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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)**

## **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021**

### **FINANCIAL HIGHLIGHTS**

- Net profit attributable to equity holders increased by 136% to RMB4,011 million, and the net profit margin raised from 11.7% to 17.8%:
  - Revenue increased by 56% to RMB22,572 million
  - Gross profit margin expanded by 3.9 percentage points to 53.0%
  - Enhanced operating leverage helped drive operating profit margin up by 7.6 percentage points to 22.8%
- Operating cash flow increased by over 136% to RMB6,525 million.
- Stable improvement in working capital:
  - The percentage of gross average working capital to revenue improved (reduced) by over 2 percentage points
  - Cash conversion cycle remained flat at a healthy level of 20 days
- The Board has recommended payment of a final dividend of RMB45.97 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2021 (2020: RMB20.46 cents).

### **OPERATIONAL HIGHLIGHTS**

- The retail sell-through for the overall platform increased by high-fifties, including online and offline channels.
- Channel inventory turnover improvement continued with aging structure optimized materially.
- Offline channel new product sell-through increase accelerated to high-sixties:
  - Sell-through mix of new products increased by approximately 7 percentage points
  - Retail discount rate improved by over 3.5 percentage points
  - Sell-out rate: 6-month improved by approximately 14 percentage points, 3-month improved by approximately 13 percentage points

## ANNUAL RESULTS

The board of directors (the “Board”) of Li Ning Company Limited (the “Company” or “Li Ning Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2021, together with comparative figures of 2020, as follows:

### CONSOLIDATED BALANCE SHEET

		As at 31 December	
	Note	2021	2020
		RMB'000	RMB'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment		1,625,887	1,065,058
Right-of-use assets		1,332,765	1,065,979
Investment properties		1,850,045	115,200
Land use rights		162,579	166,377
Intangible assets		187,680	190,746
Deferred income tax assets		707,575	590,635
Other assets		775,531	138,518
Investments accounted for using the equity method		1,267,071	1,101,116
Investments measured at fair value through profit or loss		169,671	–
Other receivables		188,833	128,714
Long-term bank deposits		3,335,325	254,966
<b>Total non-current assets</b>		<b>11,602,962</b>	<b>4,817,309</b>
<b>Current assets</b>			
Inventories	4	1,772,803	1,345,539
Other assets – current portion		770,628	518,902
Trade receivables	5	902,857	658,796
Other receivables – current portion		78,744	65,196
Restricted bank deposits		1,061	1,084
Short-term bank deposits		400,862	–
Cash and cash equivalents		14,744,899	7,187,039
<b>Total current assets</b>		<b>18,671,854</b>	<b>9,776,556</b>
<b>Total assets</b>		<b>30,274,816</b>	<b>14,593,865</b>

	<i>Note</i>	<b>As at 31 December</b>	
		<b>2021</b>	2020
		<b>RMB'000</b>	<b>RMB'000</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to equity holders of the Company</b>			
Ordinary shares		238,759	228,285
Share premium		12,637,277	4,037,767
Shares held for Restricted Share Award Scheme		(37,840)	(148,995)
Other reserves		1,241,767	874,574
Retained earnings		<u>7,021,583</u>	<u>3,695,232</u>
		<b>21,101,546</b>	8,686,863
<b>Non-controlling interests in equity</b>		<u>2,561</u>	<u>2,554</u>
<b>Total equity</b>		<u>21,104,107</u>	<u>8,689,417</u>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
License fees payable		20,996	23,395
Derivative financial instruments		–	10,181
Lease liabilities		956,475	688,642
Deferred income tax liabilities		426,873	102,738
Deferred income		<u>62,517</u>	<u>64,435</u>
<b>Total non-current liabilities</b>		<u>1,466,861</u>	<u>889,391</u>
<b>Current liabilities</b>			
Trade payables	6	1,599,282	1,227,129
Contract liabilities		345,835	286,134
Lease liabilities – current portion		366,968	360,895
Other payables and accruals		4,024,662	2,500,991
License fees payable – current portion		50,106	39,494
Current income tax liabilities		1,307,776	591,860
Derivative financial instruments – current portion		<u>9,219</u>	<u>8,554</u>
<b>Total current liabilities</b>		<u>7,703,848</u>	<u>5,015,057</u>
<b>Total liabilities</b>		<u>9,170,709</u>	<u>5,904,448</u>
<b>Total equity and liabilities</b>		<u><u>30,274,816</u></u>	<u><u>14,593,865</u></u>

## CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2021 RMB'000	2020 RMB'000
Revenue	3	22,572,281	14,456,971
Cost of sales	7	<u>(10,603,183)</u>	<u>(7,362,627)</u>
<b>Gross profit</b>		<b>11,969,098</b>	7,094,344
Distribution expenses	7	(6,138,077)	(4,424,718)
Administrative expenses	7	(1,110,675)	(805,058)
Reversal of/(provision for) expected credit loss allowance for financial assets – net		15,682	(30,466)
Other income and other gains – net	8	<u>400,348</u>	<u>361,867</u>
<b>Operating profit</b>		<b>5,136,376</b>	2,195,969
Finance income	9	145,097	34,658
Finance expenses	9	<u>(112,458)</u>	<u>(66,249)</u>
Finance income/(expenses) – net	9	32,639	(31,591)
Share of profit of investments accounted for using the equity method		<u>159,222</u>	<u>83,487</u>
<b>Profit before income tax</b>		<b>5,328,237</b>	2,247,865
Income tax expense	10	<u>(1,317,349)</u>	<u>(549,381)</u>
<b>Profit for the year</b>		<b>4,010,888</b>	1,698,484
<b>Profit is attributable to:</b>			
Equity holders of the Company		4,010,881	1,698,484
Non-controlling interests		<u>7</u>	<u>–</u>
		<u><b>4,010,888</b></u>	<u>1,698,484</u>
<b>Earnings per share for profit attributable to equity holders of the Company for the year (expressed in RMB cents per share)</b>			
Basic earnings per share	11	<u>160.10</u>	<u>69.21</u>
Diluted earnings per share	11	<u>157.97</u>	<u>67.62</u>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2021	2020
	RMB'000	RMB'000
<b>Profit for the year</b>	<b>4,010,888</b>	1,698,484
<b>Other comprehensive loss:</b>		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>(2,562)</u>	<u>(25,273)</u>
<b>Total comprehensive income for the year</b>	<b><u>4,008,326</u></b>	<b><u>1,673,211</u></b>
<b>Attributable to:</b>		
Equity holders of the Company	<b>4,008,319</b>	1,673,211
Non-controlling interests	<u>7</u>	<u>—</u>
	<b><u>4,008,326</u></b>	<b><u>1,673,211</u></b>

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.

These consolidated financial results are presented in Renminbi (“RMB”), unless otherwise stated. These consolidated financial results have been approved for issue by the Board on 17 March 2022.

**2. Summary of significant accounting policies**

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial results. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial results are for the Group consisting of Li Ning Company Limited and its subsidiaries.

**(a) Compliance with IFRS and HKCO**

The consolidated financial results of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and the disclosure requirements of the Hong Kong Companies Ordinance (“HKCO”) Cap. 622.

**(b) Historical cost convention**

The financial results have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) – measured at fair value.

**(c) New and amended standards adopted by the Group**

The Group has applied the following amendments for the first time for their annual reporting period commencing 1 January 2021:

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	<i>Interest Rate Benchmark Reform – Phase 2</i>
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The Group also elected to adopt the following amendments early:

Amendment to IFRS 16	<i>COVID-19-Related Rent Concessions beyond 30 June 2021</i>
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The amendments stated above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

**(d) New standards and interpretations not yet adopted**

Certain new accounting standards, amendments to accounting standards and interpretations have been published but are not mandatory for 31 December 2021 reporting period and have not been early adopted by the Group. These standards, amendments or interpretations 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 and 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’s principal market is the PRC (including the Hong Kong Special Administrative Region and the Macau Special Administrative Region) and its sales to overseas customers contributed to less than 10% of revenue. Also, none of the Group’s non-current assets is located outside the PRC (including the Hong Kong Special Administrative Region and the Macau Special Administrative Region). Accordingly, no geographical information is presented.

