB 549 G-Cloud</p>
Entry (claim back business)	 <p>RMB 299 COMBAT</p>	 <p>RMB 299 Li Ning ARC element</p>	 <p>RMB 219 Color block sweat</p>	 <p>RMB 159 V collar heater tee</p>	 <p>RMB 369 Value</p>

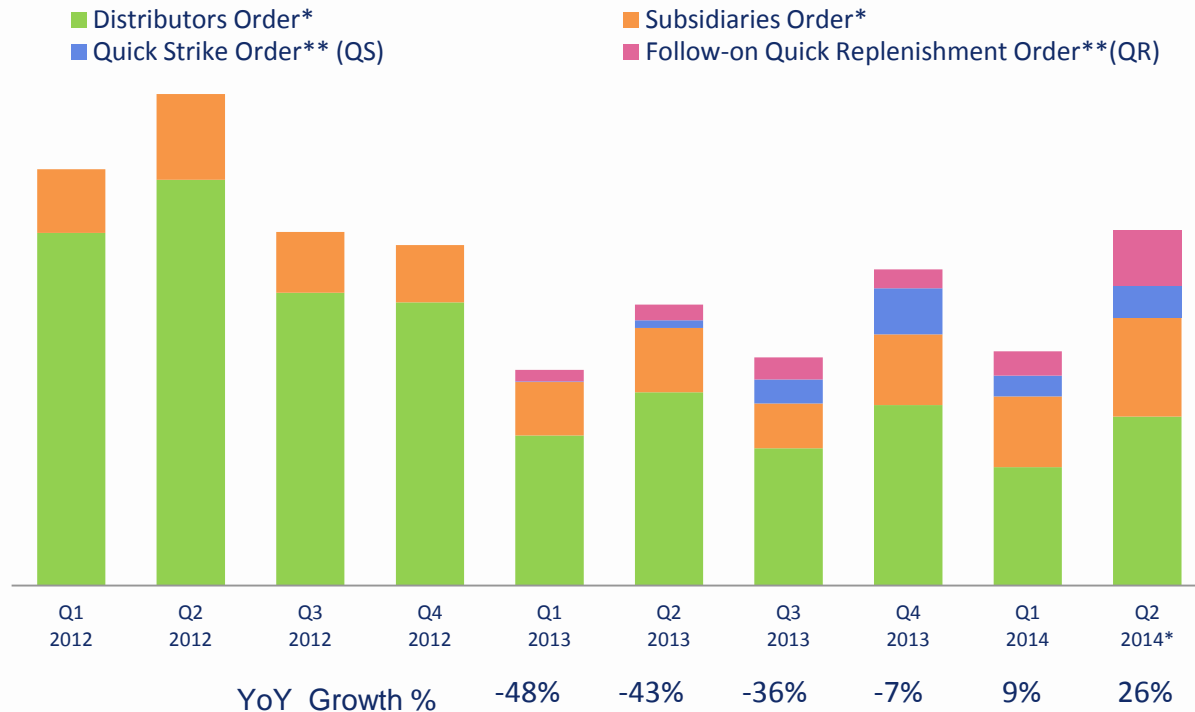
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Sell In is Recovering After Resizing Last Few Quarters

Open To Buy[^] (Tag Price)



2012H1



2014H1



Trade fair order start growing since Q2 14 driven by subsidiary

[^] Products shipped during the quarter indicated; historical data, not forward looking

