



LI-NING

LI NING COMPANY LIMITED

李寧有限公司

*2013 Annual Results
Investor Presentation*

**Leading the Way
with Innovation**



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Agenda

- 2013 Key Highlights and Strategic Vision
- Strategy and Transformation Plan Update
 - Progress on Turnaround
 - Building China's Leading Brand
 - Impacts on Financial Results
- Financial Highlights
- Open Forum





**2013 Key Highlights
and Strategic Vision**

Industry Challenges & Opportunities

- Near-term industry headwinds continue due to macroeconomic uncertainty and remaining overhang from over-expansion but demand in core sportswear remains strong
- Chinese consumer preferences are changing quickly, with growing expectations for better value and quality as well as more sophisticated and specific consumer needs; these dramatic changes pose challenges to existing low-cost, commoditized model of brands who copy rather than innovate
- Shifting market dynamics putting further pressure on existing business models, with new casual wear entrants, fast moving fashion trends, and rise of e-commerce



The bar has been raised significantly -- leading brands who innovate and transform will be best positioned for the future and to grow market share

Li-Ning is determined to invest boldly, but wisely, to successfully transform itself and solidify its industry leading position

Our Vision

1. Core LI-NING Brand

Repositioned brand value proposition :

- China's leading brand with authenticity and unique marketing assets
- Best value-price equilibrium to lead & expand in the mid-market, targeting growing middle class
- Integration of sports functionality & fashion
- To provide best-in-class consumer experience

2. China Market



Big and growing market

- Low sports participation, but quickly growing
- Innovation specifically for China
- Consumption upgrade



3. Core Sportswear

Basketball Running Badminton Training Sports Life



Focus on 5 core, fast growing sports categories

- Opportunity to become #1 or #2 in each category
- Exiting commoditized casual wear categories
- Defocusing on non-core sportswear categories

Mobilized Best Resources Globally to Build China's Leading Brand

Best-in-class partners with deep expertise in restructuring and retail infrastructure (e.g., A&M, Accenture, McKinsey)

World-class management team and advisors from top global companies and markets (e.g., Dell, P&G, Payless, Nike, Adidas, Guess, ZARA)

Partnerships with industry leaders in materials and manufacturing technologies critical for premium sportswear (e.g. RSI, Kolon, Pou chen)

Strategic investor with proven retail & fashion transformation expertise (TPG)

Designers and product creation partners with distinguished track record in leading global brands (e.g., Adidas, Bean Pole, Descente, Nike, Under Armour,)

Sponsorships in top sports leagues and of iconic stars focused on 5 core sportswear categories (e.g., CBA, Wade)

Streamlined and enhanced local team, building on foundation of core capabilities and innovation (e.g., Arc, Cloud, AT)



Transformation Blue Print

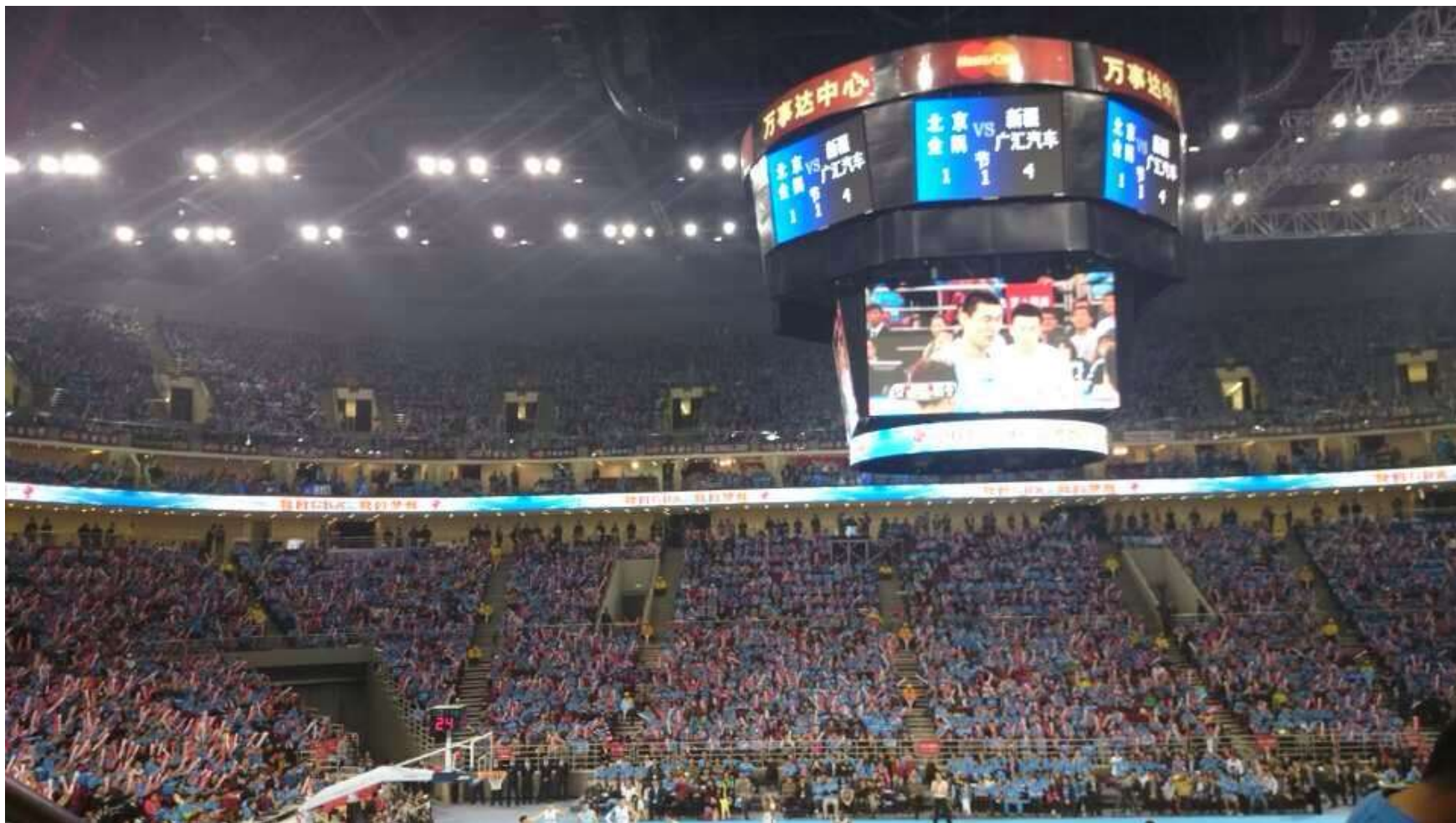
Created ecosystem of world-class capabilities to pioneer industry's first and most comprehensive brand transformation

Differentiated Products Offer Price-Value Proposition



主宰这一秒·看我的

CBA Final



10K Running



10K Running



10K Running



2013 Key Highlights

- We are mid-way of the transformation journey.
- First phase turnaround is nearly complete with encouraging core trends, but a little more time is needed to resolve issues with the last group of weak channel partners and final batch of old inventory.
- Success of the new strategy has been demonstrated through new product performance and various strategic initiatives; but, final phase is expected to take 18-24 more months of investment to build out new operational platform and complete the transformation, which includes the shift towards more direct-retail and self-owned shops.
- Financially, cost structure and operating cash flow have improved significantly, but balanced by bold investments in transforming the brand and operations; hence, it will take time for financial results to fully reflect the benefits of our work today.
- We firmly believe in our current transformation direction; we also believe that building a leading brand in China, one of the world's most promising markets, rather than maximizing short-term financial results, is the best way to maximize stakeholder value over time.
- We have made great progress over the past 18 months in realizing this vision.



