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**LI NING COMPANY LIMITED**

(李寧有限公司)

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

(Stock Code: 2331)



August 2011

Interim Results

# Agenda



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

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# Financial Highlights

# Summary of Income Statement



	1H2011	1H2010	Change
	For the six months ended 30 June		
(RMB million)			
Revenue	4,289.3	4,504.6	-4.8%
Gross Profit	2,029.1	2,158.4	-6.0%
Operating Profit	442.3	813.3	-45.6%
Profit attributable to equity holders	293.7	581.6	-49.5%
Earnings per share (RMB cents)	27.94	55.58	-49.7%
Interim dividend (RMB cents)	11.13	22.15	-49.8%

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# Profit Margins and Expense Ratios



**1H2011**

**1H2010**

**Change**

For the six months ended 30 June

<b>Gross Profit Margin</b>	<b>47.3%</b>	<b>47.9%</b>	<b>-0.6p.p.</b>
<b>Operating Profit Margin</b>	<b>10.3%</b>	<b>18.1%</b>	<b>-7.8p.p.</b>
<b>Margin of profit attributable to equity holders</b>	<b>6.8%</b>	<b>12.9%</b>	<b>-6.1p.p.</b>
<b>R&amp;D Expenses (as % of revenue)</b>	<b>2.6%</b>	<b>2.5%</b>	<b>+0.1p.p.</b>
<b>A&amp;P Expenses (as % of revenue)</b>	<b>15.9%</b>	<b>13.2%</b>	<b>+2.7p.p.</b>
<b>Human Resources Costs (as % of revenue)</b>	<b>8.7%</b>	<b>7.7%</b>	<b>+1.0p.p.</b>
<b>Effective Tax Rate</b>	<b>24.8%</b>	<b>25.0%</b>	<b>-0.2p.p.</b>

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# Key Operational Indicators



	1H2011	1H2010	Change
For the six months ended 30 June			
Inventory Turnover (Days)	72	48	24
Average Trade Receivables Turnover (Days)	63	48	15
Average Trade Payables Turnover (Days)	91	70	21
Cash Conversion Cycle (Days)	44	26	18
Return on Equity (ROE) (half-yearly)	8.6%	20.3%	-11.7 p.p.
Return on Asset (ROA) (half-yearly)	4.4%	10.4%	-6.0 p.p.
CAPEX* (RMB million)	150.7	74.0	+103.7%

\* Excluding acquisition expenditures

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# Healthy Balance Sheet



	2011-6-30	2010-12-31	Change
(RMB million)			
Cash and Cash Equivalents	1,648.0	1,470.4	12.1%
Bank Borrowings	472.1	312.2	51.2%
Net Cash*	1,175.9	1,158.2	1.5%
Current Liabilities	2,401.6	2,371.6	1.3%
Current Ratio (times)	1.80	1.77	+0.03
Total Liabilities to Total Assets Ratio	45.0%	45.8%	-0.8p.p.

