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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

FINANCIAL HIGHLIGHTS

- Net profit attributable to equity holders increased by 187% to RMB1,962 million, and the net profit margin raised from 11.1% to 19.2%:
 - Revenue increased by 65% to RMB10,197 million
 - Gross profit margin expanded 6.4 percentage points to 55.9%
 - Enhanced operating leverage help drove operating profit margin expanded 10.4 percentage points to 24.9%
- Operating cash flow increased by over 590% to RMB3,325 million.
- Significant improvement in working capital continued:
 - Gross average working capital improved (reduced) by over 10% while revenue increased by 65%
 - Cash conversion cycle further improved (shortened) by 17 days (2020 H1: 30 days/2021 H1: 13 days)

OPERATIONAL HIGHLIGHTS

- The retail sell-through for the overall platform increased by low-nineties, including online and offline channels.
- Channel inventory declined mid-single-digit with improved aging structure, notwithstanding the above retail sell-through expansion, the inventory turnover has still been greatly improved.
- Offline channel new product sell-through increase accelerated to mid-nineties:
 - Improvement in retail discount rate recorded high-single-digit percentage points
 - Sell-out rate: Both 6-month and 3-month improved by approximately 21 percentage points

INTERIM RESULTS

The board of directors (the “Board”) of Li Ning Company Limited (the “Company” or “Li Ning Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2021, together with comparative figures of 2020, as follows:

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

| | | Unaudited | Audited |
|---|-------------|--------------------------|-------------------|
| | | As at | As at |
| | | 30 June | 31 December |
| | <i>Note</i> | 2021 | 2020 |
| | | RMB'000 | RMB'000 |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | 1,217,045 | 1,065,058 |
| Right-of-use assets | | 978,793 | 1,065,979 |
| Investment properties | | 1,790,520 | 115,200 |
| Land use rights | | 164,478 | 166,377 |
| Intangible assets | | 180,216 | 190,746 |
| Deferred income tax assets | | 638,777 | 590,635 |
| Other assets | | – | 138,518 |
| Investments accounted for using the equity method | | 1,222,015 | 1,101,116 |
| Investments measured at fair value through profit or loss | | 130,100 | – |
| Other receivables | | 140,754 | 128,714 |
| Long-term bank deposits | | 2,103,488 | 254,966 |
| | | <u>8,566,186</u> | <u>4,817,309</u> |
| Total non-current assets | | | |
| Current assets | | | |
| Inventories | 4 | 1,307,280 | 1,345,539 |
| Other assets – current portion | | 705,523 | 518,902 |
| Trade receivables | 5 | 800,679 | 658,796 |
| Other receivables – current portion | | 66,503 | 65,196 |
| Restricted bank deposits | | 1,076 | 1,084 |
| Short-term bank deposits | | 100,216 | – |
| Cash and cash equivalents | | 6,108,102 | 7,187,039 |
| | | <u>9,089,379</u> | <u>9,776,556</u> |
| Total current assets | | | |
| | | <u>17,655,565</u> | <u>14,593,865</u> |
| Total assets | | | |

| | <i>Note</i> | Unaudited As at 30 June 2021 RMB'000 | Audited As at 31 December 2020 RMB'000 |
|---|-------------|---|---|
| EQUITY | | | |
| Capital and reserves attributable to equity holders of the Company | | | |
| Ordinary shares | | 228,717 | 228,285 |
| Share premium | | 4,050,617 | 4,037,767 |
| Shares held for Restricted Share Award Scheme | | (47,471) | (148,995) |
| Other reserves | | 959,940 | 874,574 |
| Retained earnings | | <u>5,142,253</u> | <u>3,695,232</u> |
| | | 10,334,056 | 8,686,863 |
| Non-controlling interests in equity | | <u>2,554</u> | <u>2,554</u> |
| Total equity | | <u>10,336,610</u> | <u>8,689,417</u> |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| License fees payable | | 22,249 | 23,395 |
| Derivative financial instruments | | – | 10,181 |
| Lease liabilities | | 636,530 | 688,642 |
| Deferred income tax liabilities | | 435,537 | 102,738 |
| Deferred income | | <u>69,908</u> | <u>64,435</u> |
| Total non-current liabilities | | <u>1,164,224</u> | <u>889,391</u> |
| Current liabilities | | | |
| Trade payables | 6 | 1,377,468 | 1,227,129 |
| Contract liabilities | | 337,951 | 286,134 |
| Lease liabilities – current portion | | 342,430 | 360,895 |
| Other payables and accruals | | 3,296,404 | 2,500,991 |
| License fees payable – current portion | | 74,552 | 39,494 |
| Current income tax liabilities | | 716,184 | 591,860 |
| Derivative financial instruments – current portion | | <u>9,742</u> | <u>8,554</u> |
| Total current liabilities | | <u>6,154,731</u> | <u>5,015,057</u> |
| Total liabilities | | <u>7,318,955</u> | <u>5,904,448</u> |
| Total equity and liabilities | | <u><u>17,655,565</u></u> | <u><u>14,593,865</u></u> |

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

| | <i>Note</i> | Unaudited | |
|---|-------------|---------------------------------|--------------------|
| | | Six months ended 30 June | |
| | | 2021 | 2020 |
| | | RMB'000 | RMB'000 |
| Revenue | 3 | 10,196,584 | 6,180,935 |
| Cost of sales | 7 | <u>(4,497,520)</u> | <u>(3,124,144)</u> |
| Gross profit | | 5,699,064 | 3,056,791 |
| Distribution expenses | 7 | (2,857,021) | (1,948,689) |
| Administrative expenses | 7 | (437,460) | (346,276) |
| Provision for expected credit loss allowance for financial assets – net | | (6,622) | (24,420) |
| Other income and other gains – net | 8 | <u>140,452</u> | <u>160,502</u> |
| Operating profit | | 2,538,413 | 897,908 |
| Finance income | 9 | 45,388 | 19,394 |
| Finance expenses | 9 | <u>(37,925)</u> | <u>(31,888)</u> |
| Finance income/(expenses) – net | 9 | 7,463 | (12,494) |
| Share of profit of investments accounted for using the equity method | | <u>79,571</u> | <u>21,767</u> |
| Profit before income tax | | 2,625,447 | 907,181 |
| Income tax expense | 10 | <u>(663,224)</u> | <u>(223,910)</u> |
| Profit for the period | | 1,962,223 | 683,271 |
| Profit is attributable to: | | | |
| Equity holders of the Company | | 1,962,223 | 683,271 |
| Non-controlling interests | | <u>–</u> | <u>–</u> |
| | | <u>1,962,223</u> | <u>683,271</u> |
| Earnings per share attributable to equity holders of the Company for the period (expressed in RMB cents per share) | | | |
| Basic earnings per share | 11 | <u>79.04</u> | <u>27.98</u> |
| Diluted earnings per share | 11 | <u>77.96</u> | <u>27.30</u> |

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited | |
|---|---------------------------------|-----------------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Profit for the period | 1,962,223 | 683,271 |
| Other comprehensive (loss)/income: | | |
| <i>Items that may be reclassified to profit or loss</i> | | |
| Currency translation differences | (1,568) | 2,737 |
| Total comprehensive income for the period | <u>1,960,655</u> | <u>686,008</u> |
| Attributable to: | | |
| Equity holders of the Company | 1,960,655 | 686,008 |
| Non-controlling interests | — | — |
| | <u>1,960,655</u> | <u>686,008</u> |

Notes:

1. General information

Li Ning Company Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in brand development, design, manufacture, sale and distribution of sport-related footwear, apparel, equipment and accessories in the People’s Republic of China (the “PRC”).

The Company was incorporated on 26 February 2004 in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board on 12 August 2021.

This condensed consolidated interim financial information has not been audited.

2. Accounting policies

The accounting policies applied to the preparation of this condensed consolidated interim financial information are consistent with those applied in the annual financial statements for the year ended 31 December 2020, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings.

Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published but are not mandatory for reporting period commencing 1 January 2021 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. Segment information and revenue

The management of the Company (“Management”) is the Group’s chief operating decision-maker. Management reviews the Group’s internal reports periodically in order to assess results and allocate resources. Management has determined the operating segments based on these reports.

The Group was principally engaged in a single line of business of sporting goods. Management reviewed the performance of the Group as a whole, thus there was only one reportable segment and no segment information was presented.

The Group derives revenue in the following major product lines and geographical regions:

| | Unaudited | |
|---------------------------|---------------------------------|------------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | RMB’000 | RMB’000 |
| Footwear | 4,594,177 | 2,924,956 |
| Apparel | 5,061,494 | 2,941,172 |
| Equipment and accessories | 540,913 | 314,807 |
| Total | 10,196,584 | 6,180,935 |

Geographical information of revenue

| | Unaudited | |
|---|---------------------------------|------------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| The PRC (including the Hong Kong Special Administrative Region and the Macau Special Administrative Region) | 10,074,827 | 6,112,666 |
| Other regions | 121,757 | 68,269 |
| Total | 10,196,584 | 6,180,935 |

Revenue by geographical location is determined on the basis of destination of shipment/delivery.

The Group has a large number of customers. For the six months ended 30 June 2021 and 2020, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Inventories

| | Unaudited 30 June 2021 RMB'000 | Audited 31 December 2020 RMB'000 |
|---|---|---|
| Raw materials | 13,820 | 8,078 |
| Work in progress | 17,621 | 9,345 |
| Finished goods | <u>1,361,096</u> | <u>1,441,249</u> |
| | 1,392,537 | 1,458,672 |
| Less: provision for write-down of inventories to net realisable value | <u>(85,257)</u> | <u>(113,133)</u> |
| | <u><u>1,307,280</u></u> | <u><u>1,345,539</u></u> |

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB4,374,285,000 for the six months ended 30 June 2021 (30 June 2020: RMB3,026,834,000). Inventory provision and the amount of reversal have been included in cost of sales in the interim condensed consolidated income statement for the six months ended 30 June 2021 and 2020.