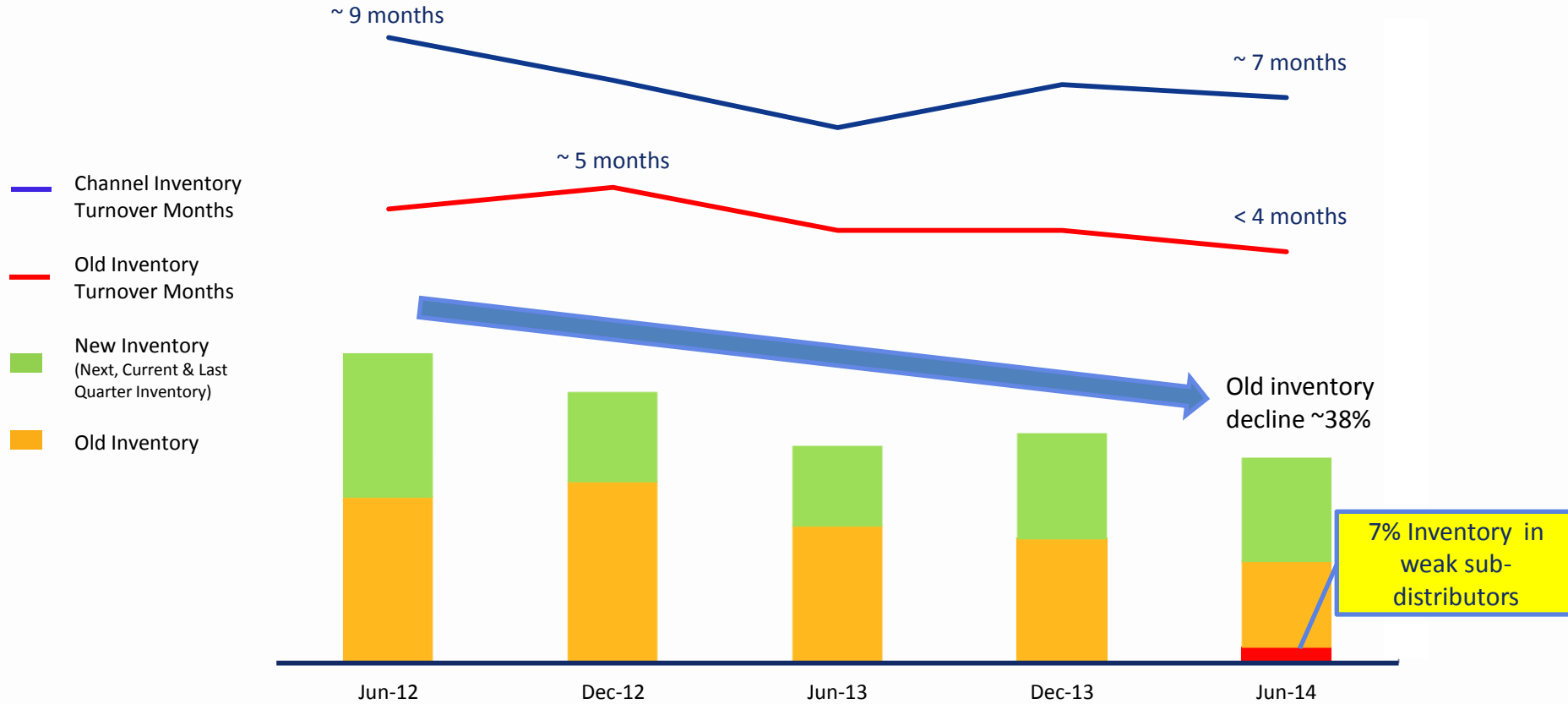
* Order placed during trade fair, e.g. 2014Q2 order were placed almost one year ago

** Order placed and shipped during the quarter indicated

Significant Reduction of Old Inventory

Channel Inventory and Turnover Months

(Rolling 12 months Turnover Average)

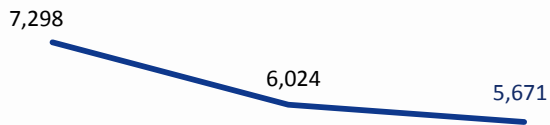


Significant reduction of problematic old inventory in step with the resizing of the business, and returning to healthier inventory mix and level