#### (a) Revenue from contracts with customers

The Group derives revenue in the following major product lines and sales channels:

Revenue breakdown by product category:

	Year ended 31 December	
	2021	2020
	RMB’000	RMB’000
Footwear	9,505,994	6,338,157
Apparel	11,823,798	7,365,173
Equipment and accessories	1,242,489	753,641
<b>Total</b>	<b>22,572,281</b>	<b>14,456,971</b>

Revenue breakdown by sales channel:

	Year ended 31 December	
	2021	2020
	RMB’000	RMB’000
The PRC (including the Hong Kong Special Administrative Region and the Macau Special Administrative Region)		
Sales to franchised distributors	10,852,750	6,923,876
Sales from direct operation	5,010,408	3,264,742
Sales from e-commerce channel	6,412,920	4,048,810
Other regions	296,203	219,543
<b>Total</b>	<b>22,572,281</b>	<b>14,456,971</b>

The Group has a large number of customers. For the years ended 31 December 2021 and 2020, no revenue derived from transactions with a single external customer represented 10% or more of the Group’s total revenue.

#### (b) Liabilities related to contracts with customers

	Year ended 31 December	
	2021	2020
	RMB’000	RMB’000
Contract liabilities – advances from customers	258,265	256,119
Contract liabilities – customer loyalty programme	87,570	30,015
<b>Total</b>	<b>345,835</b>	<b>286,134</b>

The Group applied the practical expedient of not to disclose the transaction price allocated to the unsatisfied performance obligations as contract terms less than 12 months.

### Significant changes in contract liabilities

As at 31 December 2021, contract liabilities for customer loyalty programme have increased by RMB57,555,000 as compared to 31 December 2020, which was mainly due to the increase of loyalty points rewarded to the Group's customers during the year as well as the lower expected breakage as at 31 December 2021 based on Management's estimates. As at 31 December 2020, there was no significant increase in contract liabilities as compared to 31 December 2019.

### Revenue recognised in relation to contract liabilities

	2021 RMB'000	2020 RMB'000
<i>Revenue recognised that was included in the contract liability balance at the beginning of the period</i>		
Contract liabilities – advances from customers	256,119	263,030
Contract liabilities – customer loyalty programme	<u>30,015</u>	<u>30,896</u>
Total	<u><u>286,134</u></u>	<u><u>293,926</u></u>

### 4. Inventories

	2021 RMB'000	2020 RMB'000
Raw materials	16,374	8,078
Work in progress	17,493	9,345
Finished goods	<u>1,832,615</u>	<u>1,441,249</u>
	1,866,482	1,458,672
Less: provision for write-down of inventories to net realisable value	<u>(93,679)</u>	<u>(113,133)</u>
	<u><u>1,772,803</u></u>	<u><u>1,345,539</u></u>

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB10,340,415,000 for the year ended 31 December 2021 (31 December 2020: RMB7,131,928,000). Inventory provision and the amount of reversal have been included in cost of sales in the consolidated income statement for the years ended 31 December 2021 and 2020.

### 5. Trade receivables

	2021 RMB'000	2020 RMB'000
Accounts receivable	1,111,138	939,233
Less: expected credit loss allowance for trade receivables	<u>(208,281)</u>	<u>(280,437)</u>
	<u><u>902,857</u></u>	<u><u>658,796</u></u>

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

	2021 RMB'000	2020 RMB'000
0 – 30 days	681,627	437,604
31 – 60 days	206,901	193,041
61 – 90 days	35,130	44,213
91 – 180 days	21,697	35,026
Over 180 days	<u>165,783</u>	<u>229,349</u>
	<u><u>1,111,138</u></u>	<u><u>939,233</u></u>

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

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
As at 1 January	280,437	258,193
(Reversal of)/provision for expected credit loss allowance for trade receivables	(19,900)	31,856
Trade receivables written off during the year as uncollectible	(52,087)	(9,260)
Effect of change in exchange rate	(169)	(352)
	<u>208,281</u>	<u>280,437</u>

## 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:

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
0-30 days	1,557,849	967,798
31-60 days	23,275	241,063
61-90 days	5,769	9,253
91-180 days	1,065	3,048
181-365 days	7,094	1,374
Over 365 days	4,230	4,593
	<u>1,599,282</u>	<u>1,227,129</u>