5. Trade receivables

| | Unaudited 30 June 2021 RMB'000 | Audited 31 December 2020 RMB'000 |
|--|---|---|
| Accounts receivable | 1,089,228 | 939,233 |
| Less: expected credit loss allowance for trade receivables | <u>(288,549)</u> | <u>(280,437)</u> |
| | <u><u>800,679</u></u> | <u><u>658,796</u></u> |

Customers are normally granted credit terms within 90 days. As at 30 June 2021 and 31 December 2020, ageing analysis of trade receivables based on invoice date is as follows:

| | Unaudited 30 June 2021 RMB'000 | Audited 31 December 2020 RMB'000 |
|---------------|---|---|
| 0 – 30 days | 738,724 | 437,604 |
| 31 – 60 days | 29,425 | 193,041 |
| 61 – 90 days | 49,392 | 44,213 |
| 91 – 180 days | 44,782 | 35,026 |
| Over 180 days | <u>226,905</u> | <u>229,349</u> |
| | <u><u>1,089,228</u></u> | <u><u>939,233</u></u> |

The movement in the expected credit loss allowance for trade receivables is shown as follows:

| | Unaudited | |
|---|---------------------------------|----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Opening balance | 280,437 | 258,193 |
| Provision for expected credit loss allowance for trade receivables | 9,925 | 25,976 |
| Trade receivables written off during the period as uncollectible and exchange rate impact | (1,813) | (563) |
| | <hr/> | <hr/> |
| Closing balance | 288,549 | 283,606 |
| | <hr/> <hr/> | <hr/> <hr/> |

6. Trade payables

The normal credit period for trade payables generally ranges from 30 to 60 days. Ageing analysis of trade payables based on invoice date at the respective balance sheet date is as follows:

| | Unaudited | Audited |
|----------------|---------------------|-------------------------|
| | 30 June 2021 | 31 December 2020 |
| | RMB'000 | RMB'000 |
| 0 – 30 days | 1,308,241 | 967,798 |
| 31 – 60 days | 59,791 | 241,063 |
| 61 – 90 days | 2,411 | 9,253 |
| 91 – 180 days | 1,285 | 3,048 |
| 181 – 365 days | 1,466 | 1,374 |
| Over 365 days | 4,274 | 4,593 |
| | <hr/> | <hr/> |
| | 1,377,468 | 1,227,129 |
| | <hr/> <hr/> | <hr/> <hr/> |

7. Expenses by nature

| | Unaudited | |
|--|---------------------------------|----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Cost of inventories recognised as expenses and included in cost of sales | 4,374,285 | 3,026,834 |
| Depreciation on property, plant and equipment (<i>Note a</i>) | 279,027 | 250,696 |
| Amortisation of land use rights and intangible assets | 19,624 | 19,706 |
| Depreciation on right-of-use assets | 219,909 | 217,560 |
| Advertising and marketing expenses | 746,551 | 555,709 |
| Commission and trade fair related expenses | 307,744 | 144,286 |
| Staff costs, including directors' emoluments (<i>Note a</i>) | 838,660 | 622,981 |
| Short-term lease rentals and variable lease payments not included in lease liabilities and rental related expenses | 347,289 | 190,961 |
| Research and product development expenses (<i>Note a</i>) | 187,549 | 139,007 |
| Transportation and logistics expenses | 376,240 | 225,563 |
| Auditor's remuneration | | |
| – Audit services | 3,110 | 2,800 |
| – Non-audit services | 398 | 600 |
| Management consulting expenses | 38,099 | 30,775 |

Note:

- (a) Research and product development expenses include depreciation on property, plant and equipment and staff costs in Research & Development Department, which are also included in depreciation expense and staff costs as disclosed above.

8. Other income and other gains – net

| | Unaudited | |
|--|---------------------------------|----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Government grants | 64,652 | 92,384 |
| License fees income | 26,258 | 19,429 |
| Interest income from wealth management products measured at fair value through profit or loss | 41,851 | 48,460 |
| Rental income | 28,572 | – |
| Depreciation on investment properties under operating leases | (21,054) | – |
| Fair value gains on derivative financial instruments measured at fair value through profit or loss | 173 | 229 |
| | <u>140,452</u> | <u>160,502</u> |

9. Finance income/(expenses) – net

| | Unaudited | |
|---|---------------------------------|-----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Finance income | | |
| Interest income on bank balances and deposits | 44,916 | 17,407 |
| Net foreign currency exchange gain | 472 | 1,987 |
| | <u>45,388</u> | <u>19,394</u> |
| Finance expenses | | |
| Amortisation of discount – license fees payable | (1,300) | (1,409) |
| Amortisation of discount – lease liabilities | (29,375) | (25,506) |
| Others | (7,250) | (4,973) |
| | <u>(37,925)</u> | <u>(31,888)</u> |
| Finance income/(expenses) – net | <u>7,463</u> | <u>(12,494)</u> |

10. Income tax expense

| | Unaudited | |
|----------------------------|---------------------------------|----------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Current income tax | | |
| – Corporate income tax | 730,393 | 329,745 |
| Deferred income tax credit | (67,169) | (105,835) |
| Income tax expense | <u>663,224</u> | <u>223,910</u> |

11. Earnings per share

Basic

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue less shares held for Restricted Share Award Scheme during the period. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company completed the issuance of offer securities which included the issuance of both ordinary shares and convertible securities. The below market subscription price of these two events had effectively resulted in 282,000 ordinary shares (30 June 2020: 286,000 ordinary shares) to be issued upon conversion for nil consideration (i.e. the bonus element), and such impact has been taken into account in calculating the weighted average number of shares for the purpose of basic earnings per share. The shares issued for nil consideration arising from the issuance of convertible securities have been adjusted retrospectively and treated as outstanding as if the issuance had occurred at the beginning of 2020.

| | Unaudited | |
|---|---------------------------------|------------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| Profit attributable to equity holders of the Company (<i>RMB'000</i>) | <u>1,962,223</u> | <u>683,271</u> |
| Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (<i>in thousands</i>) | <u>2,482,621</u> | <u>2,441,780</u> |
| Basic earnings per share (<i>RMB cents</i>) | <u>79.04</u> | <u>27.98</u> |

Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of shares in issue to assume conversion of all dilutive potential shares. The Company's dilutive potential shares comprise shares to be issued under share option schemes and Restricted Share Award Scheme. In relation to shares issued under share option schemes, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares during the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | Unaudited | |
|---|---------------------------------|------------------|
| | Six months ended 30 June | |
| | 2021 | 2020 |
| Profit attributable to equity holders of the Company, used to determine diluted earnings per share (<i>RMB'000</i>) | <u>1,962,223</u> | <u>683,271</u> |
| Deemed weighted average number of shares and convertible securities after adjustment for related bonus element for basic earnings per share (<i>in thousands</i>) | 2,482,621 | 2,441,780 |
| Adjustment for the restricted shares (<i>in thousands</i>) | 10,034 | 21,023 |
| Adjustment for the share option schemes (<i>in thousands</i>) | <u>24,222</u> | <u>39,615</u> |
| Deemed weighted average number of shares for diluted earnings per share (<i>in thousands</i>) | <u>2,516,877</u> | <u>2,502,418</u> |
| Diluted earnings per share (<i>RMB cents</i>) | <u>77.96</u> | <u>27.30</u> |

Note:

As at 30 June 2021, there were no share options that could potentially have a dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2021. As at 30 June 2020, there were 3,156,000 share options that could potentially have dilutive impact in the future but were anti-dilutive during the six months ended 30 June 2020.

12. Business combination

(a) Summary of acquisition

On 31 December 2020, the Group entered into an equity and creditor's rights transfer agreement (the "Transfer Agreement") with two independent third parties (collectively, the "Transferors"), pursuant to which the Group has conditionally agreed to acquire (1) the entire share capital of Matsunichi Communications (Hong Kong) Limited (the "Target Company", a company incorporated under the laws of Hong Kong with limited liability) (the "Target Shares") and (2) the rights of the Transferors in the loans extended to the Target Company and its subsidiary (collectively, the "Target Group") respectively (collectively, the "Transferred Creditor's Rights"). The Target Company is an investment holding company and its principal asset is the entire equity interest in its subsidiary, which owns certain investment properties located in the Greater Bay Area of the PRC.

The above acquisition of the Target Shares and the Transferred Creditor's Rights was completed on 28 January 2021. Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | RMB'000 |
|---|-------------------------|
| Cash consideration for the Target Shares | 495,497 |
| Cash consideration for the Transferred Creditor's Rights | <u>730,770</u> |
| Provisional total purchase consideration (which is subject to adjustment as agreed in the Transfer Agreement) | <u><u>1,226,267</u></u> |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | Unaudited Provisional fair value RMB'000 |
|-------------------------------------|---|
| Current assets | |
| Cash and cash equivalents | 47,587 |
| Other receivables – current portion | 389 |
| Other assets – current portion | 9,325 |
| Non-current assets | |
| Property, plant and equipment | 16 |
| Investment properties | 1,798,310 |
| Current liabilities | |
| Other payables and accruals | (281,836) |
| Non-current liabilities | |
| Deferred tax liabilities | <u>(351,828)</u> |
| Net identifiable assets acquired | <u>1,221,963</u> |
| Add: goodwill | <u>4,304</u> |
| | <u><u>1,226,267</u></u> |

(i) Acquisition-related costs

Acquisition-related costs of RMB2,319,000 are included in administrative expenses in profit or loss.