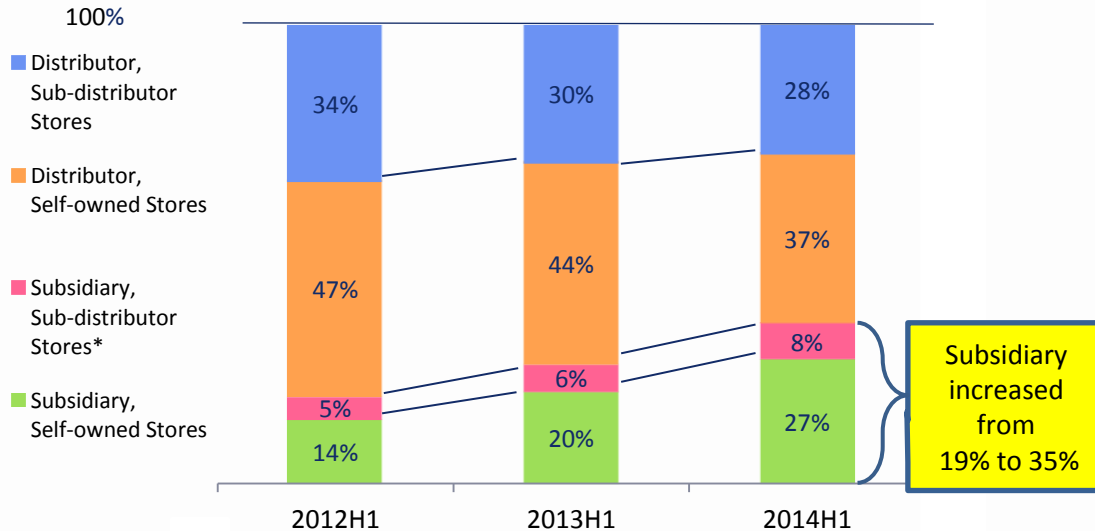
Mix Shifting to Direct Retail Channel

LI-NING Brand Distribution Channel and Retail Revenue Mix

Total number of stores



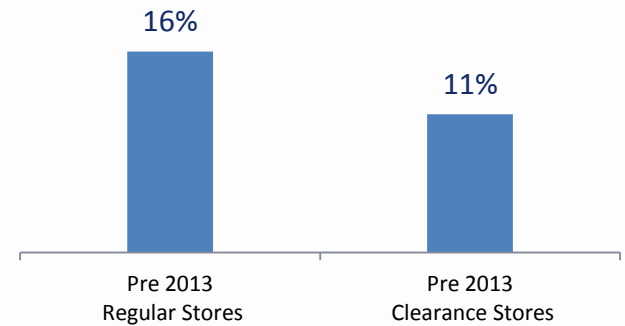
Retail Revenue Mix



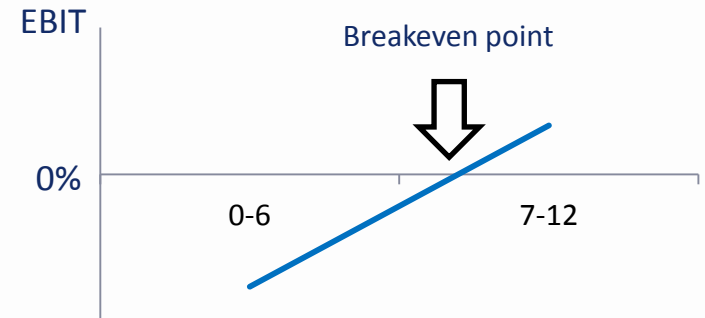
*Sub-distributor under subsidiary more profitable since wholesale margin not given away

Direct Store Unit Economics (EBIT)

Mature Stores Profitability (2014 H1)



New Stores Profitability (Months in Operation)