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

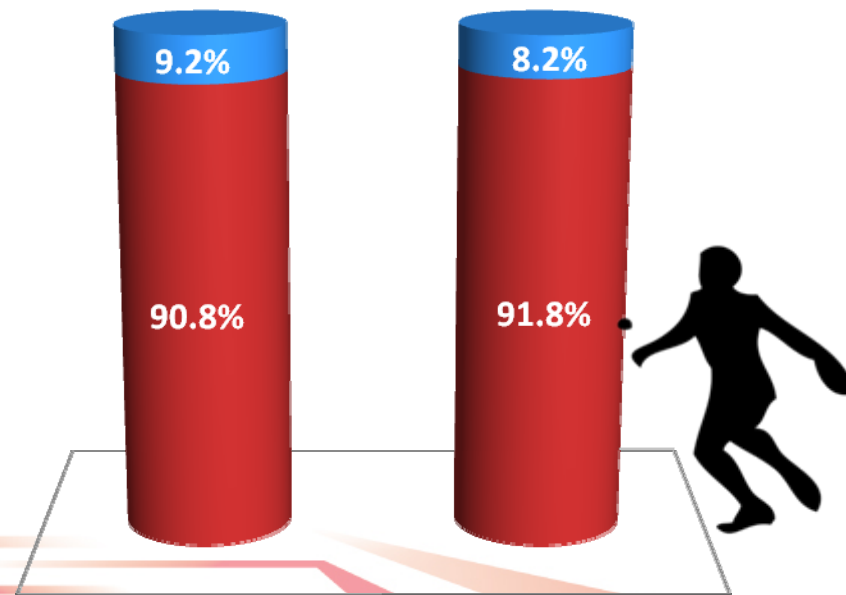
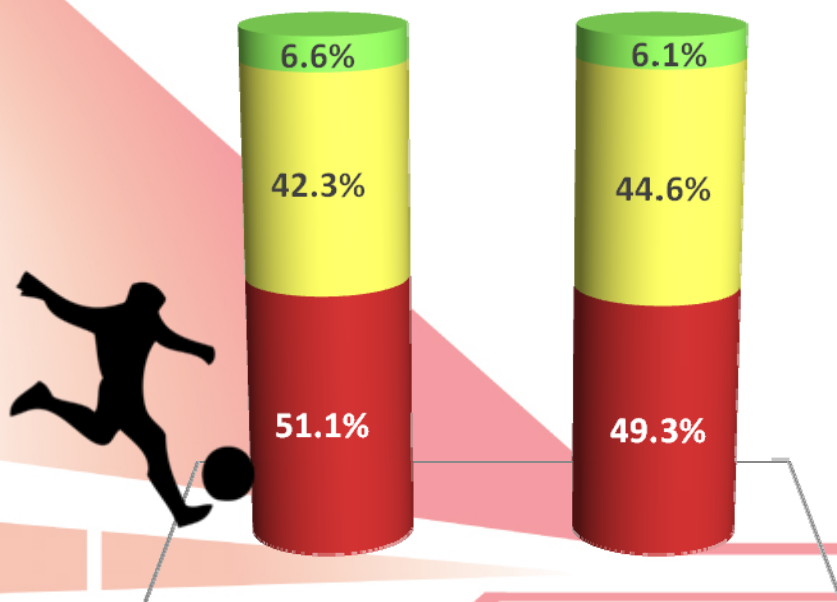
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# LI-NING Brand Revenue Breakdown by Product Category