(ii) Revenue and profit contribution

The acquired business contributed revenues and net profit of nil and RMB1,735,000 respectively to the Group for the period from 29 January 2021 to 30 June 2021. If the acquisition had occurred on 1 January 2021, consolidated revenue and consolidated profit after tax for the half-year ended 30 June 2021 would have been RMB10,196,584,000 and RMB1,896,622,000 (taking into consideration the one-off expense of RMB70,659,000 incurred by the Target Group in relation to the acquisition) respectively, which are calculated by aggregating the consolidated financial information of the Target Group and the Group.

(b) *Purchase consideration – cash outflow*

| | Unaudited Six months ended 30 June 2021 RMB'000 |
|--|--|
| Outflow of cash to acquire subsidiaries, net of cash acquired | |
| Cash consideration | 1,226,267 |
| Cash paid to settle the payables of the Target Group in relation to the business combination (which were included in other payables and accruals as at the date of acquisition) | 153,978 |
| Refundable consideration due from the Transferors | 9,492 |
| Less: Cash acquired | (47,587) |
| Prepayment for consideration for acquisition of subsidiaries | (47,904) |
| | <hr/> |
| | 1,294,246 |
| | <hr/> <hr/> |

13. Dividends

On 11 June 2021, the shareholders of the Company approved to declare a final dividend of RMB20.46 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2020. The final dividend was paid in June 2021.

On 12 June 2020, the shareholders of the Company approved to declare a final dividend of RMB15.47 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2019. The final dividend was paid in June 2020.

The Board did not propose interim dividend for the six months ended 30 June 2021 (30 June 2020: nil).

DIVIDENDS

The Board resolved not to distribute any interim dividend for the six months ended 30 June 2021 (30 June 2020: nil).

The proposed final dividend of RMB20.46 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2020 was declared payable and approved by the shareholders at the annual general meeting of the Company on 11 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the six months ended 30 June 2021 are set out below:

| | Unaudited | | |
|--|--------------------------|-------------|--------------|
| | Six months ended 30 June | | Change (%) |
| | 2021 | 2020 | |
| Income statement items | | | |
| <i>(All amounts in RMB thousands unless otherwise stated)</i> | | | |
| Revenue (Note 1) | 10,196,584 | 6,180,935 | 65.0 |
| Gross profit | 5,699,064 | 3,056,791 | 86.4 |
| Operating profit | 2,538,413 | 897,908 | 182.7 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 1) | 3,157,598 | 1,407,637 | 124.3 |
| Profit attributable to equity holders (Note 2) | 1,962,223 | 683,271 | 187.2 |
| Basic earnings per share (RMB cents) (Note 3) | 79.04 | 27.98 | 182.5 |
| Key financial ratios | | | |
| Profitability ratios | | | |
| Gross profit margin (%) | 55.9 | 49.5 | |
| Operating profit margin (%) | 24.9 | 14.5 | |
| Effective tax rate (%) | 25.3 | 24.7 | |
| Margin of profit attributable to equity holders (%) | 19.2 | 11.1 | |
| Return on equity attributable to equity holders (%) | 20.6 | 9.3 | |
| Expenses to revenue ratios | | | |
| Staff costs (%) | 8.2 | 10.1 | |
| Advertising and marketing expenses (%) | 7.3 | 9.0 | |
| Research and product development expenses (%) | 1.8 | 2.2 | |
| Asset efficiency | | | |
| Average inventory turnover (days) (Note 4) | 53 | 84 | |
| Average trade receivables turnover (days) (Note 5) | 13 | 22 | |
| Average trade payables turnover (days) (Note 6) | 53 | 76 | |
| | 30 June | 31 December | |
| | 2021 | 2020 | |
| Debt-to-equity ratio (%) (Note 7) | 70.8 | 68.0 | |
| Net asset value per share (RMB cents) | 415.22 | 351.24 | |

Notes:

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on profit for the period, excluding income tax expense, finance (expenses)/income – net, depreciation on property, plant and equipment, depreciation on investment properties under operating leases, amortisation of land use rights and intangible assets and depreciation on right-of-use assets.
 2. Including profit attributable to equity holders for the period from 1 January to 31 March 2021: RMB709,349,000.
 3. The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the period, divided by the weighted average number of shares in issue less ordinary shares held for Restricted Share Award Scheme.
 4. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances of the period, divided by cost of sales and multiplied by the total number of days in the period.
 5. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables of the period, divided by revenue and multiplied by the total number of days in the period.
 6. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables of the period, divided by total purchases and multiplied by the total number of days in the period.
 7. The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the period.
- * *The aforesaid indicators provided by the Group may not necessarily be the same in terms of calculation methods as those provided by other issuers.*
- ** *The Group adopted the aforesaid non-GAAP financial indicators such as EBITDA, margin of profit attributable to equity holders, return on equity attributable to equity holders, staff costs/advertising and marketing expenses/research and product development expenses to revenue ratio, average inventory/trade receivables/trade payables turnover days, debt-to-equity ratio and net asset value per share because comparable companies in the industry in which the Group operates use the aforesaid common indicators as a supplementary measurement for results of operation, which are also widely used by investors to measure the results of operation of the comparable companies.*

Revenue

The Group's revenue for the six months ended 30 June 2021 amounted to RMB10,196,584,000, representing a significant increase of 65.0% as compared to the corresponding period of 2020. During the period, various sales improvement initiatives of the Group that were designed for COVID-19 continued to bear fruits as the Chinese government stabilised the domestic pandemic situation with effective pandemic prevention and control measures. At the same time, the pursuit of a healthier lifestyle and the high recognition and vigorous support towards domestic sports brands among Chinese consumers resulted in solid revenue from all channels of the Group during the first half of 2021: (1) located mostly in first or second-tier cities, directly-operated stores took a particularly heavy hit from the pandemic in the same period last year, but offline terminal sales recovered fast and sell-through from directly-operated stores increased drastically by 88.5% during the current period, due to the success in pandemic control and consumers' preference towards Chinese brands; (2) given that the e-commerce channel is swift in responding to consumers' needs, the Group invested into the establishment of such channel and relevant products in recent years, which received recognition from consumers and contributed to the rapid revenue growth of 77.8% in the current period; and (3) the surge in orders from franchised distributors resulting from significantly-increased sell-through boosted sales revenue by 47.7% and demonstrated these distributors' confidence in the domestic market and brands.

Revenue breakdown by product category

| | Six months ended 30 June | | | | Revenue Change (%) |
|---------------------------|--------------------------|--------------------|------------------|--------------------|--------------------|
| | 2021 | % of total revenue | 2020 | % of total revenue | |
| | RMB'000 | | RMB'000 | | |
| Footwear | 4,594,177 | 45.1 | 2,924,956 | 47.3 | 57.1 |
| Apparel | 5,061,494 | 49.6 | 2,941,172 | 47.6 | 72.1 |
| Equipment and accessories | 540,913 | 5.3 | 314,807 | 5.1 | 71.8 |
| Total | 10,196,584 | 100.0 | 6,180,935 | 100.0 | 65.0 |

Revenue breakdown (in %) by sales channel

| | Six months ended 30 June | | Change (%) |
|----------------------------------|--------------------------|--------------|------------|
| | 2021 | 2020 | |
| | % of revenue | % of revenue | |
| PRC market | | | |
| Sales to franchised distributors | 45.0 | 50.3 | (5.3) |
| Sales from direct operation | 24.7 | 21.6 | 3.1 |
| Sales from e-commerce channel | 29.1 | 27.0 | 2.1 |
| International markets | 1.2 | 1.1 | 0.1 |
| Total | 100.0 | 100.0 | - |

Revenue breakdown by geographical location

| | Note | Six months ended 30 June | | | | Revenue Change (%) |
|-----------------------|------|--------------------------|--------------|------------------|--------------|--------------------|
| | | 2021 | % of revenue | 2020 | % of revenue | |
| | | RMB'000 | | RMB'000 | | |
| PRC market | | | | | | |
| Northern region | 1 | 4,966,189 | 48.7 | 3,249,723 | 52.6 | 52.8 |
| Southern region | 2 | 3,844,473 | 37.7 | 2,134,725 | 34.5 | 80.1 |
| South China region | 3 | 1,264,165 | 12.4 | 728,218 | 11.8 | 73.6 |
| International markets | | 121,757 | 1.2 | 68,269 | 1.1 | 78.3 |
| Total | | 10,196,584 | 100.0 | 6,180,935 | 100.0 | 65.0 |

Notes:

1. The Northern region includes provinces, municipalities and autonomous regions covering Beijing, Tianjin, Shanxi, Shandong, Hebei, Inner Mongolia, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Gansu, Ningxia, Xinjiang and Qinghai.
2. The Southern region includes provinces, municipalities and an autonomous region covering Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing, Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei and Anhui.
3. The South China region includes provinces, an autonomous region and a special administrative region covering Guangdong, Guangxi, Fujian, Hainan and Macau.

Cost of Sales and Gross Profit

For the six months ended 30 June 2021, the overall cost of sales of the Group amounted to RMB4,497,520,000 (2020: RMB3,124,144,000), and the overall gross profit margin was 55.9% (2020: 49.5%). During the period, retail discount rates improved greatly; given the decrease in the original value of inventories and the improvement in the age of inventory, the Group decreased the provision for some inventories; and the revenue contribution of direct-to-consumer channels (direct operation and e-commerce channels) owning higher gross profit margin also increased. All factors above drove the significant increase in gross profit margin. As a result, the gross profit margin of the Group increased by 6.4 percentage points for the period as compared to the corresponding period last year.

Distribution Expenses

For the six months ended 30 June 2021, the Group's overall distribution expenses amounted to RMB2,857,021,000 (2020: RMB1,948,689,000), accounting for 28.0% (2020: 31.5%) of the Group's total revenue.

The distribution expenses of the Group increased by 46.6% as compared to the corresponding period last year, and its percentage to revenue fell by 3.5 percentage points. Along with the increase in revenue, rental, wages and bonuses of direct sales staff, investment in advertising and marketing, and commission for the e-commerce channel that related to revenue recorded increases to varying degrees. Nonetheless, their overall growth rate was lower than that of revenue. Thus, the percentage of distribution expenses to revenue declined in the current period.

