



## Annual Results 2010

李寧有限公司



LI-NING  
COMPANY LIMITED

March 2011

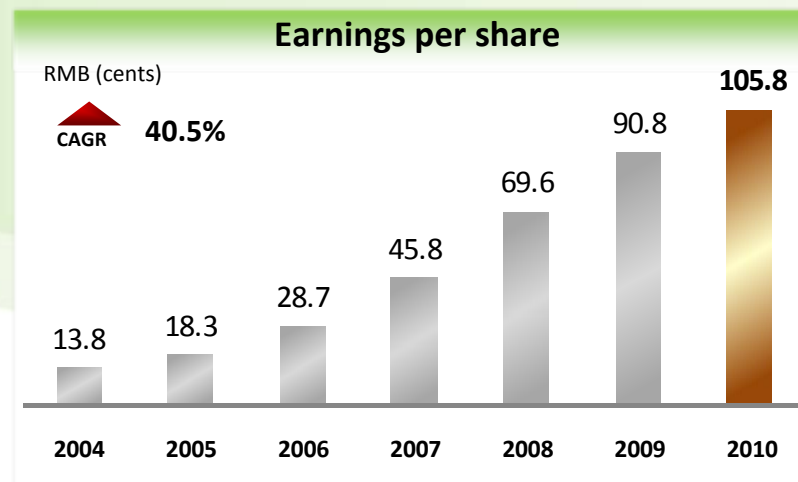
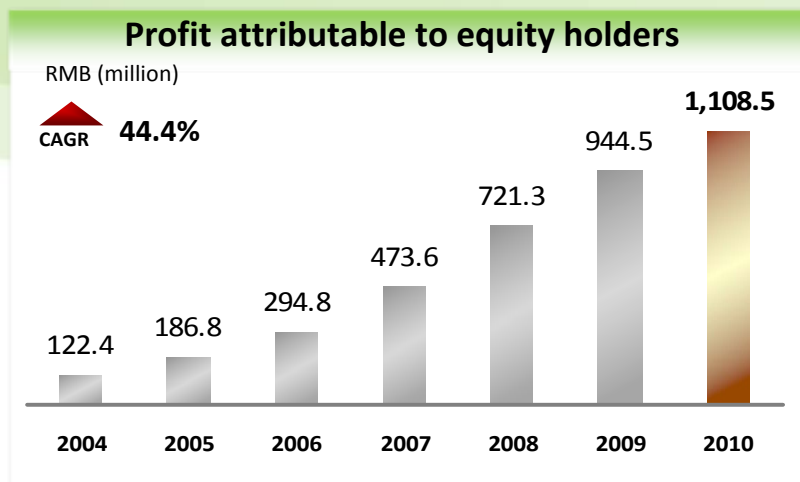
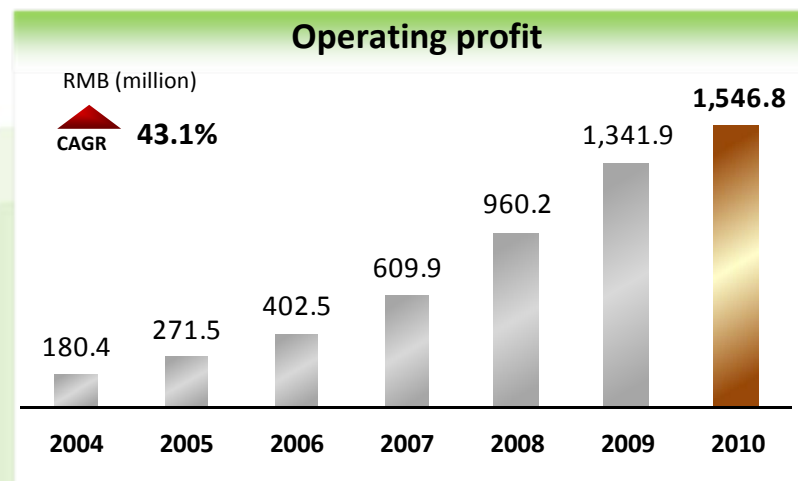
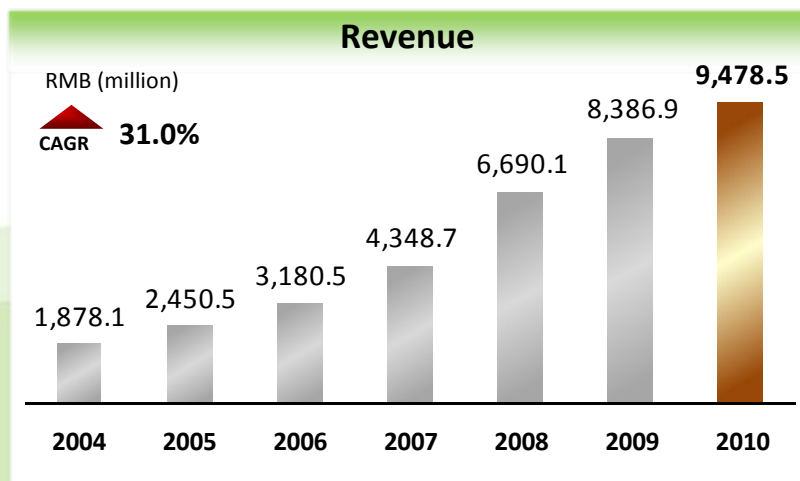