## 7. Expenses by nature

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Cost of inventories recognised as expenses and included in cost of sales	10,340,415	7,131,928
Depreciation on property, plant and equipment ( <i>Note a</i> )	589,373	533,902
Amortisation of land use rights and intangible assets	40,868	42,119
Depreciation on right-of-use assets	461,172	432,717
Depreciation on investment properties not under operating leases	2,024	4,078
Impairment of intangible assets	–	14,910
Advertising and marketing expenses	1,779,263	1,279,541
Commission and trade fair related expenses	618,590	351,864
Staff costs, including directors' emoluments ( <i>Note a</i> )	1,811,973	1,311,123
Short-term lease rentals and variable lease payments not included in lease liabilities, and rental related expenses	694,691	482,377
Research and product development expenses ( <i>Note a</i> )	413,949	322,904
Transportation and logistics expenses	858,783	564,009
Auditor's remuneration		
– Audit services	6,500	5,660
– Non-audit services	911	2,224
Management consulting expenses	113,362	97,411

*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**

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Government grants	231,619	229,684
License fees income	28,855	22,032
Fair value gains on wealth management products measured at fair value through profit or loss	77,902	108,905
Rental income	65,833	–
Depreciation on investment properties under operating leases	(47,025)	–
Fair value gains on investments measured at fair value through profit or loss	42,468	–
Fair value gains on derivative financial instruments measured at fair value through profit or loss	696	1,246
	<u>400,348</u>	<u>361,867</u>

**9. Finance income/(expenses) – net**

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
<b>Finance income</b>		
Interest income on bank balances and deposits	145,097	34,621
Net foreign currency exchange gain	–	37
	<u>145,097</u>	<u>34,658</u>
<b>Finance expenses</b>		
Amortisation of discount – license fees payable	(2,601)	(2,817)
Amortisation of discount – lease liabilities	(64,449)	(53,972)
Net foreign currency exchange loss	(30,462)	–
Others	(14,946)	(9,460)
	<u>(112,458)</u>	<u>(66,249)</u>
<b>Finance income/(expenses) – net</b>	<u>32,639</u>	<u>(31,591)</u>

**10. Income tax expense**

	2021 <i>RMB'000</i>	2020 <i>RMB'000</i>
Current income tax		
– Corporate income tax (b)	1,459,094	618,815
– Withholding income tax on dividends from subsidiaries in Mainland China (c)	2,888	31,750
	<u>1,461,982</u>	<u>650,565</u>
Deferred income tax	(144,633)	(101,184)
Income tax expense	<u>1,317,349</u>	<u>549,381</u>

Notes:

- (a) The Company was incorporated in the Cayman Islands. Under current laws of the Cayman Islands, there are no income, estate, corporation, capital gains or other taxes payable by the Company. The Company's subsidiary, RealSports Pte Ltd., was established under the International Business Companies Acts of the British Virgin Islands, and is exempted from British Virgin Islands income taxes.
- (b) For the year ended 31 December 2021, provision for the corporate income tax of Mainland China is calculated based on the statutory tax rate of 25% (2020: 25%) on the assessable income of each of the group companies. Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong (2020: 16.5%).
- (c) This mainly arose from the dividends due by the Company's subsidiaries in Mainland China to other group companies in Hong Kong during the years ended 31 December 2021 and 2020, which are subject to withholding tax at the rate of 5%.

## 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 the restricted share award scheme adopted by the Company on 14 July 2016 (the "Restricted Share Award Scheme") during the year. 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 270,000 ordinary shares (31 December 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.

	2021	2020
Profit attributable to equity holders of the Company ( <i>RMB'000</i> )	<u>4,010,881</u>	<u>1,698,484</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>2,505,199</u>	<u>2,454,086</u>
Basic earnings per share ( <i>RMB cents</i> )	<u>160.10</u>	<u>69.21</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 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 year) 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.