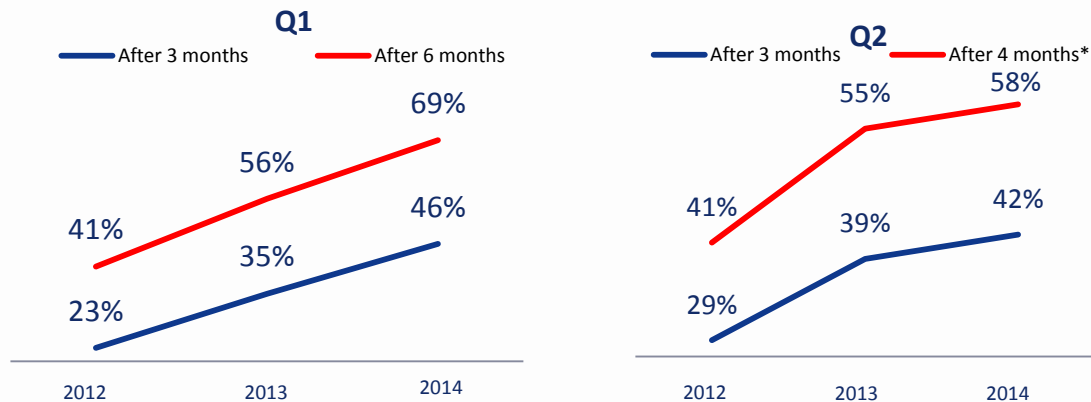


Stabilized store count and optimized retail channel to improve profitability

Mature stores are profitable and improving, new store usually take around 6-9 months to be profitable

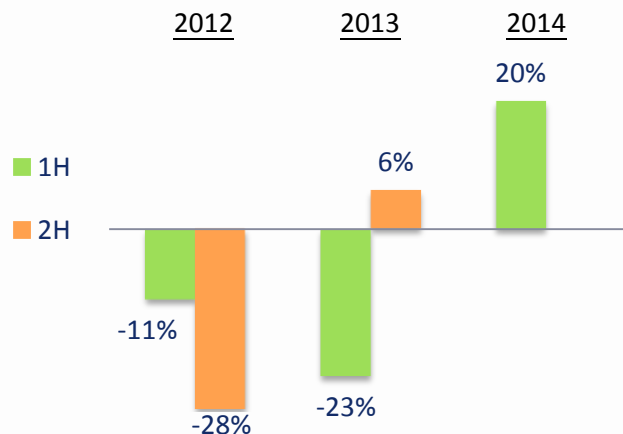
Strong Performance for Current Season Products

Sell-Out Rates (end of the season, %)

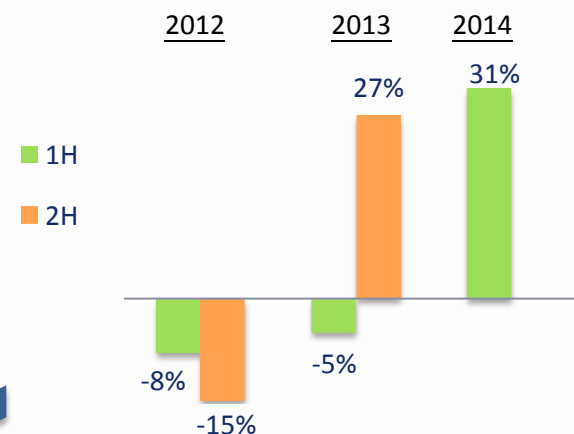


*August and September data not available yet, 4 months sell-through data used for Q2

Sales Growth Rate^ (% YoY)



Sales per month per Store Productivity Growth** (% YoY)