Administrative Expenses

For the six months ended 30 June 2021, the Group's overall administrative expenses amounted to RMB437,460,000 (2020: RMB346,276,000), accounting for 4.3% (2020: 5.6%) of the Group's total revenue with a year-on-year decrease of 1.3 percentage point. Administrative expenses mainly comprised staff costs, management consulting fees, office rental, depreciation and amortisation charges, technological development fees, taxes and other miscellaneous daily expenses.

The increase in administrative expenses is mainly attributable to: (1) the increase in wage and bonus expenses as bonuses were partially linked to the overall operating results of the Group; (2) the growth in net income which led to the increase in various additional tax related to value-added tax; and (3) the increase in investment in research and development.

Share of Profit of Investments Accounted for Using the Equity Method

For the six months ended 30 June 2021, the Group's share of profit of investments accounted for using the equity method amounted to RMB79,571,000 (2020: RMB21,767,000).

Significant Investment

As of 30 June 2021, the significant investment held by the Group is the 47.5% equity interest in Double Happiness (30 June 2020: 47.5%). The cost of the Group's investment in Double Happiness is RMB587,335,000 (30 June 2020: RMB587,335,000). As of 30 June 2021, the carrying value of the interest in Double Happiness held by the Group calculated using the equity method is RMB996,834,000 (30 June 2020: RMB953,176,000), representing a percentage of approximately 5.6% (30 June 2020: 7.5%) of the Group's total assets.

Double Happiness is principally engaged in the manufacturing and sales of sports products. As a world-renowned brand of table-tennis related products, the Double Happiness brand owned by it is the supplier of equipment and gears for use in various major tournaments in the PRC or globally. The Double Happiness brand products are mainly sold by means of wholesale and integrated sports goods shops. Double Happiness has a relatively stable customer base in nearly 30 provinces and municipalities in the PRC. It has put more resources in expanding its business presence in online sales in recent years. Leveraging its excellent product R&D and design capabilities and long-established brand popularity, the Double Happiness brand manages to maintain its leading position in the domestic market of similar products consistently. The investment in Double Happiness will create synergy with Li Ning brand in terms of sales and marketing of brand products, tournament sponsorship and channel expansion.

Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA)

For the six months ended 30 June 2021, the Group's EBITDA amounted to RMB3,157,598,000 (2020: RMB1,407,637,000), representing a year-on-year increase of 124.3%.

Reconciliations of EBITDA and the profit for the period are as follows:

| | Six months ended 30 June | |
|--|---------------------------------|-------------------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| Reconciliation of profit for the period to EBITDA: | | |
| Profit for the period | 1,962,223 | 683,271 |
| Income tax expense | 663,224 | 223,910 |
| Finance income | (45,388) | (19,394) |
| Finance expenses (including amortisation of discount on lease liabilities) | 37,925 | 31,888 |
| Depreciation on property, plant and equipment | 279,027 | 250,696 |
| Amortisation of land use rights and intangible assets | 19,624 | 19,706 |
| Depreciation on right-of-use assets | 219,909 | 217,560 |
| Depreciation on investment properties under operating leases | 21,054 | — |
| EBITDA | <u>3,157,598</u> | <u>1,407,637</u> |

Finance Income/(Expenses)- Net

For the six months ended 30 June 2021, the Group's net finance income amounted to RMB7,463,000 (2020: net finance expenses of RMB12,494,000). The change in net finance income/(expenses) was mainly due to the increase in the average disposable capital of the Group for the period as compared to the corresponding period last year, as well as the adjustment of the Group's currency investment portfolio where more funds were deposited in the form of fixed term deposits for more stable returns and led to the year-on-year growth of interest income. In addition, bank service charges and interest expenses recognised on lease liabilities increased as well, which partially offset the increase in interest income.

Income Tax Expense

For the six months ended 30 June 2021, the income tax expense of the Group amounted to RMB663,224,000 (2020: RMB223,910,000) and the effective tax rate was 25.3% (2020: 24.7%). Currently, the Group's income tax expense is almost in line with the standard level.

Overall Profitability Indicators

Benefiting from the government's effective prevention and control of the pandemic and consumers' support for domestic brands, the Group recorded significant growth in sales revenue and improvement of gross profit margin for the period. Meanwhile, effective cost control measures drove down expenses ratio and boosted overall profitability indicators drastically. During the period, the Group's profit attributable to equity holders amounted to RMB1,962,223,000 (2020: RMB683,271,000), representing a year-on-year increase of 187.2%. The margin of profit attributable to equity holders was 19.2% (2020: 11.1%). Return on equity attributable to equity holders was 20.6% (2020: 9.3%).

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2021 was the same as that in 2020. Inventories of the Group are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy to be adequate in ensuring appropriate provision for inventories is made by the Group.

As at 30 June 2021, the accumulated provision for inventories was RMB85,257,000 (31 December 2020: RMB113,133,000). The original value of inventory decreased from the beginning of the year due to the growth in sales revenue generated from increased sell-through during the period. Credited to inventory control initiative, the Group witnessed improvement in the inventory ageing structure and inventory turnover rate as well. Therefore, the provision for inventories decreased.

Expected Credit Loss Allowance

The Group's policy in respect of expected credit loss allowance for the first half of 2021 was the same as that in 2020. The expected credit loss allowance was recorded at an amount equal to the lifetime expected credit losses of the trade receivables that do not contain a significant financing component, and 12 months expected credit losses or lifetime expected credit losses of other receivables, depending on whether there has been a significant increase in credit risk since initial recognition.

As at 30 June 2021, the accumulated expected credit loss allowance was RMB292,015,000 (31 December 2020: RMB287,344,000), among which the accumulated expected credit loss allowance for trade receivables was RMB288,549,000 (31 December 2020: RMB280,437,000) and the accumulated expected credit loss allowance for other receivables was RMB3,466,000 (31 December 2020: RMB6,907,000). The trade receivables and other receivables written off during the six months ended 30 June 2021 as uncollectible and the effect of exchange rate amounted to RMB1,951,000 (2020: RMB349,000). During the period, the original value of receivables rose with the growth of revenue, hence the expected credit loss allowance increased slightly.

Liquidity and Financial Resource

The Group's net cash from operating activities for the six months ended 30 June 2021 amounted to RMB3,324,543,000 (2020: RMB478,986,000). As at 30 June 2021, cash and cash equivalents (including cash at banks and in hand, and fixed term deposits with original maturity of no more than three months) amounted to RMB6,108,102,000, representing a net decrease of RMB1,078,937,000, as compared with the position as at 31 December 2020. Adding back the amount recorded as fixed-term deposits held at banks, cash balance amounted to RMB8,311,806,000, which represented a net increase of RMB869,801,000 as compared to 31 December 2020. The increase was due to the following items:

| | Unaudited Six months ended 30 June 2021 RMB'000 |
|--|--|
| Item | |
| Operating activities: | |
| Net cash generated from operating activities | 3,324,543 |
| Investing activities: | |
| Net cash used in investing activities (including payment for short-term and long-term bank deposits) | (3,687,894) |
| Financing activities: | |
| Net cash used in financing activities | (713,900) |
| Add: Exchange losses on cash and cash equivalents | (1,686) |
| | <hr/> |
| Net decrease in cash and cash equivalents | (1,078,937) |
| Add: Net increase in short-term and long-term bank deposits | 1,948,738 |
| | <hr/> |
| Net increase in cash balance | <u>869,801</u> |

The Group's cash flow from operating activities increased significantly year-on-year, which was attributable to the remarkable growth in revenue from all channels and the substantial improvement in settlements from franchised distributors. In addition, the Group completed the acquisition of equity and creditor's rights of Matsunichi Communications (Hong Kong) Limited during the period, which led to the drastic year-on-year increase in cash used in investing activities.

As at 30 June 2021, the Group's banking facilities amounted to RMB1,758,000,000, without outstanding borrowings.

During the period, the Group did not hedge its exposure to interest rate risks via interest-rate swaps.

Foreign Exchange Risk

The Group's operations are mainly carried out in the PRC, with most transactions settled in Renminbi. The reporting currency of the Group is Renminbi. The Group's subsidiaries in South Korea and Hong Kong use South Korean Won and Hong Kong Dollars as their respective functional currencies. The Group has a small amount of cash and bank deposits denominated in Hong Kong Dollars, United States Dollars, Euros and South Korean Won. The Company pays dividends in Hong Kong Dollars, certain license fees, sponsorship fees and consultation fees in United States Dollars or Euros, and certain investments in Hong Kong Dollars, United States Dollars or Pound Sterling.

The Group did not hedge its foreign exchange exposure during the period. Any significant exchange rate fluctuations of foreign currencies against Renminbi may have had financial impact on the Group.

Pledge of Assets

As at 30 June 2021 and 31 December 2020, the Group had no pledged assets.

Contingent Liabilities

As at 30 June 2021, the Group had no significant contingent liabilities.

BUSINESS REVIEW

During the first half of 2021, against the backdrop of the globally volatile COVID-19 pandemic, China has maintained its stable situation in general despite some volatility in individual local areas. Following the increase in the vaccine take-up rate for COVID-19, China has solidified its achievement in containing the pandemic and thereby maintained the stable recovery of the economy. With a promising beginning of the year in view of the national economy of China, the GDP growth for the first half of 2021 achieved 12.7% year-on-year. The consumption market remained its good momentum of recovery with expanded demand and enhanced market vitality during the first half of year. Regarding the sports industry, the Chinese sports consumption market remained active. Amidst the post-pandemic era, it was expected that the public awareness of fitness and health would further increase across China, resulting in higher consumption demands for sports and health products and in turn facilitating the continuous consumption growth of sports products. As such, we continued to optimize the sales and marketing strategy based on the individual needs of consumers, striving to enhance customers' consumption experience and further focus on LI-NING's experience value. Meanwhile, in order to strengthen the core values of our brand and products, we have endeavored to build the reputation as a professional sports brand, keep ourselves abreast of fashion trends and stay in tune with the times. With enhancement in technological research and development, design capability and product quality, domestic brands have been gaining awareness and recognition from domestic consumers. Benefiting from this, during the first half of the year, the principal operational indicators of the Group have significantly improved with a substantial revenue growth and further enhanced profitability.