*Strategy and
Transformation Plan
Update*



We Are Now Ready to Grow Again



Fix the business

- Revive channels (inventory, network, profitability & cash flow)
- Improve operating cash flow and capital structure
- Improve core operating performance, particularly new products

Resize to healthy core sportswear

- Reduce undifferentiated and non-core categories, such as casual wear fashion, to expand in core sportswear categories
- Decisively exit unprofitable markets, products & channels
- Reduce sell-in to focus on core businesses and markets

Build solid sportswear business, then grow

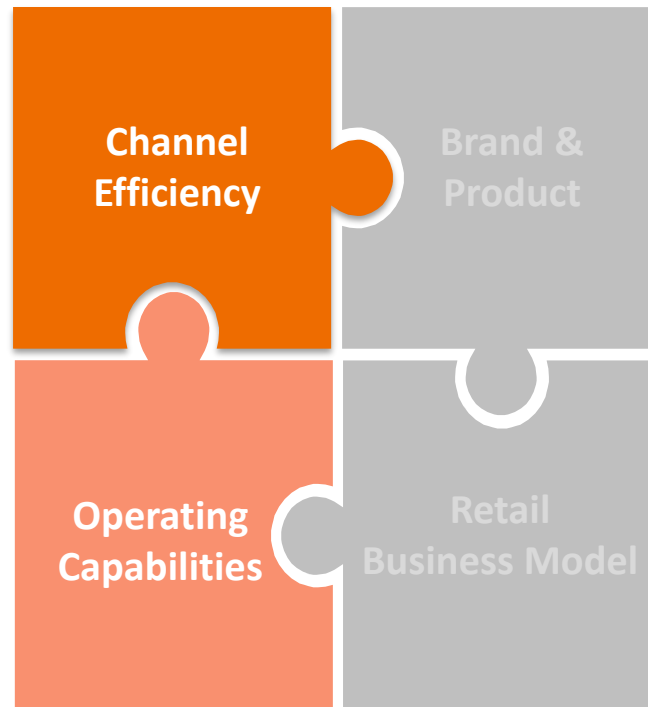
- Differentiated core category strategy and clear value proposition
- Brand and product expansion into premium, core, basic sportswear markets, where value proposition is compelling
- Product and business model innovation specifically for China

Agenda

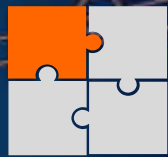
- 2013 Key Highlights and Strategic Vision
- Strategy and Transformation Plan Update
 - **Progress on Turnaround**
 - Building China's Leading Brand
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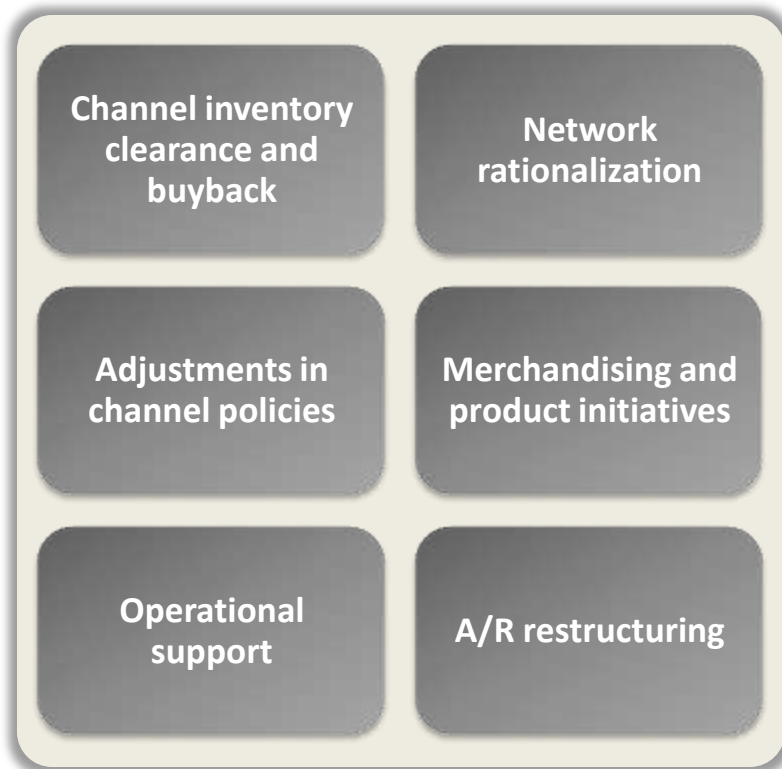
Near-Term Turnaround



Distribution Channel Channel Revival Plan



Key Initiatives



Results

Signed up over 90% of distributors; less than 10% managed out

Executed new operating model; improved store mix by increasing number of self-owned / regular stores with higher new product mix and by closing stores with low efficiency

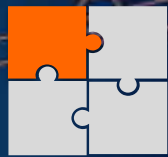
Healthier cost structure, operating cash flow and inventory

Improved profitability and cash flow at majority of channel partners



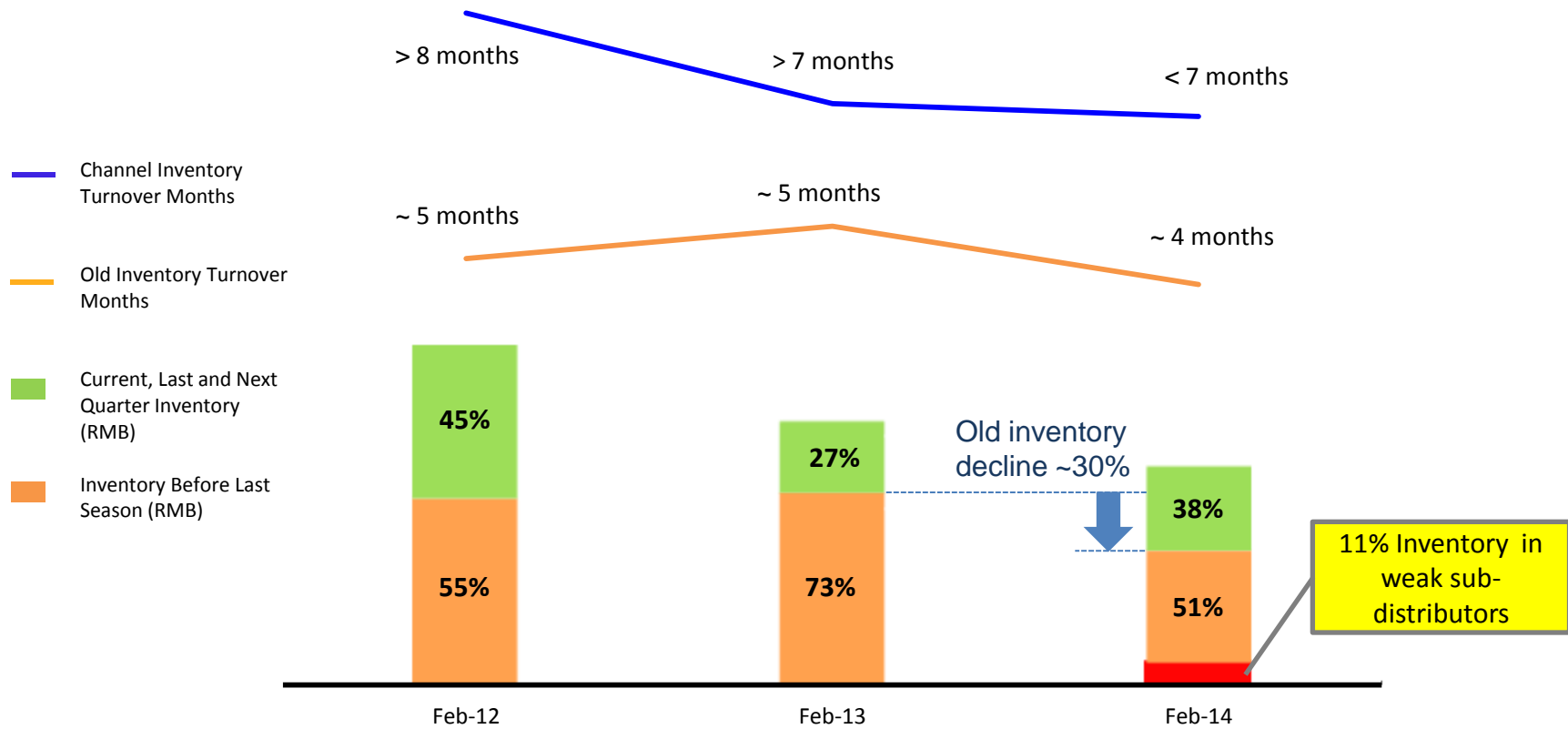
Turnaround is on track and successful, but there remain a group of weak channel partners who still face challenges and lack resources for growth. Group will need to invest more to continue restructuring the weak and supporting the strong, while building the new business.