-  **Financial Highlights**
-  **Review of Strategies**
-  **Business Review**
-  **Outlook & Future Strategies**
-  **Open Forum**



# Financial Highlights

# Consistent Growth in Key Financial Indicators



# Summary of Income Statement



For the year ended 31 December

(RMB Million)	FY2010	FY2009	Change
<b>Revenue</b>	<b>9,478.5</b>	<b>8,386.9</b>	<b>+13.0%</b>
<b>Gross Profit</b>	<b>4,481.6</b>	<b>3,969.9</b>	<b>+12.9%</b>
<b>Operating Profit</b>	<b>1,546.8</b>	<b>1,341.9</b>	<b>+15.3%</b>
<b>EBITDA</b>	<b>1,759.2</b>	<b>1,524.9</b>	<b>+15.4%</b>
<b>Profit attributable to equity holders</b>	<b>1,108.5</b>	<b>944.5</b>	<b>+17.4%</b>
<b>Earnings per share (RMB cents)</b>	<b>105.84</b>	<b>90.75</b>	<b>+16.6%</b>
<b>Full-year dividend per ordinary share (RMB cents)</b>	<b>42.12</b>	<b>36.12</b>	<b>+16.6%</b>
<b>comprising:</b>			
<b>final dividend (proposed)</b>	<b>19.97</b>	<b>22.54</b>	<b>-11.4%</b>
<b>interim dividend (paid)</b>	<b>22.15</b>	<b>13.58</b>	<b>+63.1%</b>