During the period, pursuing the strategy of “Single Brand, Multi-categories, Diversified Channels”, we put consistent efforts in upgrading our products, channels and retail capability as well as supply chain to consolidate LI-NING’s experience value. In terms of products, we continued to place emphasis on the development of the professional aspects and enhance the professional sports attributes of our products. We have dedicated to the research and development of sports technology with an aim to optimize product performance. At the same time, we paid close attention to the latest fashion trends in the market and the aspect of cultural creativity in an attempt to incorporate fashionable elements and diversified styles into our professional sports products, which has not only offered more diversified products and consumption choices to consumers, but also enhanced our brand value. In terms of operation, we continued to optimize the operation model, stress on enhancing the retail operation capability of our stores with diversifying development in various channels as our main strategic focus, and boost channel efficiency by improving the online and offline integrated operation mode. Meanwhile, we have promoted the strategy of expanding big stores with high efficiency across China, establishing an assortment and operation management model that embodies the sporty and trendy image of LI-NING brand. In addition, we have improved consumers’ experience by upgrading the image of stores to keep abreast of the times in a bid to enhance brand’s recognition and loyalty. In terms of supply chain, we have optimized the supply chain management in line with the business needs and continuously established our own supply chain system to increase flexibility of our supply. We also pushed forward the changes from passive production to proactive production.

Latest operational update for the second quarter of 2021

For the second quarter ended 30 June 2021, in respect of LI-NING point of sale (“POS”) (excluding LI-NING YOUNG) which have been in operation since the beginning of the same quarter of last year, the same-store-sales for the overall platform registered a low-eighties growth on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a low-nineties growth and wholesale (franchised distributors) channel registered a low-seventies growth, while the e-commerce virtual stores business registered a high-eighties growth on a year-on-year basis.

For the second quarter ended 30 June 2021, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform increased by low-nineties on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a low-nineties growth, with retail channel increased by high-eighties and wholesale channel increased by low-nineties, while the e-commerce virtual stores business registered a high-nineties growth.

As at 30 June 2021, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 5,704, representing a net decrease of 80 POS since the end of previous quarter and a net decrease of 208 POS since the beginning of this year. Among the net decrease of 208 POS, direct retail accounts for a net decrease of 61 POS, and wholesale accounts for a net decrease of 147 POS.

As at 30 June 2021, the total number of LI-NING YOUNG POS in China amounted to 1,041, representing a net increase of 26 POS since the end of previous quarter and a net increase of 20 POS since the beginning of this year.

Further promoting the strategy of “Single Brand, Multi-categories, Diversified Channels” to unleash our brand value continuously

Driving product upgrade with technology to build professional reputation of the brand

During the period, we stayed focus on our five core categories, namely basketball, running, training, badminton and sports casual. Placing emphasis on the scientific research of sports, we continued to conduct the R&D and upgrade of product technology platform to further strengthen the brand’s sports DNA. Meanwhile, we conveyed our brand value with unique design concepts which integrated the elements of both Chinese culture and popular culture as well as avant-garde arts.

In terms of professional aspect, by accelerating the layout of functional products, we continued to upgrade the technology and materials and promote the application of high-end technology on more categories and products, so as to communicate with consumers from all walks of life and further expand consumers' mentality to enhance consumers' recognition of the professional image of LI-NING and thereby further unleash the professional value of LI-NING brand.

- Running category accelerated the expansion of the matrix for professional running shoes based on multi-level demands of runners. The Boom series, represented by “Feidian 2.0 Elite” (飛電2.0 Elite), focused on the racing needs of elite runners and opened up the carbon plate running shoes market; “Shadow” (絕影) and “Shadow Essential” (絕影Essential) focused on jogging scenarios and integrated “LI-NING BOOM” (李寧靄) technology and “LI-NING JIANG” (李寧弔) structure technology to create a unique technological barrier. The focused lightweight and comfortable “Super Light 18th” (超輕18) utilized the “LI-NING BOOM” (李寧靄) technology, which not only ensures the functional professional experience of mass runners in daily jogging, but also meets the demands of ordinary consumers for casual needs.
- The basketball category focuses on more specific sports resources and star matrix. Through planning for professional star series products and integrating with high-end technology and sports star resources, the category has enhanced the brand image and status of LI-NING basketball shoes in the industry. “Sonic IX” (音速IX), a well-received professional basketball shoes series for tournaments, was developed and has been fully exposed to public through the platform of CBA All-Star League, driving product sales. Continuing to further explore the business opportunities of “Yushuai XIV BOOM” (馭帥XIV靄), we successively launched multiple color matching story-packed themes and the player exclusive version of Jimmy Butler, which brought continuous output to meet demands from the professional basketball sector. “All City 9” (全城9) of the WADE series applied the “LI-NING BOOM” (李寧靄) technology for the first time, which was well recognized by fans in terms of on-site operating performance.
- The training category has refined the professional product matrix ranging from comprehensive training to sub-scenarios such as strength training and dance, providing functional products of different styles and degrees of professionalism to meet the growing demands for sports consumptions. Continuing to upgrade the protective outfit with wind- and water-proof functions and younger product style, we combined sports with the popular trend and created more dynamic techwear products. We also continued to upgrade “AT DRY” technological material so as to bring consumers better sports experience and product experience. Catering for the women's market, we set up an exclusive product and design team to focus on the R&D of cutting-edged technological materials, the pattern design and craftsmanship. In view of the development trend of women's sports, we expanded our core products oriented from the women's favorite sports.
- We continued to enhance our badminton category in terms of its functional attributes. The “Ambush 9” (突襲9) rackets has applied the high-density anti-shock system for the first time. The handle grip for striking has been improved through the use of high technological light anti-shock materials aiming to reduce the risks of injury arising from sports. We have re-organised the rackets according to their performance and features into three categories: Attack, Speed and Control. A new generation of rackets series focusing on multiple performances have also been released. In addition, we have extended our classic IP of badminton shoes products and launched a new generation of “Flying shoe” (貼地飛行) for badminton games with the “LI-NING BOOM” (李寧靄) technology applied on the entire foot to provide better performance of kick-off and shock-relieving in sports games.

In respect of sports fashion, we have made breakthroughs with bold innovation. Our products have integrated with Chinese culture, avant-garde art and popular elements. We continued to launch products with distinctive design concepts in order to echo with the young consumer groups in pursuit of their own personality.

- Persisting in taking “Sports, Technology, Fashion” as its design DNA to enhance the sports attributes of basketball, the WADE series apparels have applied more technological fabrics and high street fashion elements while maintaining the high-class fashionable sporty style of the WADE series. Through the influence of NBA player D’Angelo Russell, the WADE series apparels were able to associate more with youth culture and basketball, which helped to attract more young consumers. Wade remained active in different areas despite his retirement. He showcased the high-end brand tonality of the apparel products of WADE series with his unique personality of heightened sense of fashion, thereby enhancing the loyalty of our original high-quality customers. Further, we have launched a limited-edition theme series “WE ARE ONE” with the French artist DFT, promoting the philosophy of the products and high-class style of The WADE series to consumers with the unique artistic line design.
- Persisting in applying “China”, “Street” and “Basketball” as the core concepts of the series’ development, our “BADFIVE” street basketball series continued to develop products with its own unique brand tonality leveraging the trend of popular culture and street basketball, allowing more young fashion consumers to experience the charm of the basketball culture successfully. Combining the inspiration from one-on-one battle on the street basketball court and the Chinese ancient and treacherous military tactics “Empty Fort Strategy” (空城計), we have launched the “Deception is fair in war” (兵不厭詐) packaged product on April Fools’ Day with enriched storyline and product tonality to boost product sales performance. We have also launched a new season of “Too Young To Stay” (少不入川) series partnering with Chengdu’s popular local brand and promoted consumer awareness of the limited-edition city series’ IP continuously, thus enhancing the popularity of the brand and the recognition of the mainstream consumers.
- As for sports casual products, we had in-depth communications with the young consumer groups continuously by such ways as product crossover and original IP story. We have published original packaged stories successively, namely “Rich Everyday” (日進斗金), “Cherry Blossoms” (櫻花) and “Earth Day” (地球日), integrating Chinese culture with the hot topics among teenager groups, which have stirred up overwhelming market response. We continued to crossover with DISNEY and LINE FRIENDS and launch high-quality products to make breakthroughs in daily life occasion for consumers’ fashion style and expand our products lines’ style to cover more target groups. Further, we have launched the skateboarding series products and developed sneaker culture group exclusively for Li Ning brand users so as to constantly echo with both skateboarding and popular culture bases.
- China LI-NING series continued to promote new popularity through cross-sector collaboration. We cooperated with “Chinese Robots Godfather” Sun Shiqian (孫世前) to develop the first pair of robot-styled shoes in China “Xuan Kong” (玄空). With its unique design style and the globally leading performance of robotic art, it has perfectly showcased LI-NING brand’s current understanding and leadership of the world fashion trend. We have also launched a new footwear product “Never stop infinity” (超越infinity) and cooperated with Kiko Mizuhara (水原希子), a Japanese actress and model, for the promotional photoshoot to introduce more fashion elements in the product. Meanwhile, we collaborated with the popular movie under the same name “Never Stop” (《超越》) to anchor the image of the main character “Hao Chaoyue” (郝超越) with the style of the footwear product, delivering to the market the brand image of self-breakthrough and our never-stop pursuit of innovation of the “Never stop infinity” footwear product.