	2021	2020
Profit attributable to equity holders of the Company, used to determine diluted earnings per share ( <i>RMB'000</i> )	<u>4,010,881</u>	<u>1,698,484</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> )	2,505,199	2,454,086
Adjustment for the restricted shares ( <i>in thousands</i> )	9,667	20,632
Adjustment for the share option schemes ( <i>in thousands</i> )	<u>24,090</u>	<u>37,029</u>
Deemed weighted average number of shares for diluted earnings per share ( <i>in thousands</i> )	<u>2,538,956</u>	<u>2,511,747</u>
Diluted earnings per share ( <i>RMB cents</i> )	<u>157.97</u>	<u>67.62</u>

## 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:

	<i>RMB'000</i>
Cash consideration for the Target Shares	495,497
Cash consideration for the Transferred Creditor's Rights	<u>730,770</u>
Total purchase consideration	<u>1,226,267</u>

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

	<b>RMB'000</b>
<b>Current assets</b>	
Cash and cash equivalents	47,587
Other receivables – current portion	389
Other assets – current portion	9,325
<b>Non-current assets</b>	
Property, plant and equipment	16
Investment properties	1,798,310
<b>Current liabilities</b>	
Other payables and accruals	(281,836)
<b>Non-current liabilities</b>	
Deferred tax liabilities	(351,828)
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 RMB10,695,000 respectively to the Group for the period from 29 January 2021 to 31 December 2021. If the acquisition had occurred on 1 January 2021, consolidated revenue and consolidated profit after tax for the year ended 31 December 2021 would have been RMB22,572,281,000 and RMB3,945,287,000 (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*

	<b>2021</b>
	<b>RMB'000</b>
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)	167,182
Less: Cash acquired	(47,587)
Prepayment for consideration for acquisition of subsidiaries	<u>(47,904)</u>
	<u><u>1,297,958</u></u>

### 13. Dividends

	<b>2021</b> <i>RMB'000</i>	2020 <i>RMB'000</i>
Proposed final dividend of RMB45.97 cents (2020: RMB20.46 cents) per ordinary share	<u><b>1,203,264</b></u>	<u>509,545</u>

The total dividends paid during the year ended 31 December 2021 amounted to RMB515,202,000 or RMB20.46 cents per share (2020: RMB377,821,000 or RMB15.47 cents per share) which represented the final dividends for the year ended 31 December 2020.

On 17 March 2022, the Board proposed payment of a final dividend of RMB45.97 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities out of the share premium for the year ended 31 December 2021. The final dividend is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting to be held on 15 June 2022. The proposed dividend is not reflected as a dividend payable in the financial results, but will be reflected as an appropriation of share premium in the year ended 31 December 2022.

## FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB45.97 cents per ordinary share of the Company issued or to be issued upon conversion of convertible securities for the year ended 31 December 2021 (2020: RMB20.46 cents). The proposed dividend payment is subject to approval by the shareholders of the Company at the forthcoming annual general meeting (“AGM”) to be held on 15 June 2022 and is payable in Hong Kong Dollars based on the official exchange rate of Renminbi against Hong Kong Dollars as quoted by the People’s Bank of China on 15 June 2022. Such dividend will not be subject to any withholding tax. Upon shareholders’ approval, the proposed final dividend will be paid:

- (i) on 30 June 2022 to ordinary shareholders whose names shall appear on the register of members of the Company on 22 June 2022;
- (ii) on 30 June 2022 to holders of convertible securities issued under the open offer of offer securities of the Company as set out in the listing documents of the Company dated 9 January 2015 and remain outstanding on 22 June 2022; and
- (iii) on 6 July 2022 (i.e. the third business day after 30 June 2022) to holders of convertible securities issued under the open offers of convertible securities of the Company as set out in the listing documents of the Company dated 27 March 2013 and remain outstanding on 22 June 2022.

For the avoidance of doubt, any convertible securities subject to a conversion notice completed, executed and deposited on or before the final dividend record date (being 22 June 2022) shall be entitled to the distribution of such final dividend of the Company. For details of calculation of distribution of the final dividend entitled to the convertible securities please refer to the listing documents of the Company dated 27 March 2013 and 9 January 2015 respectively.

The Company did not declare interim dividend for the six months ended 30 June 2021.