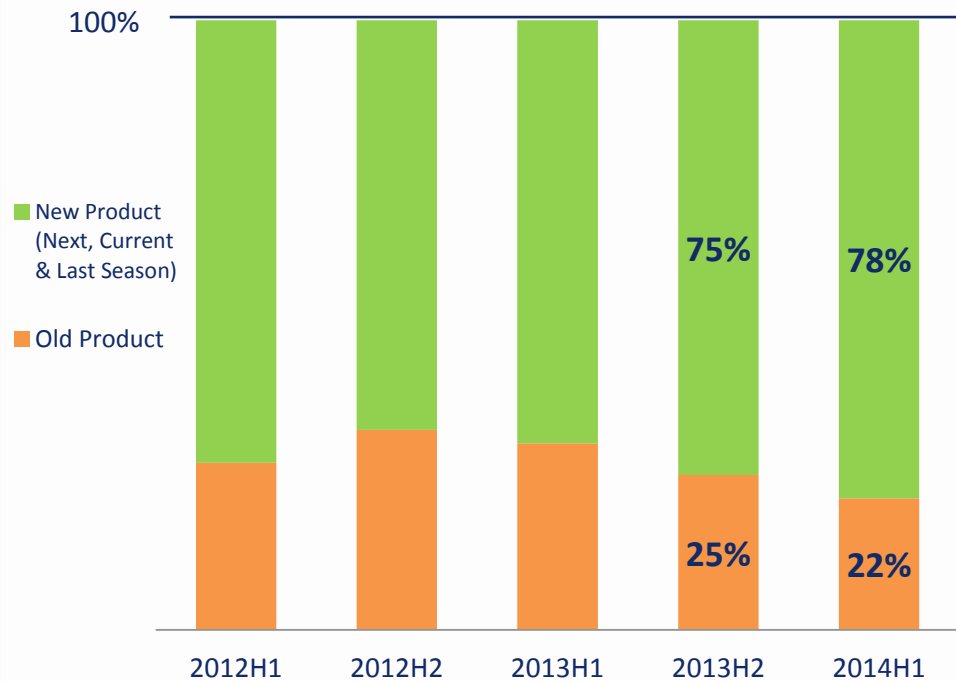
Strong performance of current season products driving business growth

^Semi-annual sell-through growth YoY in regular channel

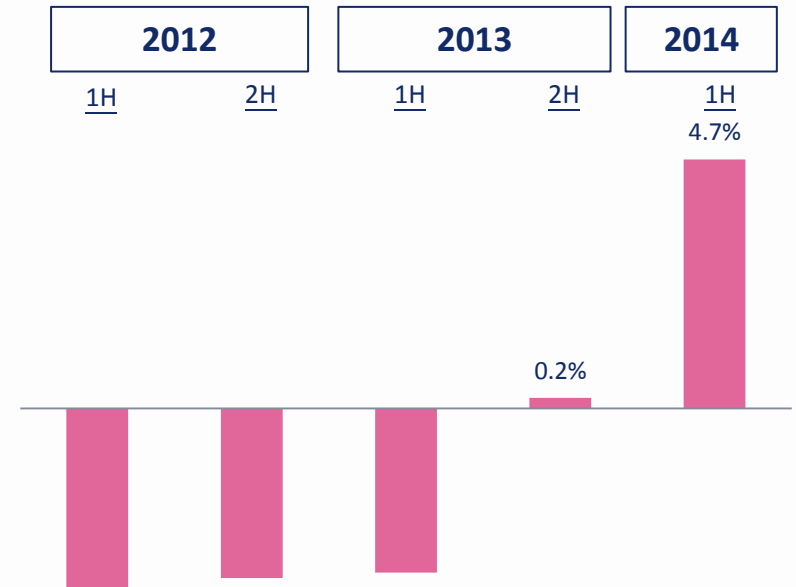
**Period total sell-through in regular channel/ weighted average number of total stores