Continue to enrich diversified and comprehensive marketing resources matrix with a focus on characteristics of professional and sports casual categories

With a focus on the characteristics of professional and sports casual categories, we continued to enrich our diversified and comprehensive marketing resources. Continuous exposure of our professional products through sports stars and professional events as well as promotional efforts in tandem with hot topics have further scaled up our consumer groups. Besides, we drew the attention of young consumer groups by continuously enriching our cross-sector collaboration and marketing resources with entertainment elements allocated to the sports casual category and deploying for flexible and diversified crossover and digital marketing resources. Under the guidance of fashion opinion leaders, we have gained more recognition from mainstream consumers and enhanced our brand image and value.

- In terms of professional basketball, we further strengthened the sponsorship and collaboration with the CBA League. We successfully created the CBA Championship project that integrates marketing of the Finals with the champion jersey, and adopts the innovative business model of product lucky draw, which successfully expanded CBA products beyond the existing fan base and enlarged the consumer group of the championship series. As international leading basketball resources continuously being added to the pipeline, we have gradually established the shoes and apparel product lines under the star player series. Meanwhile, we continued to expand the business layout of LI-NING basketball with Jimmy Butler as the major resources at the moment. On the basis of the player exclusive signature shoes, we launched storyline-based, sensational and professional star player shoes and apparel package with fashionable lifestyle elements to complement the sales of shoes products, which has received overwhelming market response.
- In regard to the basketball culture, inspired by one-on-one battle on street basketball courts, at the beginning of the year of Ox, we invited renowned artists in China to jointly created the “Bullfighting” (鬥牛) product package embodying overpowering basketball elements. We have also hosted the “Chinese Street Basketball Brand Contest” (中國街球籃球廠牌爭霸賽) and “BADFIVE One-on-one Finals” (反伍鬥牛總決賽) in Changsha in January, which posed a great influence on the street basketball culture in China and enhanced the status of branded basketball products. We have also conducted in-depth research on street basketball and deeply explored the special culture of various Chinese cities, so as to precisely determine the positioning of our products. In conjunction with activities such as “3+1” Street Basketball League (「3+1」街頭籃球聯賽), BADFIVE’s Night (反伍之夜) and sales of limited editions, we successively created themed products such as “Too Young To Stay” (少不入川), “Unstoppable Power of Chongqing” (霧都大勢) and “Deception is fair in war” (兵不厭詐), all of which have attracted the attention of more young and fashionable consumers.
- For our running products, we rapidly built up the reputation of our racing shoes under the “LI-NING BOOM” (李寧轟) series by capitalizing on the marathon event in Qingdao. With the aid of the Boom series racing shoes, advanced runners not only secured the championships of four major categories, but also broke the match records of both the male and female full marathon categories with much faster times. This product also helped many runners to successfully surpass their own best records, which sparked media interest and discussions of netizens, and significantly raised the standard for the professional features of LI-NING’s racing products. Employing the “LI-NING BOOM” (李寧轟) technology, “Super Light 18th” (超輕18) is a star IP product that brought in millions of sales. “Lightweight, High Resilience and Strong Kick-off” (輕彈轟發) was featured as a key advertising headline for this product to create an image and impression of “the strongest IP + the strongest technology”. In large-scale promotional campaign, we highlighted its core features of lightweight and high resilience as selling points and positioned it as the must-have running shoes suitable for versatile scenarios, aiming to arouse more attention from consumers.

- As to our badminton products, our vision is to become the leading professional badminton sports brand for consumers in China. Centering on the theme of “China Li-Ning, Get along with You” (中國李寧，羽你更合拍), we engaged in brand and product promotion, sports marketing and amateur competitions, which were coupled with store activities to support the achievement of marketing goals and accomplish mutual growth of both our business and brand. In terms of sports resources, we continued to push forward internationalization and secure endorsement of our professional products with sports resources, with a view to facilitating promotion and enhancing demand. In connection with domestic contracted resources, we created “Thunderstorm” (雷霆), “Shadow” (鋒影) and “Thundercloud” (雲霆) series products for Olympic champions, Chen Long (諶龍) and Zhang Nan (張楠), respectively. These products first appeared in the Chinese National Games Qualification, and thus garnered unprecedented popularity.
- In respect of sports fashion, we further explored platforms where target consumer groups gather, such as Xiaohongshu (小紅書) and Dewu (得物), and highlighted the variety and playability of product matching by way of “unboxing and recommending matching ideas”. With the creative marketing approach targeting female consumers, we created exclusive IP series of LI-NING brand for female consumers so as to drive the business of our women’s products. We invited designers and fashion pioneers to participate in the themed party of “Sakura” series organized at offline stores, and improved in-store experience of consumers with themed ambience and display. We launched a crossover series with Steven Harrington and organized offline campaigns integrating pop culture and lifestyle by assembling top promotional resources from fashion and artistic sectors. Meanwhile, given the media matrix covering pop culture, fashion, artistic and lifestyle sectors formed to analyze in depth the crossover series, products of the entire series were sold out promptly leveraging products with heated discussions.
- We diversified our entertainment marketing model by carrying out comprehensive and in-depth collaboration with variety shows, media and artists, ensuring multi-dimensional exposure of products from catalogues, personal fashions, variety shows and marketing events. We focused on resources from large-scale platforms for more exposure opportunities. In order to integrate the Company’s resources in both entertainment and sports, we invited Cai Chengyu (蔡程昱), an artist who we had in-depth cooperation relationship with, as the lead singer of national anthem during the CBA All-star Weekend. With full set of WADE series product as his outfit, we demonstrated the trendiness of our lifestyle products in sports events, thereby producing more topics and contents for promotion. We signed up with Xiao Zhan (肖戰), a young actor and singer, to be the global spokesperson for LI-NING’s fashionable sports products. By joining hands with high-quality spokesperson, it is expected that the passion for sports fashion among consumers will be ignited from more perspectives and in a more diversified manner.

Accelerating the development of quality channels with a focus on expansion and optimization of channels

During the first half of 2021, the Company remained focused on optimizing the structure and efficiency of channels and enhanced the cooperation with high-quality retailers, which optimized the efficiency of retail channel and improved the quality of market coverage. During the period, the Company accelerated the development of quality channels with a focus on big stores in shopping malls and launched big stores with high efficiency including flagship stores on a continuous basis. Meanwhile, the Company further optimized the store structure by accelerating the closure of loss-making, low efficiency and small stores.

During the period, the Company continued to enhance the visual image of its stores, and expedited the development of the 8th generation image store in full force, at the same time phasing out old image stores such as the 6th generation ones. As at 30 June 2021, the percentage of 8th generation image stores has increased to over 30%. The Company also accelerated the innovation of store image with an emphasis on improving sports and shopping experience. The flagship store at Teemall (天河城) in Guangzhou innovatively adopted the ultra-high glass curtain wall, making it a popular spot for young consumers in Guangzhou to take photo. Types of store props have also been upgraded constantly to improve brand recognition among consumers. Meanwhile, it devoted more efforts in member and omni-channel development, so as to boost business growth through online and offline synergy.

As at 30 June 2021, the number of conventional stores, flagship stores, China LI-NING stores, factory outlets and multi-brand stores under LI-NING brand (including LI-NING Core Brand and LI-NING YOUNG) amounted to 6,745, representing a net decrease of 188 POS as compared to 31 December 2020. The number of distributors was 63 (including sales channels of China LI-NING stores), representing a net decrease of 2 as compared to 31 December 2020. The number of POS breakdown as at 30 June 2021 is as follows:

| LI-NING Brand | 30 June 2021 | 31 December 2020 | Change |
|--------------------------|-----------------|---------------------|--------|
| Franchised | 4,616 | 4,763 | -3.1% |
| Directly-operated retail | 1,088 | 1,149 | -5.3% |
| LI-NING YOUNG | 1,041 | 1,021 | 2% |
| Total | 6,745 | 6,933 | -2.7% |

Number of LI-NING Brand POS by geographical location

| Regions | 30 June 2021 | | | 31 December 2020 | | | Change |
|-----------------------------------|-----------------------|------------------|-------|-----------------------|------------------|-------|--------|
| | LI-NING Core Brand | LI-NING YOUNG | Total | LI-NING Core Brand | LI-NING YOUNG | Total | |
| Northern Region (Note 1) | 2,938 | 681 | 3,619 | 2,989 | 678 | 3,667 | -1.3% |
| Southern Region (Note 2) | 2,158 | 323 | 2,481 | 2,243 | 304 | 2,547 | -2.6% |
| Southern China Region (Note 3) | 608 | 37 | 645 | 680 | 39 | 719 | -10.3% |
| Total | 5,704 | 1,041 | 6,745 | 5,912 | 1,021 | 6,933 | -2.7% |

Notes:

1. The Northern region includes provinces, municipalities and autonomous regions covering Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Shandong, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Ningxia, Qinghai, Gansu and Xinjiang;
2. The Southern region includes provinces, municipalities and an autonomous region covering Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi, Hubei, Hunan, Chongqing, Sichuan, Yunnan, Guizhou and Tibet;
3. The Southern China region includes provinces, an autonomous region and a special administrative region covering Guangdong, Guangxi, Fujian, Hainan and Macau.

Optimize product management system to improve product operation efficiency

During the first half of 2021, the Company continued to push forward the transformation and optimization of product operation models to facilitate continuous improvement of product operation efficiency.