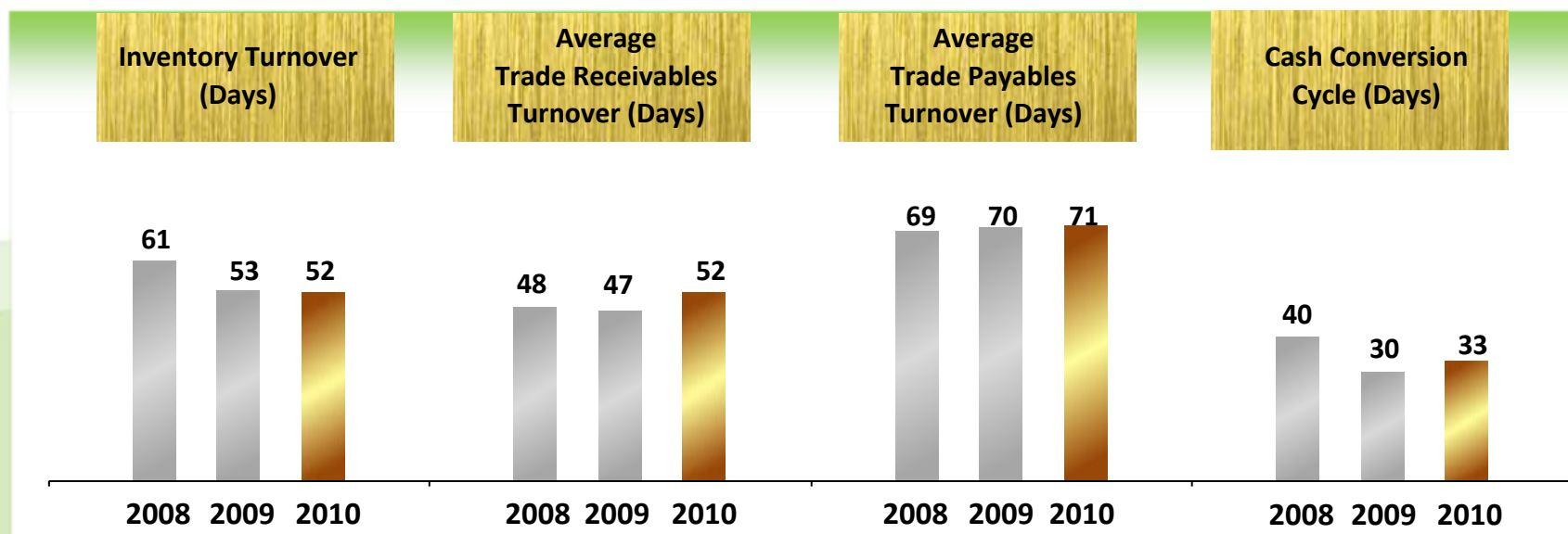
## Profit Margins and Expense Ratios



For the year ended 31 December

	<b>FY2010</b>	<b>FY2009</b>	<b>Change</b>
<b>Gross Profit Margin</b>	<b>47.3%</b>	<b>47.3%</b>	<b>0</b>
<b>Operating Profit Margin</b>	<b>16.3%</b>	<b>16.0%</b>	<b>+0.3p.p.</b>
<b>Margin of profit attributable to equity holders</b>	<b>11.7%</b>	<b>11.3%</b>	<b>+0.4p.p.</b>
<b>R&amp;D Expenses (as % of revenue)</b>	<b>2.6%</b>	<b>2.7%</b>	<b>-0.1p.p.</b>
<b>A&amp;P Expenses (as % of revenue)</b>	<b>15.1%</b>	<b>15.4%</b>	<b>-0.3p.p.</b>
<b>Human Resources Costs (as % of revenue)</b>	<b>7.5%</b>	<b>7.5%</b>	<b>0</b>
<b>Effective Tax Rate</b>	<b>25.0%</b>	<b>24.5%</b>	<b>+0.5p.p.</b>

# Key Operational Indicators



For the year ended 31 December

	FY2010	FY2009	Change
<b>Return on Equity (ROE)</b>	36.7%	41.3%	-4.6 p.p.
<b>Return on Asset (ROA)</b>	19.0%	20.0%	-1.0 p.p.
<b>CAPEX* (RMB million)</b>	272.3	207.4	+31.3%

\* Excluding acquisition expenditures

# Healthy Balance Sheet



As at 31 December

(RMB million)	FY2010	FY2009	Change
<b>Cash and Cash Equivalents</b>	<b>1,470.4</b>	<b>1,264.2</b>	<b>+16.3%</b>
<b>Bank Borrowings</b>	<b>312.2</b>	<b>260.0</b>	<b>+20.1%</b>
<b>Net Cash*</b>	<b>1,158.2</b>	<b>1,004.2</b>	<b>+15.3%</b>
<b>Current Liabilities</b>	<b>2,371.6</b>	<b>1,864.9</b>	<b>+27.2%</b>
<b>Current Ratio (times)</b>	<b>1.8</b>	<b>1.7</b>	<b>+0.1</b>
<b>Total Liabilities to Total Assets Ratio</b>	<b>45.8%</b>	<b>46.8%</b>	<b>-1.0p.p.</b>

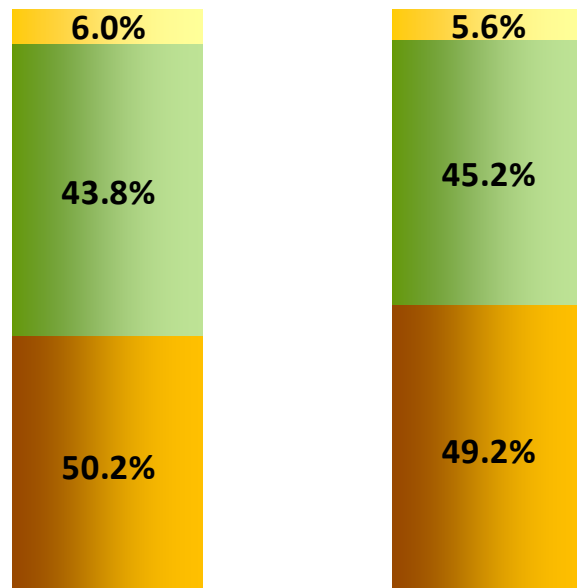
*\*Net Cash = Cash and Cash Equivalents – Bank Borrowings*