Improving Product Mix Stabilizing Overall Sales

Retail Product Sell-Through Mix



Regular Store Productivity*, YoY %



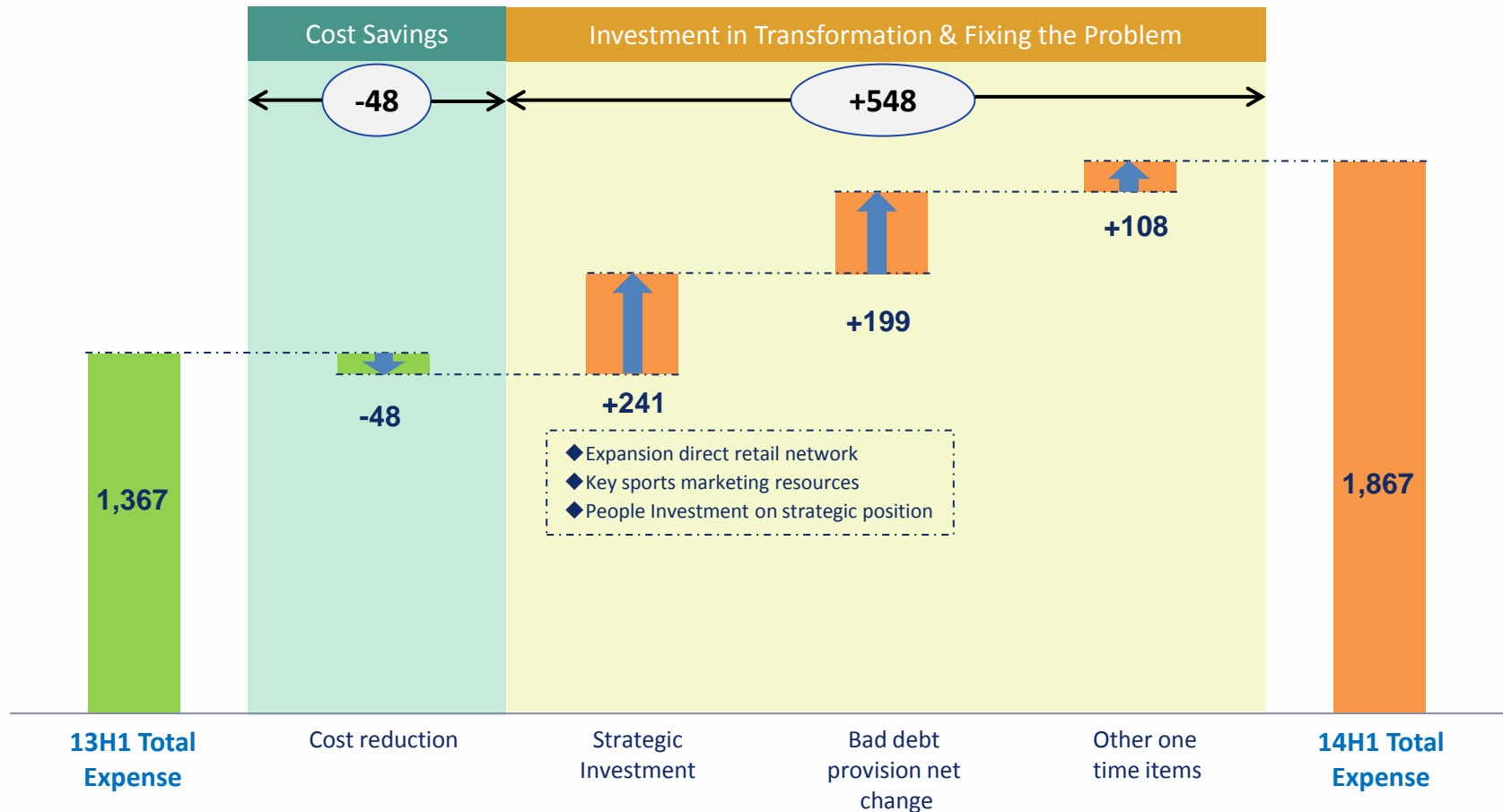
Increasing mix of new products, which is growing at solid double digit, is driving regular store productivity since 2013 H2

*Per Store Productivity: Period total sell-through / weighted average number of stores

Strategic Investment For Growth

2013H1 vs 2014H1

(In RMB million)