- The Company has established and optimized the product management system. During the period, consumers demonstrated stronger preference for the LI-NING brand, which has driven significant growth in foot traffic and continuous improvement of store operation efficiency. Taking the advantages of the external environment, together with the constant improvement of internal product planning, the Company adopted measures such as “enhance the depth of core products” and “prevent out-of-stock or short-in-size” to ensure product inventory and efficiency with an aim to further unleash its product operation efficiency, which has underpinned the continuous rapid growth of sell-through of stores.
- The Company has strengthened inventory management and optimized the inventory structure. Since the outbreak of the pandemic, the Company firmly proceeded with destocking of the inventories of old products. Besides, by means of increasing the number of orders for products with multifold sales growth, the Company increased the investment in the core models of new products, through which it has optimized the level of total inventory and the inventory ageing structure, at the same time promoting the constant launch of new products.
- With a focus on the development of functional product categories, the Company has established and improved the footwear product matrix and hence increased the percentage of its footwear business. During the period, the Company has gradually established and continuously improved the footwear product matrix with “LI-NING BOOM” (李寧轟) technology platform as the core, which increased the percentage of footwear sales and acted as a strong driving force for the professional products of the LI-NING brand.
- The Company continued to implement the product planning management system so as to improve product operation efficiency. Looking forward, the Company will stay focused on the implementation of the product sales planning system, enabling it to control the inventory risks of old products while ensuring reasonable inventory for new products. In addition, the Company will pay more attention to core products and enhance product operation efficiency so as to maintain strong momentum for business growth.

Explore standardized store operation model to promote the implementation of retail operation standards

During the first half of 2021, the Company remained focused on the exploration of highly-efficient and profitable single-store operation model and further developed the store business in a bid to realise standardized, professional and simplified operation of stores and terminals.

- The Company continued to explore operation model for big stores. Based on the three directions, namely establishing platform for headquarters, enhancing operation efficiency of stores and building standardized retail operation system, the Company has put into practice the operation model for big stores. It has also strengthened the support of the functional departments at headquarters for terminal business, which helped enhancing the single-store efficiency in terms of staff, product and space. Furthermore, the Company further clarified the personnel and organization system, business implementation system, conference and communication system and talent cultivation system of the big stores in an effort to enhance the single-store operation capability of the big stores on the basis of standardization.
- The Company edged up its efforts in sports marketing and improved the sports experience of customers. During the period, the Company established the sports marketing business system to facilitate further development of stores in local markets. By appointing professional sports consultants for basketball, running and training at stores for on-site marketing, the Company has highlighted the advantages and uniqueness of LI-NING brand in the field of professional sports, which has enhanced the recognition of LI-NING's image of professional sports among consumers, and hence boosted the store sales and improved the sports experience of the customers simultaneously.
- Setting the retail operation standards. During the first half of 2021, the Company streamlined and optimized the retail operation manual, fundamental showcasing manual, daily work log and mentoring manual for stores comprehensively. Looking forward, all retail stores will adhere to these standards and implement the abovementioned operation standards and tools persistently to realize our retail operation sites of high standard. In the future, the Company will continue to achieve digitalization and systemization of various operation tools based on the trend of business development.
- Strengthening the retail platform management to drive implementation of the execution standards. During the period, through the retail operation system platform, the Company has developed the retail platform task system and transparent business closed-loop of full-process retail management which comprises processes such as giving and receiving business instructions, implementation at stores and confirmation at headquarters and on-site, thereby enabling the headquarters to make more prompt responses to the changing situations at stores.
- Enhancing the training for retail talents to develop expanded workforce for the transformation of retail. The Company has established the talent system for sustainable development and specified the job descriptions and standards of the business capability system for personnel of all levels based on the capability model of retail talents. Through improving the training system for retail talents, the Company enhanced the training culture in this respect and continued to upgrade the abilities of retail talents in organic development. In the future, the Company will prepare ways for talents of store functions to grow and develop with headquarters' functions so as to broaden the career paths of employees.

Optimizing the logistics network and strengthening construction of logistics supporting capacity continuously

During the first half of 2021, the Company continued to develop and improve the logistics service system. Based on the features of different business models and diversified business scenarios, the Company provided differentiated, refined and efficient logistics service support in line with the requirement of relevant business sectors for its principal business and each business division, which promoted the service support capability of the logistics system for all business units.

- The Company continued to further optimize the existing logistics network and allocate resources based on key sales regions to enhance our service capability and quality. Coupling with the progressive efforts put in the entire product supply chain, the Company accelerated its pace to optimize and allocate resources for warehouse storage, manpower and transportation, allowing consumers to experience LI-NING brand products more conveniently and rapidly.
- The Company continued to align with the strategy of highly effective merchandising operation and accelerate the turnover of goods. It optimized the existing procedure of store deployment and return of goods, enabling the stores to deploy goods promptly and effectively with the aid of the information system. This has ensured the deployed goods to be delivered to the target stores ahead of the prime time of sales, so as to seize the business opportunities.
- The Company developed new regional logistics center model to fulfil the high demands for logistics arising from the increase in business volumes. During the period, the first regional logistics center has been put into operation and offered consumer experience of faster and more convenient logistics services by way of inventory centralization in close proximity to the regions of consumption. With the integration of national distribution centre (“NDC”) and regional distribution centre (“RDC”) by the regional logistics centers, we have sped up the delivery of products from factory to stores and increased the operating efficiency of warehouses at the same time.

Steady execution of omni-channel strategy to drive sustainable growth of e-commerce platform

In the first half of 2021, the e-commerce of Li Ning Company maintained its high operating efficiency while exploring new business opportunities. By optimizing the business structure and rationalizing the sustainable operation modes, it added great momentum to e-commerce growth in the future.

Complementing the key marketing resources of the Group, the e-commerce of Li Ning Company rolled out a series of marketing campaigns during the period. Centring on celebrity endorsement, product launch and fashion week, it reached out to various fan bases, capitalized on the influence of the artists and appealed to female consumers. In addition, it devoted more efforts to promote technology products such as basketballs and running shoes, which continuously shaped consumers’ perception and raised their awareness of the professional features of the brand. In order to tap into new business opportunities, it took advantage of Douyin (抖音), Kuaishou (快手) and other emerging livestreaming platforms, where it interacted with consumers frequently through livestreaming marketing. This not only helped to increase brand exposure, but also offered access to new consumer groups.

Apart from the above, the e-commerce platform has been developing the COUNTERFLOW BY LI-NING series, which is an independent sports casual product line with cultural elements at its core. Inspired by traditional Chinese culture, the “COUNTERFLOW” series is an interpretation of Chinese cultural heritage through original design. This crossover between ancient Chinese culture and trendy sports products aims to share the aesthetics of Chinese civilization with the broader consumer community.

At the same time, the Company made steady progress in member and omni-channel development. During the period, the full connection between the online channel system and the offline directly-operated stores was basically completed. The Company also sets up the preliminary member service system and the inter-connected member service mechanism across all channels. To facilitate long-term development, we will remain concentrated on four aspects including member recruitment, consumer communication and education, member service and interaction, and member data insights.

Looking forward, the e-commerce of Li Ning Company will continue to focus on the consumer big data and product data analysis system, thereby building its brand reputation and product competitiveness. Through online marketing campaigns and consumer education, it will maintain the operating efficiency of the e-commerce platform and support the sustainable growth of the e-commerce business.

Consolidating resources from supply chain to improve supply chain capabilities

In the first half of 2021, the “value supply chain” management model remained the centre of the supply chain system. To reduce wastage and improve efficiency, the Company used consumer satisfaction as the final indicator of supply chain value, so as to enhance product quality and price-performance ratio. It also carried on consolidating the resources of the footwear and apparel supply chain. In addition, it advanced the transition of the supply chain from “passive production” to “proactive production” by building a precise, flexible and efficient supply chain management system for more agile supply and rapid response.

- The Company focused on the promotion and adoption of R&D technology to pursue technology-driven business growth. To enhance the professional features, functionality, novelty and uniqueness of products, it engaged in cooperation and exchange of R&D projects in multiple aspects, enhanced the research collaboration with high-quality suppliers, and capitalized on their resources advantages in the R&D of functional materials. Furthermore, it continued to strengthen R&D and innovation capabilities, optimized the management and appraisal mechanism for R&D projects, created a culture of innovation among team members, and introduced competent talents in R&D and innovation. These efforts paved the way for the constant stream of innovative products.
- The Company collectively coordinated and managed supply chain resources to encourage resource sharing among various departments and product categories, which laid a foundation for bulk purchasing and centralised management. To restructure supply resources, it developed a system to retain high-quality suppliers and eliminate underperforming ones. It also continued to increase cooperation with good suppliers to ensure the efficiency and preciseness of supply chain resources.
- The Company pushed forward the transition of the supply chain from “passive production” to “proactive production”. It orchestrated merchandise, production and sales planning to form an effective interaction mechanism, and established a win-win mechanism for the long-term development and synergetic growth with strategic suppliers, so as to meet the business needs of diversified channels and boost business with top-quality supply chain resources.
- In respect of cost management, the Company maintained stringent cost planning and practised the concept of cost control and management in all areas ranging from design, development to various production stages, with a view to driving the optimization and upgrade of cost structure with concerted efforts. Meanwhile, the Company continued to tighten the requirements on labour, occupational health and environmental protection to ensure sustainable development.
- The Company maintained its focus on the establishment of its own supply chain system for more flexible and efficient performance. It was committed to gradually instilling the core industrial capabilities into LI-NING’s system over time. As a result, it strengthened its own supply chain management and the application of technological research and development knowledge, which led to a more precise and swift supply chain system.

NEW BUSINESS

LI-NING YOUNG

In the first half of 2021, LI-NING YOUNG positioned itself to be “the fashionable professional sports kidswear brand originated from China” and optimised the business model to drive brand growth.