# LI-NING Brand Revenue Breakdown by Product Category



### LI-NING Brand Revenue Breakdown by Product Category

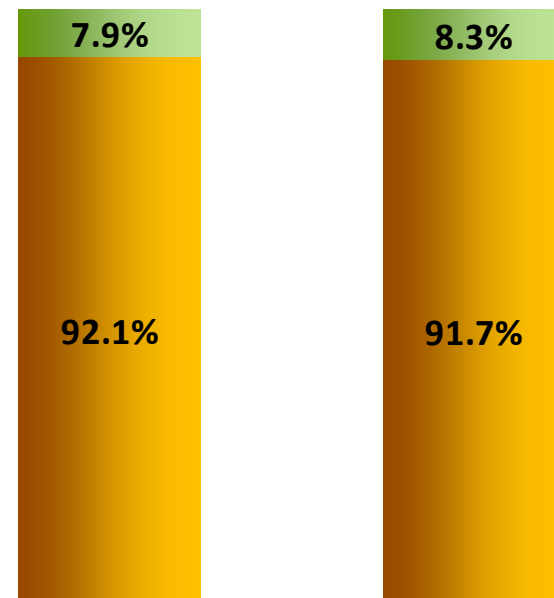


- LI-NING brand apparel
- LI-NING brand footwear
- LI-NING brand accessories/equipment