Significant Reduction of Old Inventory



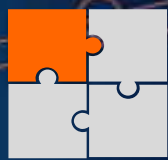
Channel Inventory and Turnover Months

(Rolling 12 months Turnover Average)



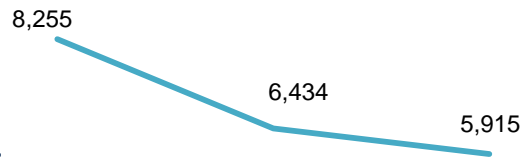
Significant reduction of problematic old inventory in step with the resizing of the business, and returning to healthier inventory mix and level

Mix Shifting to Stronger Store Categories

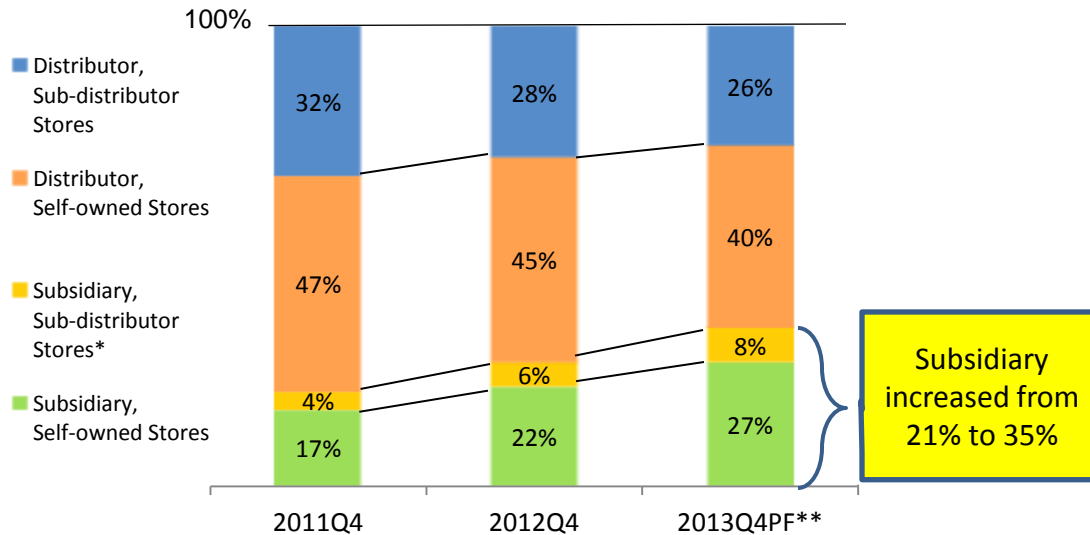


LI-NING Brand Distribution Channel and Retail Revenue Mix

Total number of stores



Retail Revenue Mix

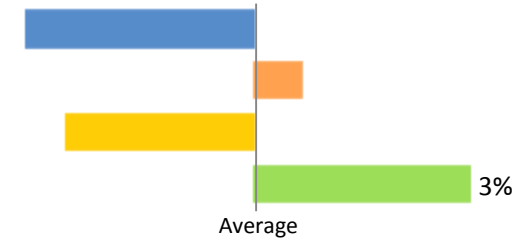


* Sub-distributor under subsidiary more profitable since wholesale margin not given away

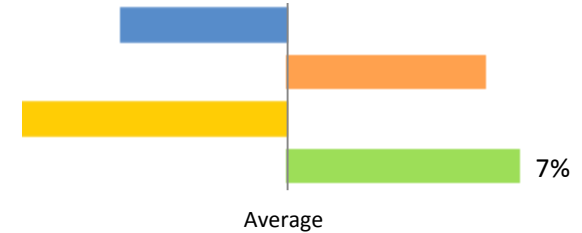
** Included signed takeover markets from distributors before 24th Mar 2014

Core Metrics (Relative Performance in 2013 2H)

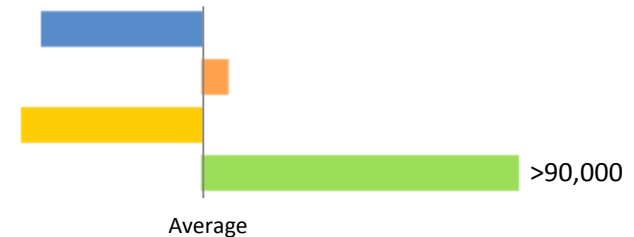
SSSG



New product mix Normal stores



Sales per stores (RMB)

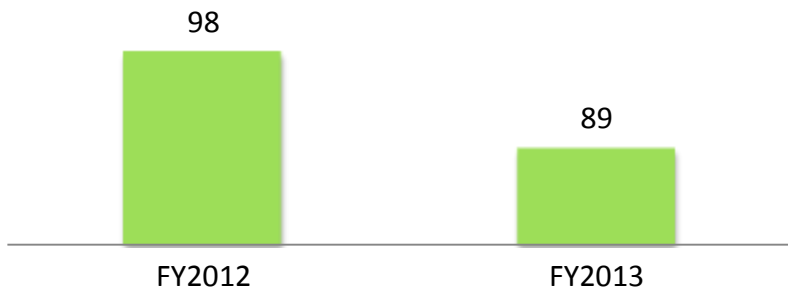


Stabilized store count and optimized distribution channels to improve productivity and profitability

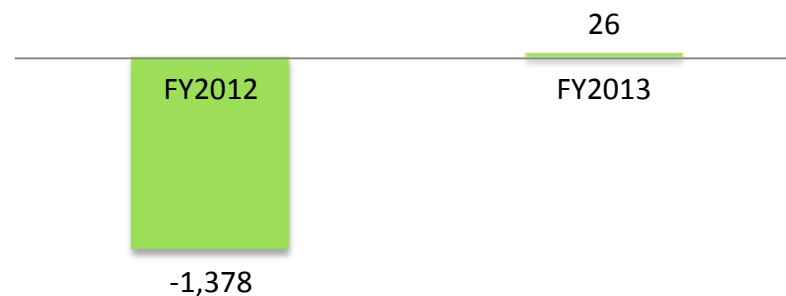
Significant Improvements in Cash and Profit



A/R Turnover Days



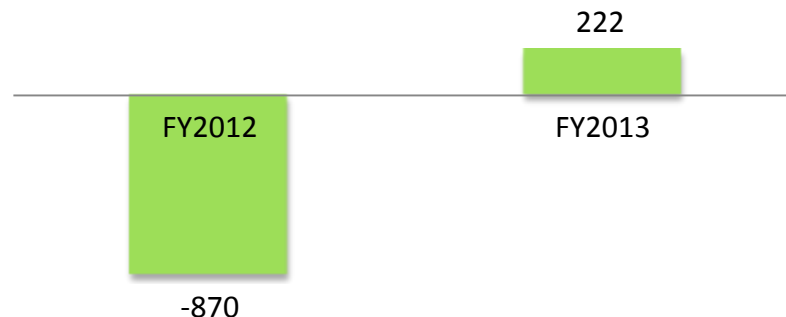
EBITDA (RMB million)