Strategic investment made for growth, non-cash expenses inflated total expenses

Ready For Growth

- Overall macro faces challenges, but sportswear industry focused on the core categories will outperform as participation in sports grow with increasing consumer sophistication in China
- However, differentiated strategy is now a must, since commodity business without genuine sports DNA will continue to struggle. Hence, fixing legacy issues is not enough; comprehensive transformation and persistent investment over few years are necessary.
- 2014 is a year of rebuilding. Particularly after having taken substantial provisions in 1H, we would largely move beyond such legacy issues as distressed channels and undifferentiated products, and shift focus to building solid new business and brand.
- We firmly believe that our current strategy is the best way to build China's leading brand, which will deliver the highest returns for our investors long-term.
- Our focus going forward will remain the same, including:
 - improve channel efficiency and retail operations
 - focus on the 5 core categories of the sportswear market
 - optimize the cost structure and improve operational efficiency
 - strengthen brand and marketing initiatives
 - improve overall consumer experience



Financial Highlights



Summary of Income Statement

(RMB million)	1H2014	1H2013	Better/(Worse)
	For the 6 months ended 30 June		
Revenue	3,137	2,906	8%
Gross Profit	1,400	1,266	11%
Distribution costs	-1,372	-1,210	(13%)
Administrative expenses	-494	-157	(215%)
Other income and other gains – net	19	62	(69%)
Operating (Loss) /Profit	-448	-39	(1049%)
EBITDA	-351	58	N/A
Loss Attributable to Equity Holders	-586	-184	(218%)
Basic Losses per share (RMB cents)	-41.63	-15.19	(174%)
Interim dividend (RMB cents)	-	-	-

Profit Margins And Expense Ratios

	1H2014	1H2013	Better/(Worse)
	For the 6 months ended 30 June		
Gross Profit Margin	44.6%	43.6%	1.0p.p.
Operating Profit Margin	-14.3%	-1.3%	(13.0p.p.)
EBITDA Margin	-11.2%	2.0%	(13.2p.p.)
Margin of Loss Attributable to Equity Holders	-18.7%	-6.3%	(12.4p.p.)
R&D Expenses (as % of revenue)	2.2%	2.3%	0.1p.p.
A&P Expenses (as % of revenue)	19.4%	20.6%	1.2p.p.
Staff Costs (as % of revenue)	13.8%	10.9%	(2.9p.p.)

Key Operational Indicators

	1H2014	1H2013	Better/(Worse)
	For the 6 months ended 30 June		
Average Inventory Turnover (Days)	106	96	(10)
Average Trade Receivables Turnover (Days)	78	88	10
Average Trade Payables Turnover (Days)	92	91	1
Cash Conversion Cycle (Days)	92	93	1
Return on Equity (ROE) – Half Year	-24.3%	-8.2%	(16.1p.p.)
Return on Asset (ROA) – Half Year	-10.0%	-3.0%	(7.0p.p.)
CAPEX* (RMB million)	115	91	25.6%

*Excluding the acquisition expenditures

Summary of Balance Sheet

(RMB Million)	30 Jun 2014	31 Dec 2013	Better/(Worse)
Cash and Cash Equivalents	909	1,281	(29 %)
Bank Borrowings	491	400	(23 %)
Convertible Bonds Liabilities	685	659	(4 %)
Net Cash*	-267	222	N/A
Current Liabilities	2,254	2,018	(12 %)
Current Ratio (times)	1.6x	2.0x	(0.4x)
Total Liabilities to Total Assets Ratio	58.6%	51.9%	(6.8 p.p.)

*Net Cash = Cash and Cash Equivalents – Bank Borrowings – Convertible Bonds Liabilities

Our Other Brands



- Continued to adopt "sponsorship of sports stars and sports events" as its core marketing and promotion strategy.
- Worldwide professional athletes and >85% of China National Table Tennis team members opted for the Double Happiness branded covering.
- Launched an "e" series, specifically for e-commerce channels in 2013.

Other Brands



- Stable progress was achieved, including increased sales in existing stores.
- Remain one of the leading brands in outdoor and leisure sectors in malls and airports of major cities.



- Newly developed apparel and shoes maintained market competitiveness in product design and pricing.