FY2010

FY2009

### Revenue from LI-NING brand to the Group total

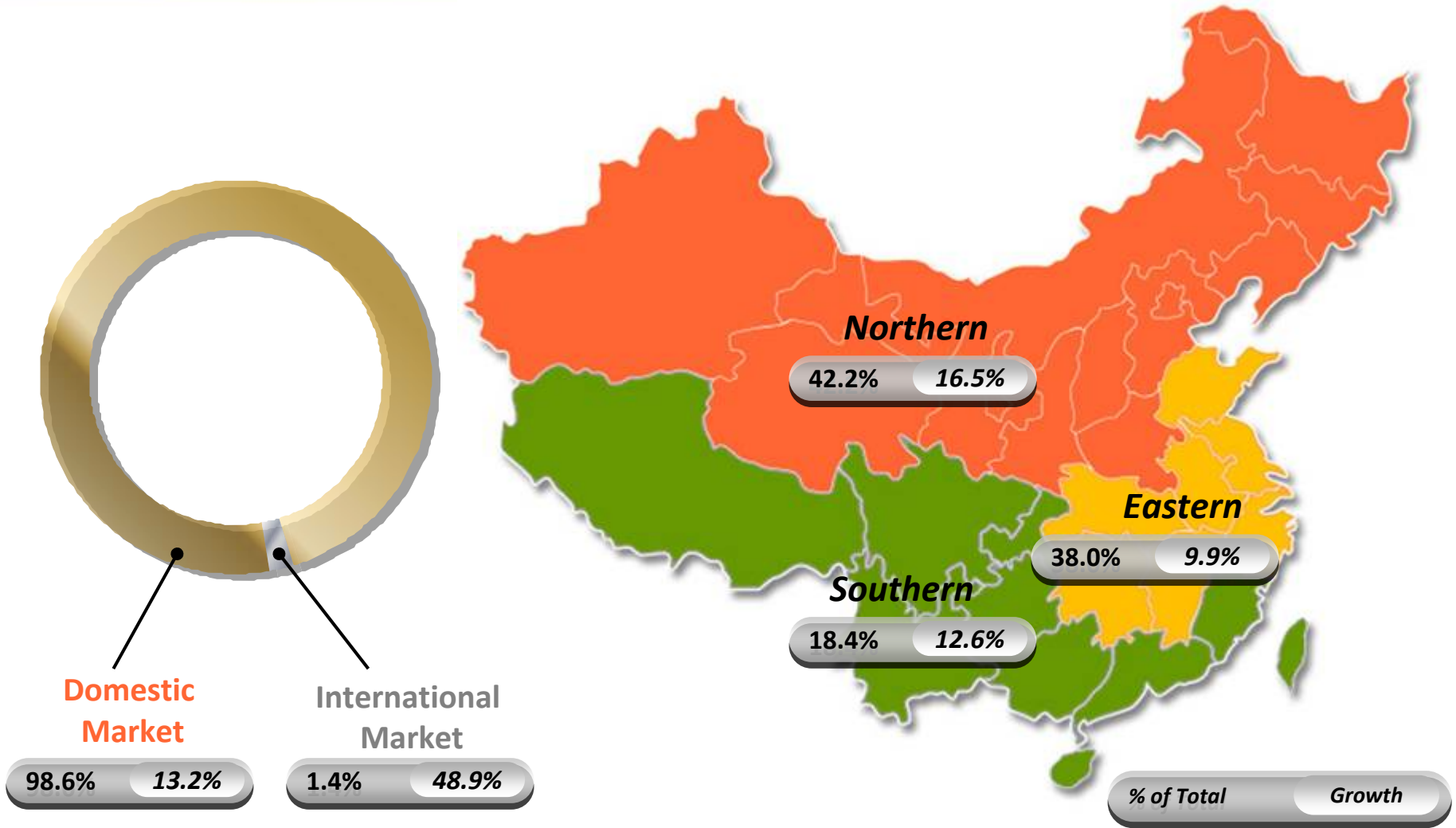


- Revenue from LI-NING brand
- Revenue from other brands

FY2010

FY2009

# LI-NING Brand Revenue Breakdown by Geography





# Review of Strategies





## Core Strategy: Essence of Sports + Brand Strength



**Our core strategy successfully reinforced LI-NING's leadership position in the past and will guide LI-NING to become a world-class sports brand**

# Change in Market Environment



## Demand-Side

### Market growth softens

- People's passion for sports began waning after the 08 Beijing Olympics, cooling growth in the market
- 2011 projected industry growth: 13-14%

### Consumers "trading up"

- Metropolitan/ tier 1 cities have already exhibited mainstream market attributes
- Tier 2 and tier 3 cities is transitioning to mainstream market
- Tier 4 or below cities still exhibit features in basic market



## Supply-Side

### Competition intensifies

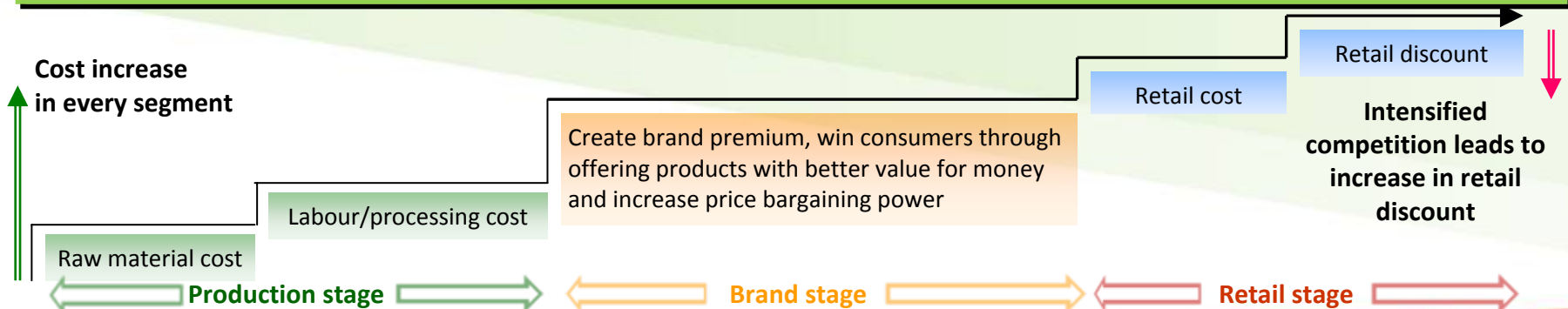
- International brands step up their pace in penetrating into lower-tier cities
- Most domestic brands continue to expand through store opening
- Saturation in store numbers, horizontal expansion is no longer sustainable
- Retail discount is rather stable in metropolitan and tier 1 cities. More aggressive discounting in lower tier cities

### Fast escalating cost pressure

- Raw material cost
- Retail rental expenditures
- Labor cost

Two distinct models emerged in light of market changes:

- (1) Vertical integration, shorten value chain and become a retailer brand or (2) Create brand premium, expand value chain and grab market share





**Our choice – Further create brand premium to grab mainstream market share in mainstream market**

- Brand innovation
- Product innovation

*Initiate adjustments to get prepared for change*

## **Our solution**

- Brand revitalisation – establish brand personality
- Channel reforms – enhance profitability of distributors/sub-distributors



- On the back of changes in the market environment, the Company seized the market opportunity and initiated the brand revitalisation exercise in June 2010 after a three-year preparation
- Infuses new energy to the brand and solidifies LI-NING's position as a professional sporting goods brand, further differentiating the brand from its competitors