Operating Cash Flow (RMB million)

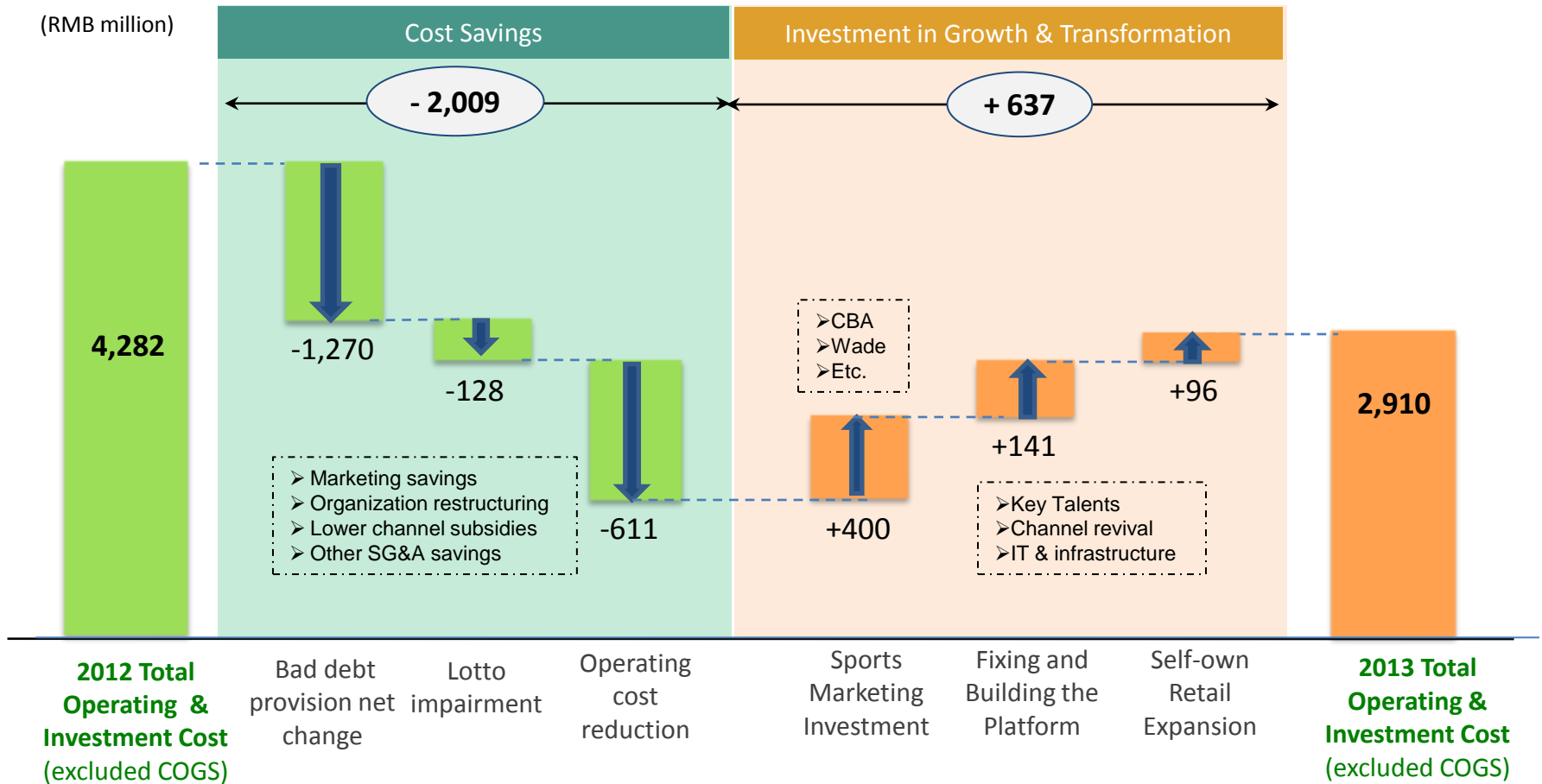
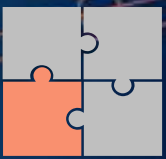


Net Cash Position (RMB million)



Progress in turnaround initiatives lead to improvements in core financials

Significant Savings Achieved to Invest in Transformation

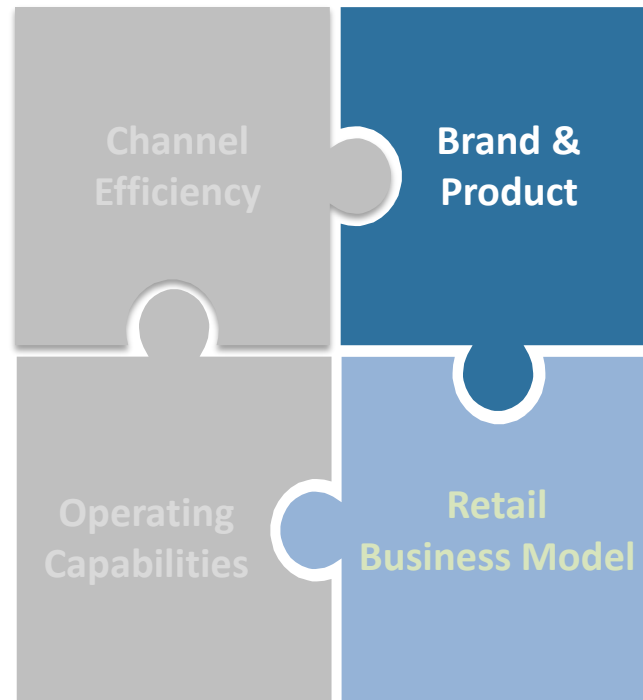


Operations cost reduction funded in full investments in platform and growth

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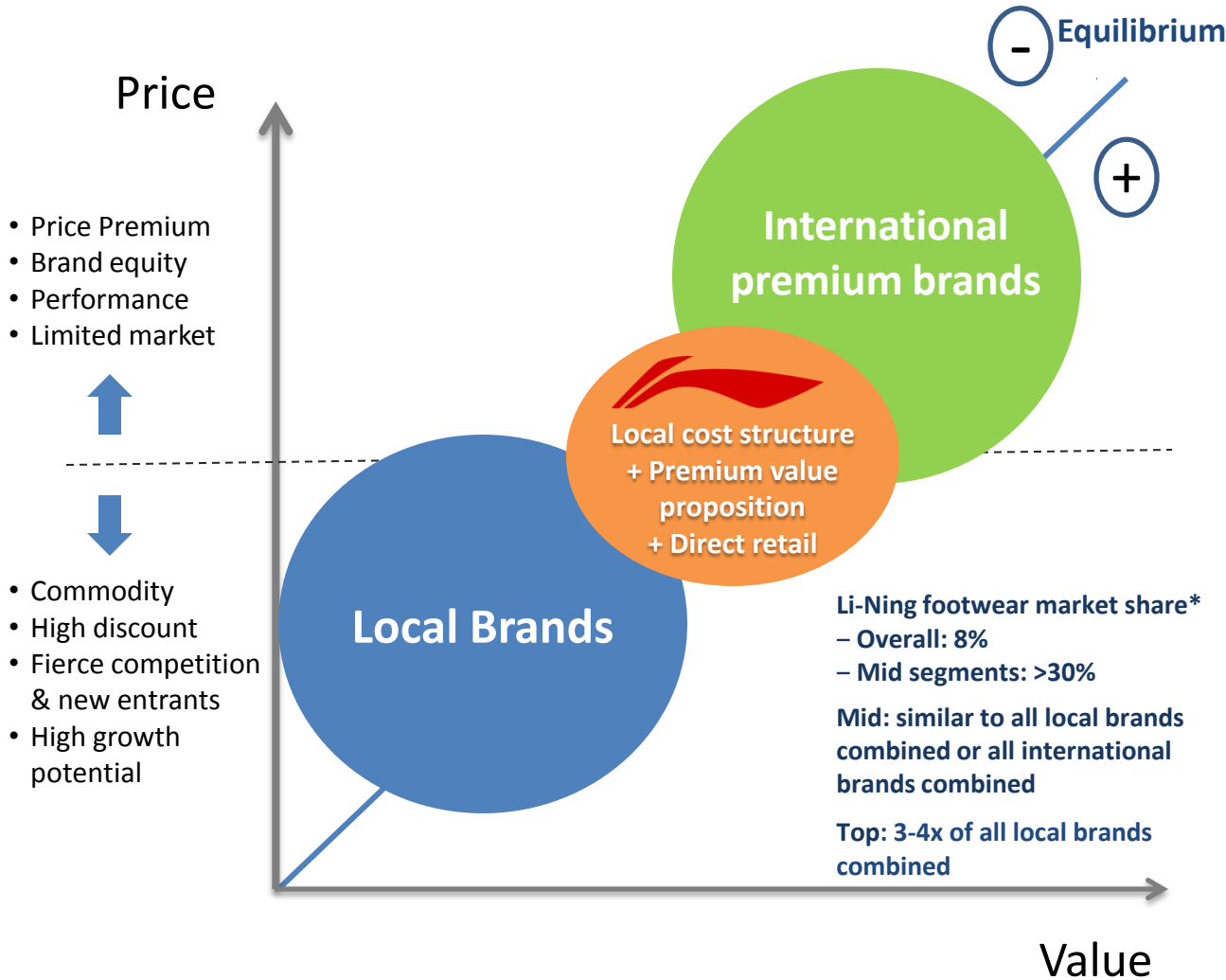
Building the Platform