LI-NING Brand Revenue Breakdown by Product Category

Revenue from LI-NING brand to the Group Total



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

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

1H2011

1H2010

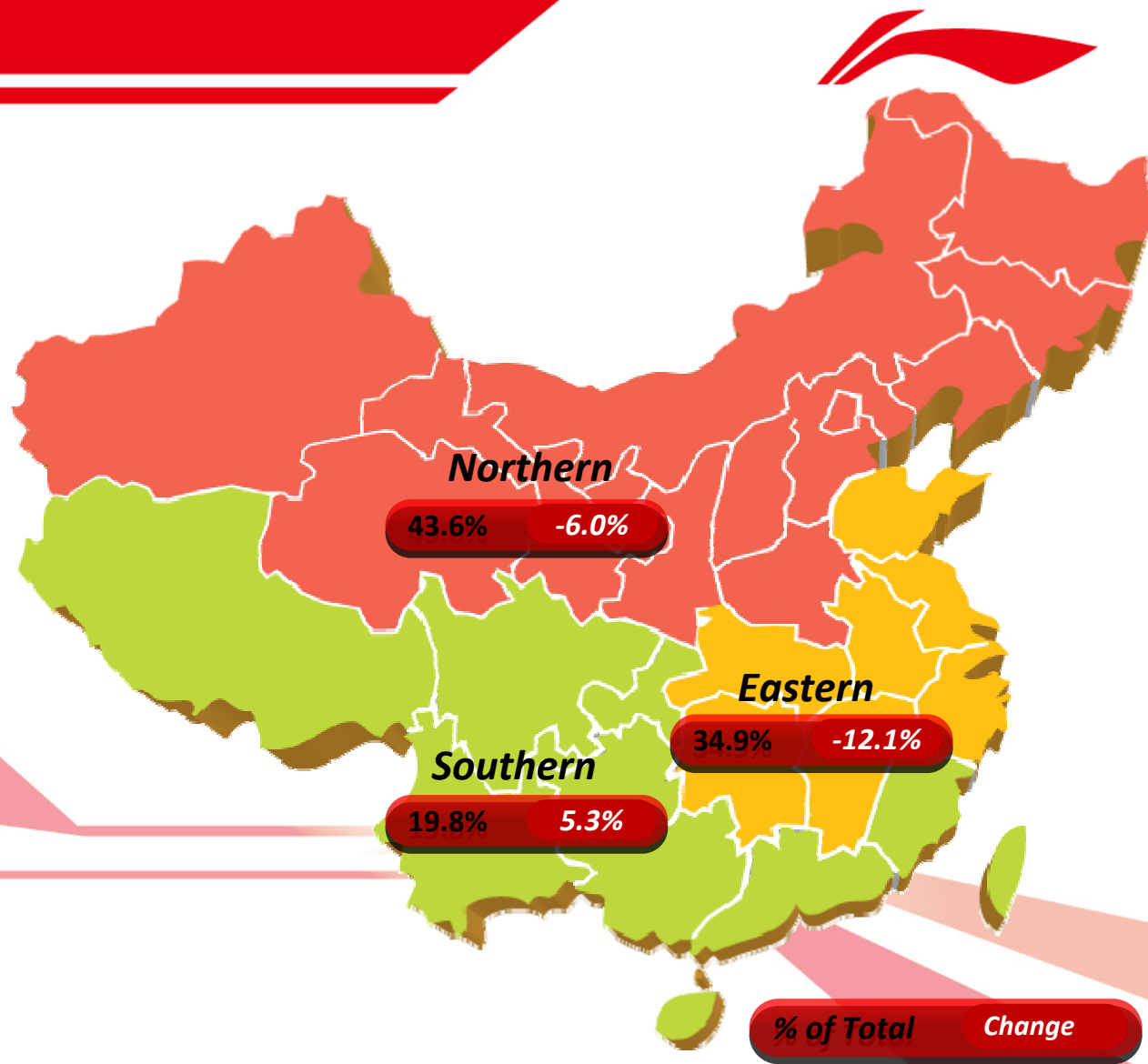
1H2011

1H2010

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# LI-NING Brand Revenue Breakdown by Geography



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# Business Review



# Diagnosing the Sporting Goods Industry and the Group



Faced with challenges and opportunities during the industry transformation period, the Group proactively initiates reforms

Intensifying competition	Industry maintains double-digit growth	Consumers' increasing demand for brand experience and sport functionality despite competition from casual wear brands
Cost pressure through the whole value chain	2012 London Olympics	

**Problems the Group is facing:**

- Sub-distributors' operating efficiency is rather low in the low-end market
- Inventory at the retail end
- Products in the middle-to-low price bracket failed to offer noticeably better value for the money

**Short-term pains**  
Changes take time to reflect on the Group's performances

**Short-term strategies**

- Speed up inventory clearance at the retail end
- Adjust wholesale discount rate from 2011 to allow better profitability for the distributors /sub-distributors, and press ahead with the reform in sub-distribution markets to increase efficiency
- Strengthen brand promotions and execution of creativity conversion, leveraging sponsored resources of Chinese National Teams, integrate media, the internet and PR publicity resources to heighten the association between LI-NING brand's DNA and China's champion athletes in an effort to strengthen brand equity
- Improve product design and development to offer better value for money products in the middle-to-low price range to drive sales volume growth

**Sustaining strategies**

- Differentiate based on sports marketing and brand positioning,
- Further promote channel consolidation
- Emphasize product innovation, enhance competitive edges of products priced above RMB400
- Further strengthen supply chain management to exploit better economies of scales and increase flexibility

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# Short-term Strategies – Channel Reforms



## Status of implementation during 1H2011

- Store number grew as planned. Revenue contribution from inventory clearance channels comprised 10% of retail revenue
- Offered distributors an additional 3 percentage points on wholesale discount rates
- Consolidation of low-efficiency sub-distributors progressed as planned

## Objectives

- Target to consolidate 400 low-efficiency sub-distributors by end-2011
- Rationalize store structure, aiming at deriving 15% of the Group's revenue from clearance outlets by mid-2012
- Target to bring inventory level back to normal level in 2012

No. of	LI-NING brand stores	Including: LI-NING brand factory outlets	Including: Sixth-Generation LI-NING brand stores	Consolidated sub-distributors
As at 30 June 2011	8,163	191	71	256



# Short Term Strategies - Branding



## Advertising and Marketing Events

- “The Stronger You Are, The Stronger I Become” basketball products series
- New generation of Ultralight running shoes
- “HERO” top-notch badminton shoes
- LI-NING BOW anti-shock technology promotion

## Sports Event Marketing

- 14th FINA World Championships
- Sudirman Cup
- Singapore Open
- Beijing Marathon
- National Basketball League
- The 51<sup>st</sup> Rotterdam World Table Tennis Championships

## Marketing Promotion Events:

- LI-NING Hero Vans
- LI-NING iRUN running club

## Objectives

- Optimize the branding strategies management system
- Leverage the Group’s existing resources to strengthen its branding execution and accurately communicate the brand’s positioning
- Reinforce and strengthen the brand’s influence in second- and third-tier cities



# Brand Strength



BrandZ Top 50 Most Valuable Chinese Brands



In the top 20 on “Best Chinese Brands 2010” list issued by Forbes China and Interbrand