## Competitive differentiation

- Establish a clear brand structure including brand essence, brand DNA, brand manifesto, brand positioning and brand personality
- New branding tools (new brand logo and slogan)
- Complete enhancement of consumer experience at the retail end

## Committed to its positioning as a professional sports brand

- Further establish a clear marketing strategy to strengthen brand association
- Step up the promotion of the professional sports series
- Endorse more athletes, sports teams and sports tournaments with attributes reflecting the LI-NING brand's DNA

## Focus on offering better value for money

- Provide consumers with a much enhanced product and brand experience
- Create room for brand premium

# Brand Revitalisation Review



## Achievement

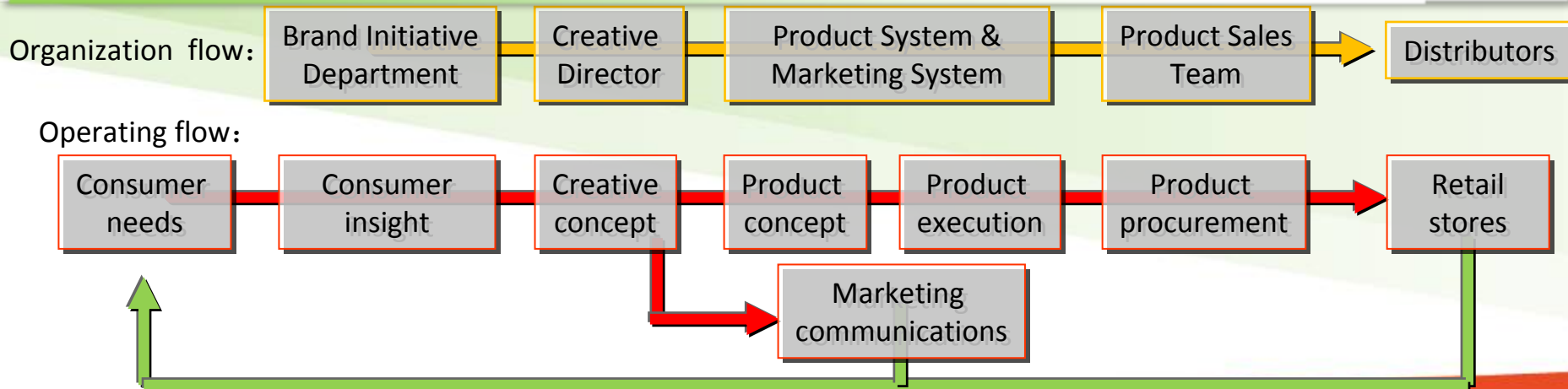
- New logo awareness meets target
- High brand preference among core consumer group (Generation 1 creator)
- Further increase in mindshare and market share in metropolitans and tier 1 cities

## Areas for improvement

- New consumer numbers remained insignificant
- Message delivered to consumers at all stages, from brand positioning to creative execution, is not clear enough
- Consumers in second- and third-tier cities have insufficient product knowledge due to issues in distribution reforms

## Insight

- Brand enhancement is a long-term exercise and must not be completed in a short period of time
- We must strengthen efforts to ensure consistency in brand communications consistency, integrated marketing and creative execution





# Our Choice — Implementing Channel Reforms



## Improve economies of scale at the retail level

- Advance consolidation of stores operated by distributors/sub-distributors
- Lower the proportion of single-store sub-distributors

## Optimize product life cycle management

- Rationalise store structure
- Enhance orderly movement of products along the entire life cycle
- Enhance management and service at the retail level

## Help distributors/sub-distributors alleviate escalating cost pressures

- Offer more wholesale discounts to distributors on condition that the Group's gross profit margin is maintained at a stable level
- Offer more incentives to retail stores

## Enhance distributors/sub-distributors' retail management capability

- Enhance professional training
- Improve merchandising capability
- Improve sales techniques