Li Ning Powerful in Mid, Solid in Low, Gaining Ground in Top



Current Brand Positioning (Illustrative)



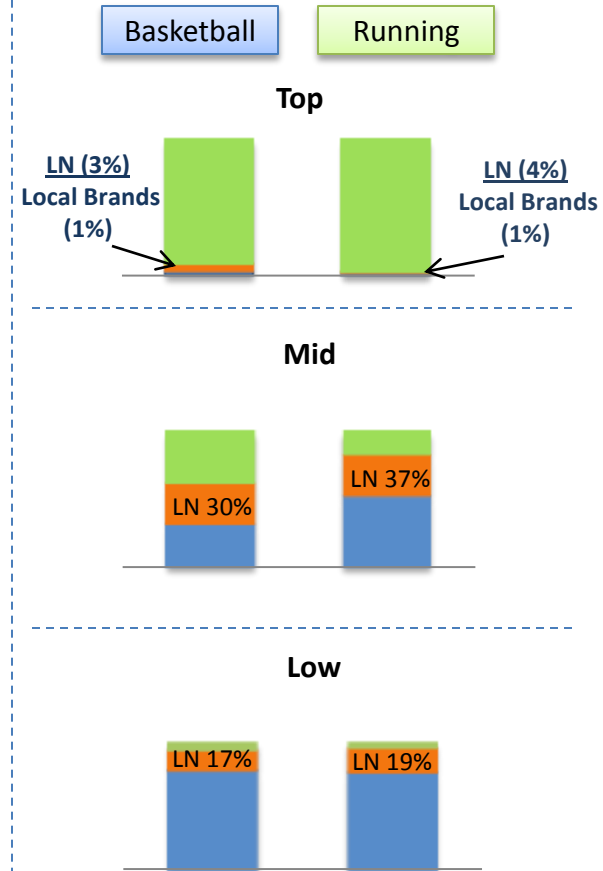
Li-Ning footwear market share*

- Overall: 8%
- Mid segments: >30%

Mid: similar to all local brands combined or all international brands combined

Top: 3-4x of all local brands combined

China Footwear Market Share*

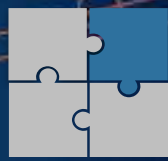


Price Segment:

- Basketball: Top (≥RMB 451), Mid (RMB 301-450), Low (≤RMB 300)
- Running: Top (≥RMB 401), Mid (RMB 301-400), Low (≤RMB 300)

*Source: Millward Brown, in terms of value market share, period covering 2013 Jan to Dec

Strengthening Our Unique Strategic Advantages



Leading brand with authenticity, premium positioning, and unique marketing assets

- LN share the top of mind brand mention with leading global brands
- Rated by China Brand Power Index 2013 as the No.1 brand in sports apparel for 3 consecutive years (No. 2 in sports shoes)*
- Highest most-frequent-purchase-rate at 16% (vs. Nike at 13%, Anta at 14%)**
- High brand loyalty with leading position for “the only brand to consider buying.”**
- Brand image of "Pride for Chinese", "stable and reliable" and differentiated from local brands for being "inspirational".**

Operations model adopting key elements of direct-retail and fast-fashion

- Move away from wholesale, which prevents direct communication with consumers through differentiated retail experience
- Move to fast-fashion direct-retail model similar to leading Asia markets, e.g., Korea, with superior cost and productivity advantages
- Shops merchandised according to local demand and season patterns using data and IT systems

*Source: Ministry of Industry and Information Technology of PRC

**Source: Millward Brown, 2013 sports U&A study

Product innovation and design specifically for China's youth

- Chinese consumers' physical fit, preferences, and functionality requirement



WoW2

Chinese year of the Horse



Smart Moving

tailor made for wider Chinese feet

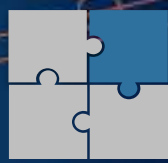
Direct to core category consumers

5 different category specific strategies:

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

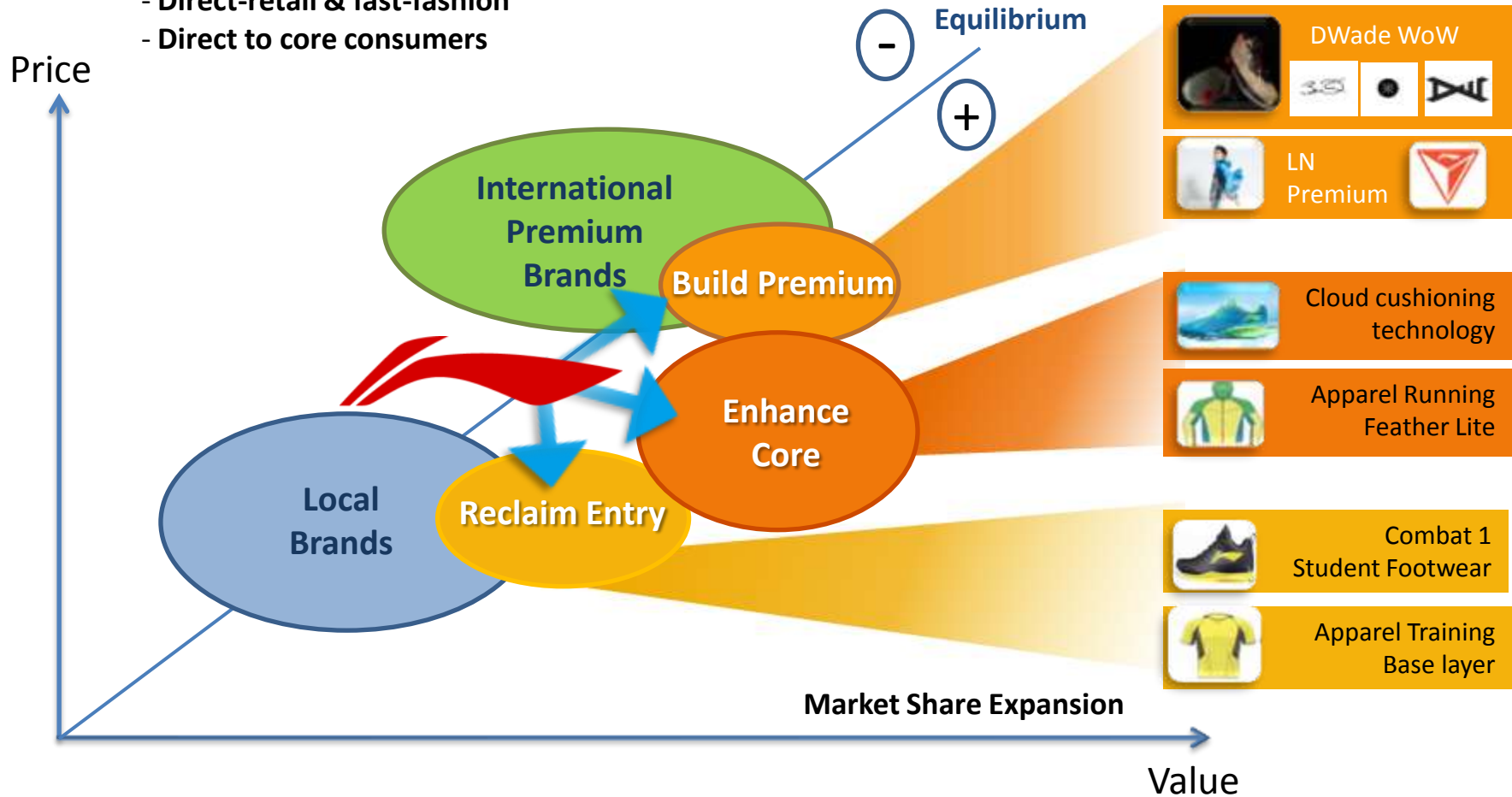


Gain Market Share Through Value Proposition Enhancement & Extension



Li Ning's unique strategic advantages:

- Leading brand
- Designed for China
- Direct-retail & fast-fashion
- Direct to core consumers



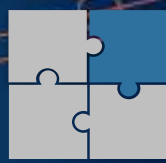
Brand and Product Extension Working Basketball Shoes Example



Li Ning 2013/2014 basketball season Hero Products; only brand to succeed at 3 price tiers

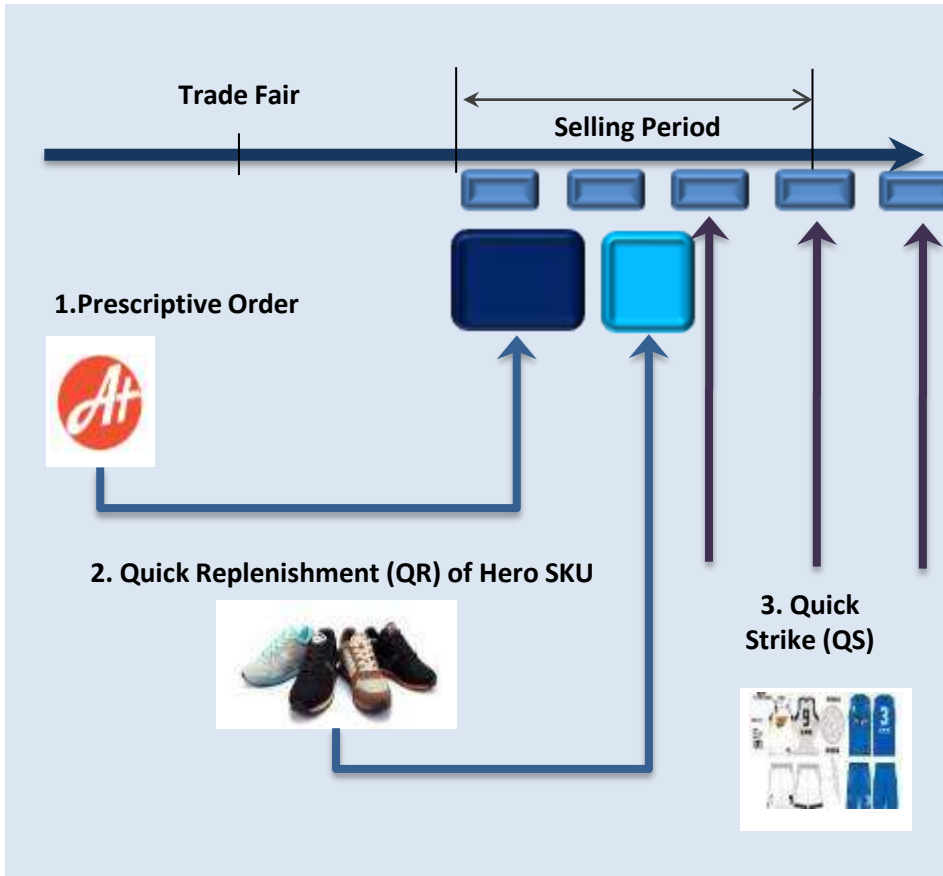
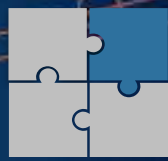
Categories	Target Consumers	Value Proposition	Sales Performance	Competitors
Premium (Enter New Business)	<ul style="list-style-type: none"> DWade fans Semi-pro or serious amateur players Sneaker collectors 	<p>WoW2 (Wade Signature) – top professional shoes with industry-leading features</p> <ul style="list-style-type: none"> Designed by and for Dwade, for NBA competition Unique full leather upper & carbon fibre foot plate 50+ unique upper designs Best mix of style with top notch Wade design and China elements 30% cheaper than Nike signature <p>RMB 999</p> 	<ul style="list-style-type: none"> Sold out within hours in every US launch Average sell-in rate in China is 2X higher for WoW2 	Signature collection of Top International Brands at much higher price points
Core (Enhance Existing Business)	<ul style="list-style-type: none"> CBA fans Serious amateur players Basketball subculture enthusiasts 	<p>BB Cloud – Pro-quality on-court performance shoes</p> <ul style="list-style-type: none"> Top-end shoe for CBA athletes in competitive games Unique patented tooling material for optimised cushioning & energy return Dynamic & stylish design with breathable ultra shell tpu upper 30%-40% cheaper than premium brands with similar value <p>RMB 499</p> 	<ul style="list-style-type: none"> Best selling large volume in-line product in Q1 2014 Sell-out rates 45% in first 7 weeks 	Minimum direct competition due to high value for money & lack of compelling offering at this price point
Entry (Claim Back Old Business)	<ul style="list-style-type: none"> Students with frequent playing Basketball enthusiasts on budget 	<p>Combat – On & off court shoes for recreational players & young consumers</p> <ul style="list-style-type: none"> Basic, but fully functional on-court basketball shoe for multi purpose (indoor & outdoor courts) Cushioning, comfort & design More functional and stylish at price point competitive to local brands <p>RMB 299</p> 	<ul style="list-style-type: none"> Best selling large volume in-line product in 2013 Q1 Sell-out rates 70% in first 12 weeks 	Local sportswear brands, but usually with minimum functionality and style DNA