- The Company launched professional sports products for kids as our key offerings. Under this context, we developed technology with professional functions for children, provided professional competition equipment for young athletes in China, and built a reputation as a professional sports brand for kids with a focus on basketball and running products. During the period, we completed the review of our current technology for children’s sports products. Leveraging the technological resources of the LI-NING brand, we will continue to develop the technology matrix for the kidswear business in the future.
- In terms of the supply chain, we continued to develop and enhance supply chain resources to improve the supply chain system of the kidswear business. We consolidated our production processes and resources advantages to minimize product cost, boost product efficiency, ensure product quality, optimize production procedures, promote the flexible response of the supply chain system and facilitate efficiency upgrade.
- For channel development, we focused on the mid-to-high tier market, strengthened the shopping mall and clearance channels, and improved store image to promote channel efficiency and health. In line with the omni-channel strategy of the Company, we actively expanded new retail channels and adapted to external changes to explore new sales channels and business opportunities.
- For brand marketing, we explored specific promotion and sales channels for kidswear such as Mama’s Community and members of WeChat groups by fully leveraging and consolidating existing promotional resources, including KOLs, sports experts, celebrities and business partners. With reference to the special features of the kidswear business, we made use of various digital marketing platforms, thereby continuously developing new sales channels and expanding brand and product influence.

As of 30 June 2021, LI-NING YOUNG business covered 31 provinces, municipalities and autonomous regions with a total of 1,041 stores. Looking forward, we will continue to intensely develop our kidswear business. Leveraging the LI-NING brand, we will enhance the marketing efforts of the kidswear brand, take a product-focused approach to upgrade core product technology and design, and advance the exploration of market demands and product categorization. Consistent efforts will be devoted to channel expansion, retail operations and supply chain resources, so as to develop LI-NING YOUNG into a leading professional sportswear brand for kids in China.

HUMAN RESOURCES

In the first half of 2021, based on the long-term development goal of the Company, the human resources department continued to optimize the Company's organisation, talents, incentives and cultural system.

- Regarding organisational development, in order to achieve breakthroughs in multi-categories, the Company established the female product team and e-commerce apparel supply chain, at the same time continuing to strengthen its research and development organisation and optimize the organisational structure of the Group's business systems, thereby fostering a more efficient organisational structure.
- In terms of talent management, the Company expedited the improvement of the talent supply chain management system and the dual career development paths for employees. It has also stepped up its efforts in nurturing internal retail talents so as to explore and recruit talents to drive business transformation on a continuous basis, and identify young talents for building up teams of hand-picked elites.
- In terms of remuneration and performance management, in order to realise performance growth stemmed from capability improvement, the Company has incorporated the strengthening of organizational capabilities into its business evaluation system. It has also improved the remuneration system for retail business with a view to enhancing its market competitiveness in terms of remuneration and hence pushing forward the reform of the Company's organizational capabilities and achieving its long-term goals.
- Regarding culture and staff relationship, the Company improved its culture management system with continuous efforts, aiming to further develop the core values of the Company, improve staff satisfaction and engagement and increase its staff's sense of honor and mission. Meanwhile, the Company has created a more positive, transparent, fair play and trustworthy corporate culture and nurtured a more active and cheerful working style.

In the future, the Company will remain focused on the exploration and consolidation of the domestic market in China, in a bid to become the most favourite sports brand of Chinese consumers. Pursuing its medium- and long-term goals, the Company will enhance its organisational efficiency and accelerate the development of talent teams as well as optimize the incentive mechanisms. The Company will effectively manage the investments in human resources, while continuing to strengthen its organisational capacity and employee competencies, which underpin the business growth of the Company.

As at 30 June 2021, the Group had 3,928 employees (31 December 2020: 3,625 employees), among which 3,755 employees were at the Group's headquarters and retail subsidiaries (31 December 2020: 3,466 employees), and 173 employees were at other subsidiaries (31 December 2020: 159 employees).

OUTLOOK

In the first half of 2021, China has brought the COVID-19 pandemic generally under control, enabling the recovery trend of its national economy to continue. Against this favourable backdrop, we will consistently adhere to the strategy of “Single Brand, Multi-categories, Diversified Channels”, enhance LI-NING’s experience value and provide sustainable impetus to the growth of the Company’s results performance:

- In respect of products, we will continue to actively explore technological innovation, strengthen product research and development, strive to improve product performance and enhance the professional sports attributes of our products. Meanwhile, we will further closely keep up with fashion trends and sports culture, launch products better tailored to consumer needs, provide consumers with diversified consumption experience, expand consumer bases, improve customer loyalty and expand our brand influence;
- In respect of channel development, with the aim of improving efficiency, we will seek expansion of big stores with high efficiency and promote the synergistic effect of the omni-channel by establishing diversified sales channel network and optimizing the structure of channels so as to maximize the efficiency of our sales channels;
- In respect of retail operation and supply chain, we will continue to enhance the standards of store operation on the focused basis of both product and consumption experience, promote store management ability and further strengthen the online and offline integrated operation mode. In addition, we will consolidate and optimize the supply chain system to enhance our capabilities in terms of our own supply chain management and the application of technology and expertise resulted from the research and development;
- In respect of marketing, we will make full use of diversified platforms and digitalized approaches, give full play to our comprehensive marketing networks to increase consumers’ brand awareness and accessibility. Considering primarily the actual consumer demand, we will keep abreast of hot market trends and expand the brand influence to convey our brand value;
- In respect of new business, enhancing single store profitability will remain as our major development goal. We will make reasonable and prudent use of resources to explore business opportunities and market potential in order to foster new opportunities for the profit growth of the Company in the long run.

As the pandemic is generally under control, China’s economy is steadily recovering with increasing national consumer demand, which benefits sports consumption, facilitates the development of the sports industry and helps promote a healthy lifestyle of the public. Being optimistic about the prospects of China’s sports industry, we are confident in the huge potential of the sports industry in the future. We also believe Chinese consumers will pay more attention to health and fitness in the post-pandemic era. This will help boost the demand for sports and health consumption and may bring a new look to the sports industry, thereby promoting further breakthroughs and development of the industry. As one of the leading brands in the professional sports sector in China, LI-NING will keep closely abreast of the development trend of the industry, seize the new opportunities arising from the surging sports industry after the pandemic, and deliver more diversified and refined products and services to the public. We will continue our down-to-earth manner to actively explore more room for business development and develop LI-NING from a Chinese brand to an internationally recognized top-class global, fashionable and professional sports brand.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its shares during the six months ended 30 June 2021.

EVENTS AFTER THE REPORTING PERIOD

The Group does not have any significant event requiring disclosure under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") that has taken place subsequent to 30 June 2021 and up to the date of this announcement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") contained in Appendix 10 to the Listing Rules regarding securities transactions by the directors. The directors of the Company are reminded regularly of their obligations under the Model Code. Following specific enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2021, except for the non-compliance as disclosed below.

Pursuant to paragraph A.3 of the Model Code, a director of a listed issuer must not deal in any securities of the listed issuer on any day on which its financial results are published and during the period of 60 days immediately preceding the publication date of the annual results of the listed issuer, unless the circumstances are exceptional.

Further, pursuant to paragraph B.8 of the Model Code, a director of a listed issuer must not deal in any securities of the listed issuer without first notifying in writing the chairman or a director (otherwise than himself/herself) designated by the board for the specific purpose and receiving a dated written acknowledgement.

On 18 January 2021, the Board was informed by Ms. Wang Ya Fei, an independent non-executive director, that she had disposed of 3,243 shares of the Company on that date. Such dealings in shares did not comply with the Model Code since (i) the black-out period of the Company for the purpose of publication of 2020 annual results announcement of the Company commenced on 17 January 2021 and was expected to end on 19 March 2021, and (ii) prior written notification for such dealings in shares was not given by Ms. Wang Ya Fei to the chairman or designated director of the Company.

The Company has taken immediate remedial action to re-circulate the Model Code to all directors of the Company and received acknowledgements from them. To further enhance the directors' knowledge and awareness of good corporate governance practices, the Company has conducted trainings in respect of internal control, corporate governance and compliance with the Listing Rules in June 2021 for the directors and senior management of the Company.

Except the above, the directors of the Company and employees of the Group have always complied with the required standards set out in the Model Code.

CORPORATE GOVERNANCE

For the period from 1 January 2021 to 30 June 2021, the Company has complied with all the code provisions of the Corporate Governance Code (“Code Provisions”) contained in Appendix 14 to the Listing Rules with the exception of paragraph A.2.1 of the Code Provisions.

According to paragraph A.2.1 of the Code Provisions, the roles of the chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. During the six months ended 30 June 2021, Mr. Li Ning, the Executive Chairman and Joint Chief Executive Officer (“Joint CEO”) of the Company, and Mr. Kosaka Takeshi, the Executive Director and Joint CEO, jointly assumed the role of chief executive officer of the Company. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles were undertaken by Mr. Li Ning. Notwithstanding the above, the Board is of the view that given that Mr. Li Ning is familiar with the business operations and management of the Group, the assumption of the roles of Executive Chairman and Joint CEO by Mr. Li Ning will provide the Group with consistent and steady leadership, and is particularly beneficial to the planning and implementation of the Group’s business strategies. The Board also believes that Mr. Li Ning and Mr. Kosaka Takeshi can complement with each other in performing the roles of the Joint CEOs, and create synergy effect which is in the interest of the Company and its shareholders as a whole.

The audit committee of the Company, consisting of three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed the auditing, risk management, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2021.

The Company’s external auditor, PricewaterhouseCoopers, has performed a review of the Group’s interim financial information for the six months ended 30 June 2021 in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

By order of the Board
Li Ning Company Limited
Li Ning
*Executive Chairman and
Joint Chief Executive Officer*

Hong Kong, 12 August 2021

As at the date of this announcement, the executive directors of the Company are Mr. Li Ning, Mr. Kosaka Takeshi and Mr. Li Qilin. The independent non-executive directors of the Company are Mr. Koo Fook Sun, Louis, Ms. Wang Ya Fei and Dr. Chan Chung Bun, Bunny.