**Pursue a sustainable growth model through increased emphasis on retail efficiency**

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# Business Review

李寧有限公司



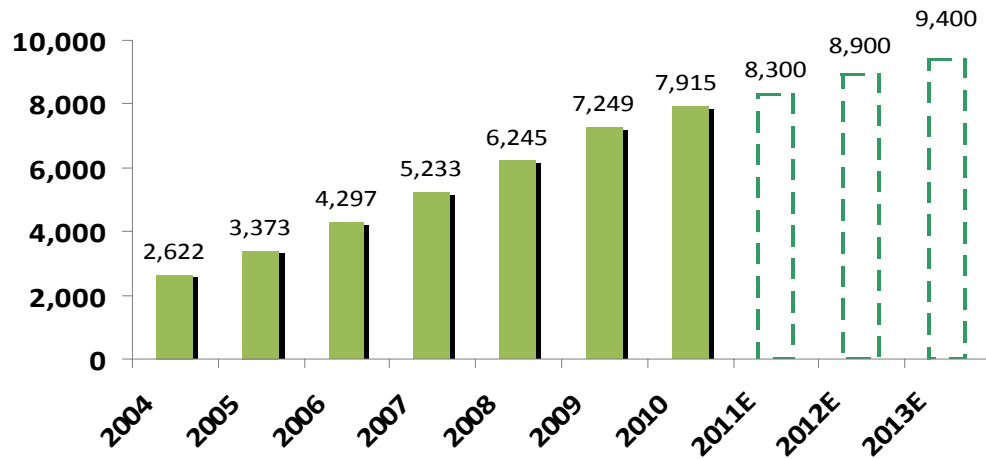
# 2010 – Continue to Reinforce Our Core Competencies



# Enhance the Quality of Store Expansion



## LI-NING brand store numbers and future target



As at the end of 2010			
LI-NING brand stores	Sixth Generation Stores	Factory Outlet	Flagship Stores
Number	58	133	9



# An All-Star Cast of Professional Sponsorship Resources



	Running (Track & Field)	Basketball	Tennis	Fitness	Badminton	Football	Olympic Champion Teams
<b>Top-notch sports teams/athletes/sports clubs</b>	Elena Isinbayeva Asafa Powell Andreas Thokildsen	Shaquille O'Neal Baron Davis Jose Calderon Evan Turner Spanish Basketball Team Argentina Basketball Team	Marin Cilic Ivan Ljubicic Peng Shuai Yan Zi	Lesmills	Chinese National Badminton Team Lin Dan		Chinese National Table Tennis Team Chinese National Diving Team Chinese National Shooting Team Chinese National Gymnastics Team
<b>Tournament</b>	Beijing Marathon	NBL LI-NING Basketball Draft Camp	ATP		China Open China Masters China Badminton Club Super League China National Cup	CUFL	
<b>Other important sponsorship resources</b>	13 provincial teams	Hasheen Thabeet	Tsung-Hua Yang Pliskova sisters	Nirvana Yoga CSI Bally Physical Club	Shanghai Team 8 1 Team Guangdong Team		US Diving Team



## Solid R&D Capabilities

## Flexible and Effective Supply Chain Management



### Product R&D and Design

- Customised professional gear for the Chinese National Badminton Team
- Partnered with Australia's SKINS and launched premium quality LI-NING SKINS gradient compression sportswear in China
- Crossover range – used both local and international design talents
- “Razine”(锐劲) sprint track running shoes received the highest honour of “Gold Medalist” from the “iF Design Award China 2010”

### Supply Chain Management

- Completed the architectural design blueprint of “LI-NING Logistics Centre” in Jingmen Industrial City. Scheduled for trial operation in end-2011
- Rapid expansion of production capacity of two suppliers based in Jingmen Industrial City allows for increased procurement of goods by LI-NING brand
- Hosted trade fairs on a “by region” basis
- Improved inventory turnover cycle





# Outlook and Strategies



# Continue to Channel Resources to Branding, Products, Distribution Channels and Human Resources



## Branding

### Ensure consistency in brand communications

- Strengthen consistency across brand and product concepts and creative execution so as to raise efficiency
- Prepare for marketing activities associated with the 2012 London Olympics

## Channel

### Deepen distribution reform and enhance retail efficiency

- Enhance profitability of distributors/sub-distributors
- Effectively implement channel reforms
- Use sell-through to drive sell-in

## Human Resources

### Create a goal- and results-driven culture

- Enhance staff cohesion by focusing on the Group's culture
- Increase investments in human resources in professional fields such as brand marketing, product design and research and development as well as in corporate management to attract high calibre talent
- Strengthen implementation of business strategies and measures performance

## Product

### Improve product mix to enhance product competitiveness

- Establish a product structure by integrating brand DNA, core product technologies, sports events and product categories
- Manage product mix to better accommodate market needs and region-specific preferences
- Increase contribution from footwear products and enhance their competitiveness in mid- to high-end segments by reengineering the product mix