Focusing on 5 Core Categories Requires 5 Different Strategies and Initiatives



	Core Target Consumers	Business Drivers and Go To Market Approach	Key Growth Initiatives
Basketball	 <p>Cool campus sports enthusiasts & players</p>	<ul style="list-style-type: none"> • Association with top leagues and stars • On-court performance, style, brand, and value • Word of mouth and credibility among sneakers and fans • Grass-roots street and digital basketball events 	<ul style="list-style-type: none"> • Wade signature line & CBA fan pack • Campus apparels collection • Entry price on-court student shoes • Digital platform, fan clubs, & category shops
Running	 <p>Working sports lovers & committed runners</p>	<ul style="list-style-type: none"> • Technical and targeted performance features (high-end); stylish design, comfort, and value (mid to entry) • Brand, media awareness, and KOL endorsement • Running events, Grass-roots community activities 	<ul style="list-style-type: none"> • Innovation in core platforms • R&D partners for leading-edge products • Entry price and specialized niche products • Professional shoes and female collection
Training	 <p>Disciplined practitioners</p>	<ul style="list-style-type: none"> • Functionality, fit, style, comfort, and brand power • Endorsement by coaches & athletes, celebrities & KOL, and upscale trend setters • Location seeding (gym, sports park etc.) 	<ul style="list-style-type: none"> • Innovation in new material technologies • Female collection led by Seoul studio • Local Chinese exercise categories (i.e. group dance, modern martial art)
Sports Life	 <p>Trendy, stylish youths with sports inspiration</p>	<ul style="list-style-type: none"> • Asian fashion trends, fit, comfort, and value • POP stars, youth idols, entertainment PR • Sports inspired design DNA and functional materials • Youth events (i.e. music, movies, entertainment shows) 	<ul style="list-style-type: none"> • Li-Ning Premium from Seoul studio • Celebrity spokesperson • Youth Sports Apparel • Heritage collection
Badminton	 <p>Committed amateur sports enthusiasts</p>	<ul style="list-style-type: none"> • On-court product performance and brand recognition • National team endorsement & sports events exposure • Retail distribution, promotions, and service • On-court media and coaches endorsement 	<ul style="list-style-type: none"> • Best-in-class racket technology • High performance professional shoes • Retail & R&D extension into mid & entry

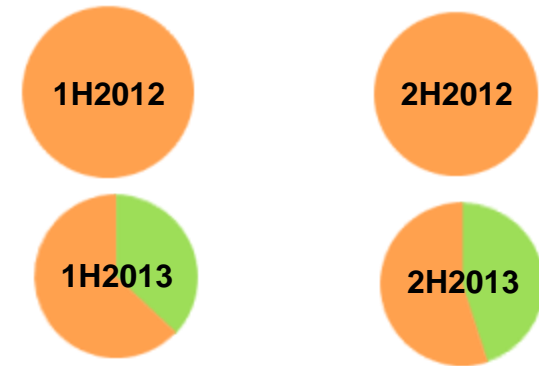
Innovative Merchandising and Go-To-Market Model Driving Sales Performance



* Fast response product includes only styles that have 13 weeks of sell through

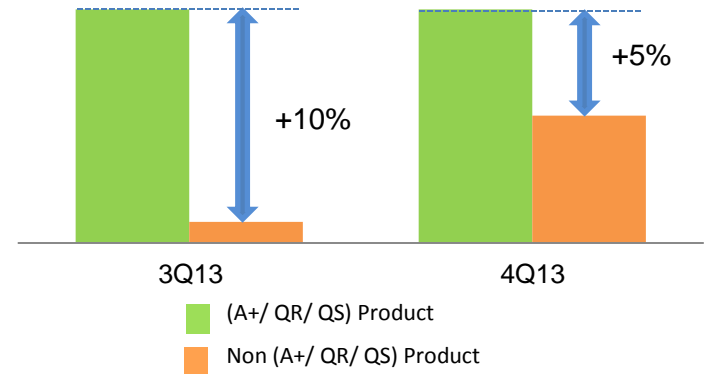
A+/QR/QS Revenue Contribution

(% of Sell In)



A+/QR/QS* Product Performance

(3 months Sell Out Rates %)

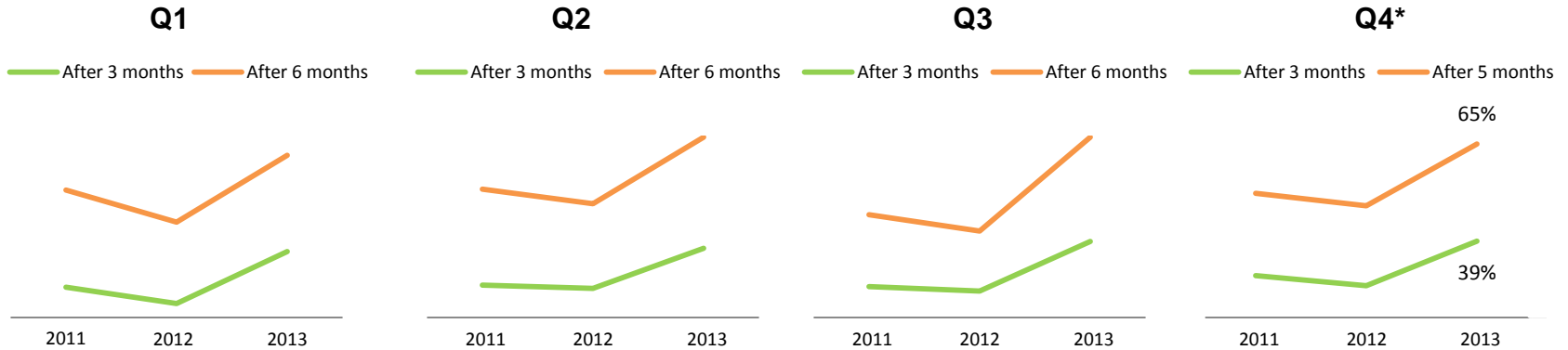


Products and Merchandising

Strong Performance for New Products

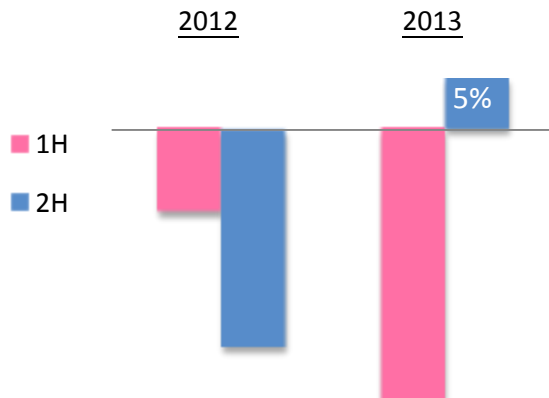


New Products Sell-Out Rates (end of the season, %)



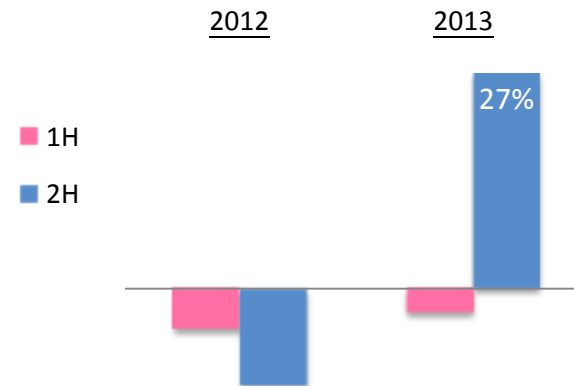
*March data not available yet, 5 months sell-through data used for Q4

New Product Sales Growth Rate (% YoY)



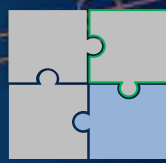
YoY drop from 12Q3 to 13Q2 due to carefully planned resizing of sell-in and retail network; but, strong turnaround in 13H1

Sales per month per Store Productivity Growth (% YoY)