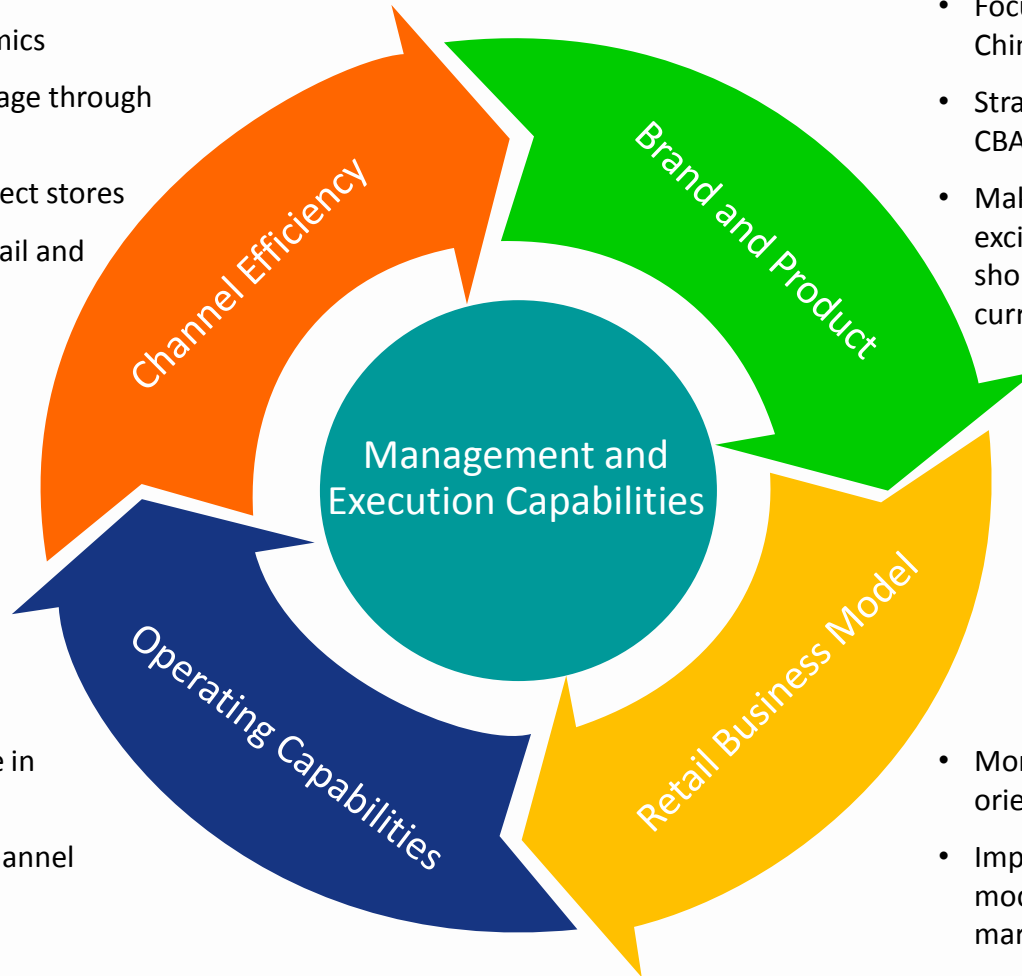
- Readjusting market strategy.
- Amended the license agreement to lower finance costs.



Appendix

2012 Transformation Plan: Comprehensive & Multi-Year

- Improve store unit economics
- Rationalize network coverage through retail profiling
- Strengthen outlets and direct stores
- Improve capabilities of retail and channel partners



- Focus on core brand sportswear in China
- Strategic investments in brand (e.g., CBA and Wade)
- Make competitive products with exciting designs and technologies, in shorter development cycles to stay current with market demands

- Competitive cost structure in product and operations
- Effective marketing and channel spending
- Cash flow management

- More retail-oriented and consumer-oriented
- Improve supply chain and ordering model to lower cost and time-to-market
- Increase A+ and quick response products

Our Unique Strategy Is Starting to Work

Li Ning's unique strategic advantages:

- Leading brand
- Designed for China
- Direct-retail & fast-fashion
- Direct & focus on core consumer segments

2014 1H Execution