Enhance  
Overall Value  
of the  
Enterprise





**Short term** pressure on revenue growth as reform measures will bring temporary pain to the Group.



Projected order growth rates for LI-NING brand trade fairs in 2011Q3 and 2011Q4 will be lower than those of the two preceding quarters

Exercise gross profit margin management by:

1. Implementing new wholesale discount policy
2. Adjusting retail prices
3. Managing procurement costs



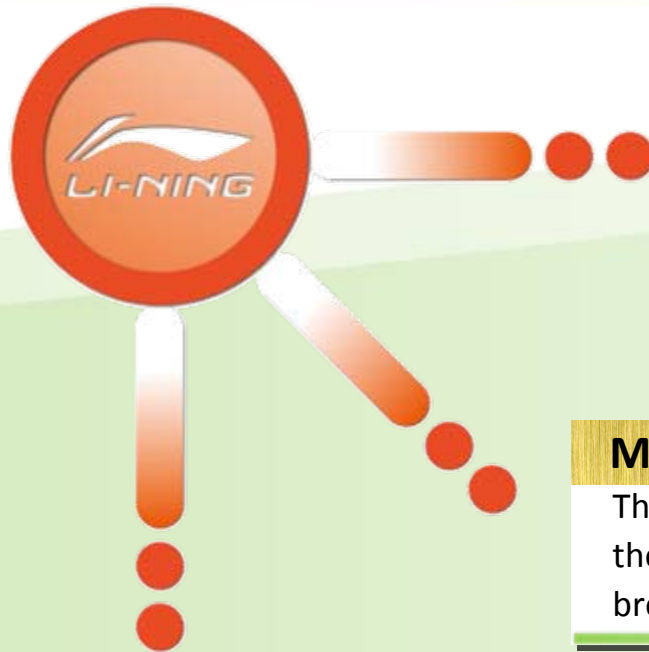
1. Gross profit margin to be maintained at 46-47% according to existing cost planning
2. Important to note – recent surge in cost of raw materials such as crude oil and cotton add uncertainties to cost management. If the trend continues, the Group's gross profit margin may trend downwards

Increase investment in core areas to empower long term competitiveness



Projected A&P expenses as a percentage of turnover will be at 16-17%  
Projected human resources expense as a percentage of turnover will reach 7.5-8%

**Lower operating profit margin and net profit margin in the short term**



## Vision






A world-leading brand in the sporting goods industry

## Mission

Through sports, we inspire people the desire and power to make breakthroughs

## Core Values

### Live for Dream

-  Breakthroughs
-  Consumer oriented
-  Integrity and commitment
-  Achieving excellence
-  "We" Culture

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# Q&A

# Investor Relations Contacts



<http://www.lining.com>

<http://www.li-ning.com>

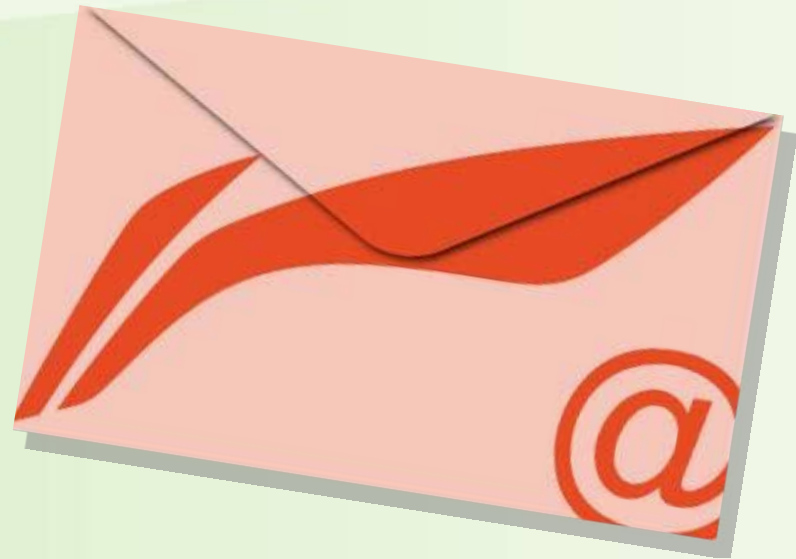
<http://www.irasia.com/listco/hk/lining/>

<http://www.hkex.com.hk>




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-  This presentation incorporates information contained in the annual results announcement (the “Results Announcement”) for the period ended 31 December 2010 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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