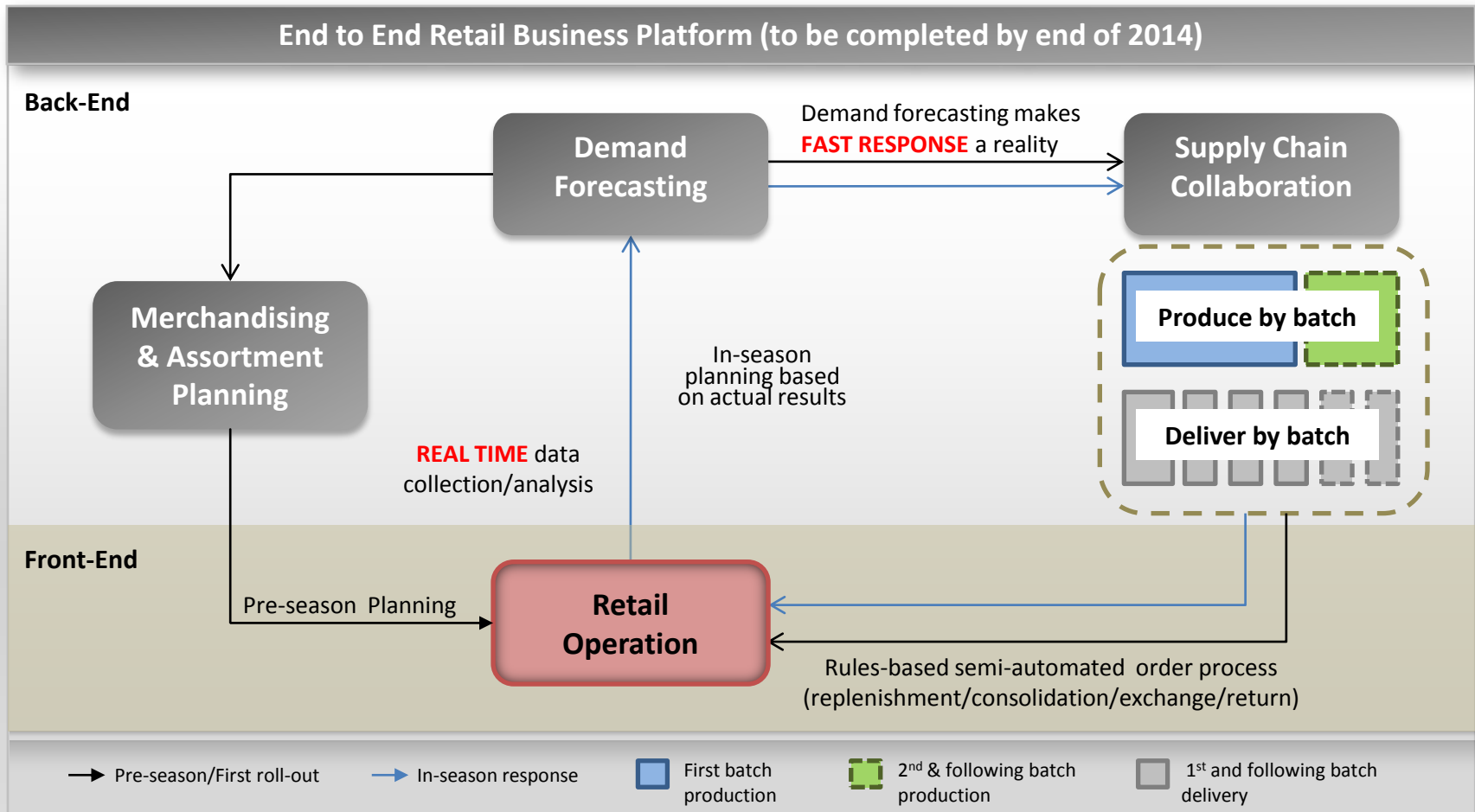


Sharp increase in per store new product sales due to improving sell-in and sell-through performance

Building Sports Industry's First Fast Response Direct Retail Business Platform



- Driving retail sales, improving inventory efficiency, and reducing cash conversion cycle through:
- ANALYSIS and BIG DATA driving demand & merchandising planning ;
 - REAL TIME response to actual sales in retail stores on daily and weekly rhythm;
 - RIGHT inventory at RIGHT TIME in the RIGHT LOCATIONS to maximize SSS (Same Store Sales).



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Fruition of Investment Will Take Time

- Turnaround has impacted 2013 results, but will have much less impact in 2014
 - Revival costs and resizing of sell-in and network have dragged on 2012 and 2013 P&L, but the magnitude has declined quickly and steadily over the last two years.
 - Despite severe financial impact, carefully orchestrated reduction of sell-in and network was necessary to 1) “right-size” business to its healthy core, 2) destock old inventory, and 3) protect cash flow
 - Negative financial impact from turnaround is expected to be limited in 2014 as recovery in high margin new products continues, but risk remains with 10% - 20% of weak channel partners (particularly sub-distributors) and 10% of old inventory that are difficult and expensive to dispose
- Now, with our timely investment in growth, we believe we will start seeing improved financial returns
 - Upfront investments in key sportswear assets (e.g., CBA, Wade) have enhanced brand power and fueled growth in strategic categories, but will take 1 to 2 more years to fully realize their returns
 - Self-owned stores, particularly that of subsidiaries, have been performing strong, but they require investment up front in network expansion and store refit, to ensure good retail experience & productivity
 - Distributors’ profits and cash flow have improved and reached stability for operations, but paying down past AR drains the cash they need for growth; hence, may need external funding support to increase working capital and expand network
 - Although the group’s net cash position is much stronger, market uncertainties could pose challenges to the continued progression of the Group’s transformation



Financial Highlights



Summary of Income Statement

(RMB million)	FY2013	FY2012 (Restated*)	Better/(Worse)
	For the 12 months ended 31 December		
Revenue	5,824	6,676	(13%)
Gross Profit	2,594	2,514	3%
Distribution costs	-2,674	-2,612	(2%)
Administrative expenses	-236	-1,670	86%
Other income and other gains – net	147	169	(13%)
Operating (Loss) /Profit	-169	-1,599	89%
EBITDA	26	-1,378	N/A
(Loss)/Profit Attributable to Equity Holders	-392	-1,980	80%
Basic Losses/ Earnings per share (RMB cents)	-29.9	-172.6	83%
Annual dividend (RMB cents)	-	-	-

* Note: Under IFRS 11, proportional consolidation of joint ventures is no longer allowed. The Group accounted for its investment in Li-Ning Aigle Ventures using equity method of accounting at the beginning of the earliest period presented.

Profit Margins And Expense Ratios

	FY2013	FY2012 <i>(Restated*)</i>	Better/(Worse)
	For the 12 months ended 31 December		
Gross Profit Margin	44.5%	37.7%	6.8p.p.
Operating Profit Margin	-2.9%	-23.9%	21.0p.p.
EBITDA Margin	0.4%	-20.6%	21.0p.p.
Margin of (Loss) /Profit Attributable to Equity Holders	-6.7%	-29.6%	22.9p.p.
R&D Expenses (as % of revenue)	3.0%	2.9%	(0.1p.p.)
A&P Expenses (as % of revenue)	24.2%	19.6%	(4.6p.p.)
Staff Costs (as % of revenue)	11.5%	10.9%	(0.6p.p.)

Key Operational Indicators

	FY2013	FY2012 (Restated*)	Better/(Worse)
	For the 12 months ended 31 December		
Average Inventory Turnover (Days)	104	89	(15)
Average Trade Receivables Turnover (Days)	89	98	9
Average Trade Payables Turnover (Days)	104	112	8
Cash Conversion Cycle (Days)	89	75	(14)
Return on Equity (ROE)	-18.2%	-77.8%	59.6p.p.
Return on Asset (ROA)	-6.5%	-29.7%	23.2p.p.
CAPEX* (RMB million)	224	214	5%

*Excluding the acquisition expenditures

Summary of Balance Sheet

(RMB Million)	FY2013	FY2012 (Restated*)	Better/(Worse)
Cash and Cash Equivalents	1,281	1,241	3 %
Bank Borrowings	400	1,447	72 %
Convertible Bonds Liabilities	659	664	1 %
Net Cash*	222	-870	N/A
Current Liabilities	2,018	3,264	38 %
Current Ratio (times)	2.0x	1.2x	0.8x
Total Liabilities to Total Assets Ratio	51.9%	69.9%	18.0 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.



- Continued the steady growth momentum
- Newly developed apparel and shoes maintained market competitiveness in product design and pricing.



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



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