An All-Star Cast of Professional Sponsorship Resources

	Badminton	Track & Field/Running	Basketball	Olympic Champion Teams	Tennis	Women's Fitness	Football
Top-notch sports teams/athletes/sports clubs	Chinese National Badminton Team Lin Dan	Elena Isinbayeva Asafa Powell Andreas Thokildsen	Baron Davis Jose Calderon Evan Turner Spanish National Basketball Team Argentina National Basketball Team	Chinese National Table Tennis Team Chinese National Diving Team Chinese National Shooting Team Chinese National Gymnastics Team	Marin Cilic Ivan Ljubicic Peng Shuai Yan Zi Tianjin Tennis Team	Lesmills	RCD Espanyol Sevilla
Tournament	China Open China Masters China Badminton Club Super League China National Cup Singapore Open	Beijing Marathon	NBL LI-NING Basketball Draft Camp		ATP		CUFL
Other important sponsorship resources	Shanghai Team Bayi Team Guangdong Team Singapore Team Australian Team Boonsak Ponsana	12 provincial teams	Chinese National Youth Olympics 3-on-3 Basketball Team Chinese National Men's and Women's Youth Basketball Team	US Diving Team	Tsung-Hua Yang Zheng Saisai Pliskova Sisters	Nirvana Yoga CSI Bally Physical Club of Shenzhen	

# Short Term Strategies - Product



## Adjust pricing strategy to meet consumers' needs, focus more on better value for money

- Analyze and fine-tune product pricing structure
- In product planning, from 2012Q1, increase the proportion of "GOOD Level" products which offer better value for money

## Drive application of product technology platforms and establishment of product family

- LI-NING BOW technology platform
- AT technology platform
- Ultralight running shoes series

## Roll out product with innovative concept and Chinese elements

- Brand new MIX lightweight sports shoes
  - Chinese concept: Special mortise and tenon structure
  - Theme: Both stylish and eco-friendly
- Yushuai VI basketball shoes
  - Chinese element: splashing ink style
  - Theme: Inheritance and innovation

## Top notch products for professional sponsorships to drive LI-NING brand's professional image

- "HERO" shoes for Lin Dan
- Javelin gear for Andreas Thorkildsen
- Pole vault shoes and apparel for Elena Isinbayeva
- Professional gear for Asafa Powell

### Objectives

- Improve product to meet consumers' needs while aligning with LI-NING's brand positioning and DNA
- Strengthen design and development of products in the middle-to-low price bracket



# Supply Chain Management



- Exercised control on cost stability and management
- Jingmen production facilities reached a sizable scale
- Construction of Jingmen Logistics Centre with trial runs scheduled for 1H2012



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# Other Brands



- Strong R&D and design capability. Rolled out more than 150 new products in 1H 2011



AIGLE

- Growing brand awareness
- Persistent SSS growth



- Drive differentiation in integrated marketing strategies and product



**Xin Dong and DHS footwear/apparel**

- Adjust further the overall product structure and operation model in order to meet consumer needs at the hypermarket segment
- Get prepared for the introduction of Double Happiness apparel and footwear products to tap into hypermarkets and mid- to low-tier markets



- Continued enhancement in brand positioning, product structure, R&D and sales channel



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# Outlook and Strategies



# Adhere to Long Term Strategies



## Brand

- Strict adherence to brand positioning and essence of sports
- Fuse brand positioning and effective use of sports marketing resources to achieve brand differentiation
- Ensure creativity is converted into effective communication, highlight brand personality and accentuate Chinese concept

## Channel

- Press ahead with distribution channel reforms and strengthen distributor/ sub-distributor's management capability
- Pursue an SSSG-led growth model
- Exercise better sell-through management to drive sell-in growth

## Product

- Persistent improvement in product R&D and design
- Make better value for money a strategic priority

## Supply Chain

- Enhance supply chain efficiency
- Deliver better economies of scale from supply chain and increase flexibility



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# Outlook



## Market Outlook

- Low double-digit industry growth for FY 2011
- Extra boost in industry growth in 2012 led by Olympics
- Intensification in industry competition and cost escalation
- Undergo a period of transformation in next 2-3 years

## Financial Indicators

- Gross profit margin to decrease further in 2H 2011
- Margin of profit attributable to equity holders to decrease by 1-2 pp for FY 2011

## LI-NING Store Expansion Plan

- Year ended 2011: 8,300 stores
- Year ended 2012: 8,650 stores
- Year ended 2013: 9,000 stores



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# Vision, Mission and Core Values



## 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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# Open Forum



# Investor Relations Contacts

<http://www.lining.com>

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

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

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# Disclaimer



- This presentation incorporates information contained in the interim results announcement (the “Results Announcement”) for the period ended 30 June 2011 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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