## CLOSURE OF REGISTER OF MEMBERS AND HOLDERS OF CONVERTIBLE SECURITIES

For the purpose of determining shareholders of the Company who are entitled to attend and vote at the forthcoming AGM to be held on 15 June 2022 and shareholders and holders of convertible securities of the Company qualifying for the proposed final dividend to be approved at the AGM, the register of members and register of holders of convertible securities of the Company will be closed as set out below:

- (i) For ascertaining eligibility to attend and vote at the AGM:

Latest time to lodge transfer documents	4:30 p.m. on 9 June 2022 (Thursday)
Period of closure of register of members	10 June 2022 (Friday) to 15 June 2022 (Wednesday) (both days inclusive)
Record date	15 June 2022 (Wednesday)
AGM date	15 June 2022 (Wednesday)

In order to qualify for attending and voting at the AGM, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 9 June 2022.

- (ii) For ascertaining entitlement to the proposed final dividend to be approved at the AGM:

Latest time to lodge transfer documents	4:30 p.m. on 20 June 2022 (Monday)
Period of closure of register of members and register of holders of convertible securities	21 June 2022 (Tuesday) to 22 June 2022 (Wednesday) (both days inclusive)
Final dividend record date	22 June 2022 (Wednesday)

In order to qualify for the proposed final dividend, all transfer documents must be lodged with the Company's Hong Kong branch share registrar and transfer office, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 20 June 2022.

During the above closure periods, no transfer of shares or convertible securities of the Company will be registered.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Overview

The key operating and financial performance indicators of the Group for the year ended 31 December 2021 are set out below:

	Year ended 31 December		Change
	2021	2020	(%)
<b>Income statement items</b>			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue (Note 1)	<b>22,572,281</b>	14,456,971	<b>56.1</b>
Gross profit	<b>11,969,098</b>	7,094,344	<b>68.7</b>
Operating profit	<b>5,136,376</b>	2,195,969	<b>133.9</b>
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 2)	<b>6,436,060</b>	3,292,272	<b>95.5</b>
Profit attributable to equity holders (Note 3)	<b>4,010,881</b>	1,698,484	<b>136.1</b>
Basic earnings per share (RMB cents) (Note 4)	<b>160.10</b>	69.21	<b>131.3</b>

### Key financial ratios

#### *Profitability ratios*

Gross profit margin (%)	<b>53.0</b>	49.1	<b>3.9</b>
Operating profit margin (%)	<b>22.8</b>	15.2	<b>7.6</b>
Effective tax rate (%)	<b>24.7</b>	24.4	<b>0.3</b>
Margin of profit attributable to equity holders (%)	<b>17.8</b>	11.7	<b>6.1</b>
Return on equity attributable to equity holders (%)	<b>26.9</b>	21.5	<b>5.4</b>

#### *Expenses to revenue ratios*

Staff costs (%)	<b>8.0</b>	9.1	<b>(1.1)</b>
Advertising and marketing expenses (%)	<b>7.9</b>	8.9	<b>(1.0)</b>
Research and product development expenses (%)	<b>1.8</b>	2.2	<b>(0.4)</b>

<b>31 December</b>	31 December
<b>2021</b>	2020

### Balance sheet items

*(All amounts in RMB thousands unless otherwise stated)*

Total assets (Note 5)	<b>30,274,816</b>	14,593,865
Capital and reserves attributable to equity holders (Note 6)	<b>21,101,546</b>	8,686,863

### Key financial ratios

#### *Asset efficiency*

Average inventory turnover (days) (Note 7)	<b>54</b>	68
Average trade receivables turnover (days) (Note 8)	<b>13</b>	17
Average trade payables turnover (days) (Note 9)	<b>47</b>	65

#### *Asset ratios*

Debt-to-equity ratio (%) (Note 10)	<b>43.5</b>	68.0
Net asset value per share (RMB cents)	<b>807.85</b>	351.24

Notes:

1. Including revenue for the period from 1 January to 30 September 2021: RMB15,727,109,000.
  2. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on profit for the year, excluding the sum of income tax expense, finance income/(expenses) – net, depreciation on property, plant and equipment, depreciation on investment properties under operating leases, depreciation on investment properties not under operating leases, amortisation of land use rights and intangible assets and depreciation on right-of-use assets.
  3. Including profit attributable to equity holders for the period from 1 January to 30 September 2021: RMB2,984,169,000.
  4. Basic earnings per share is 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 year. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.
  5. Total assets as at 30 September 2021: RMB20,470,912,000.
  6. Capital and reserves attributable to equity holders as at 30 September 2021: RMB11,383,794,000.
  7. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances for the year, divided by cost of sales and multiplied by the total number of days in the year.
  8. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables for the year, divided by revenue and multiplied by the total number of days in the year.
  9. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables for the year, divided by total purchases and multiplied by the total number of days in the year.
  10. 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 year.
- \* *The aforesaid indicators provided by the Group may not necessarily be the same in terms of similar 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 year ended 31 December 2021 amounted to RMB22,572,281,000, representing a significant increase of 56.1% as compared to that of 2020. With the effective pandemic prevention and control measures launched by the Chinese government, pandemic containment was normalized across the nation. At the same time, healthy lifestyle and sports remained public hot topics in regards of the Tokyo Olympic Games and the then upcoming Beijing Winter Olympics, coupled with the increasing recognition and support for domestic sports brands among Chinese consumers, Li Ning was presented with a good opportunity to enhance its brand influence. Capturing such opportunity, the Group continued to enhance its professional brand image through diversified marketing campaigns and product upgrade driven by technological innovation. Meanwhile, remaining focused on the needs of the end-consumers, it recorded solid revenue from all channels: (1) for direct operation channel, the Group proactively launched big stores with high efficiency including flagship stores, while continuing to optimize the visual image of stores and consumers' sports experience. Further with the macroeconomy of pandemic recovery and high popularity of domestic goods, sell-through from directly-operated stores increased drastically by 53.5% year-on-year; (2) given that the e-commerce channel is responding closely and swiftly to consumers' preferences and needs, the Group continued to focus on the big data analysis system and expanded business opportunities and the consumer groups by capitalizing on the emerging livestreaming platforms, which contributed to the revenue growth of 58.4%; and (3) the significantly-increased sell-through triggered the prompt response of franchised distributors, resulting in the increase in orders and execution rate of futures orders and a boosted sales revenue of 56.7% during the year, while the brand influence and market coverage were further enhanced.

### Revenue breakdown by product category

	Year ended 31 December				Revenue Change (%)
	2021		2020		
	<i>RMB'000</i>	% of total revenue	<i>RMB'000</i>	% of total revenue	
Footwear	<b>9,505,994</b>	<b>42.1</b>	6,338,157	43.8	<b>50.0</b>
Apparel	<b>11,823,798</b>	<b>52.4</b>	7,365,173	51.0	<b>60.5</b>
Equipment and accessories	<b>1,242,489</b>	<b>5.5</b>	753,641	5.2	<b>64.9</b>
<b>Total</b>	<b><u>22,572,281</u></b>	<b><u>100.0</u></b>	<b><u>14,456,971</u></b>	<b><u>100.0</u></b>	<b><u>56.1</u></b>

### Revenue breakdown (in %) by sales channel

	Year ended 31 December		Change (%)
	2021	2020	
	% of revenue	% of revenue	
PRC market			
Sales to franchised distributors	<b>48.1</b>	47.9	<b>0.2</b>
Sales from direct operation	<b>22.2</b>	22.6	<b>(0.4)</b>
Sales from e-commerce channel	<b>28.4</b>	28.0	<b>0.4</b>
International markets	<b>1.3</b>	1.5	<b>(0.2)</b>
<b>Total</b>	<b><u>100.0</u></b>	<b><u>100.0</u></b>	

## Revenue breakdown by geographical location

	Note	Year ended 31 December				Revenue Change (%)
		2021	% of revenue	2020	% of revenue	
		RMB'000		RMB'000		
PRC market						
Northern region	2	10,939,495	48.5	7,589,864	52.5	44.1
Southern region	3	11,336,583	50.2	6,647,564	46.0	70.5
International markets		296,203	1.3	219,543	1.5	34.9
<b>Total</b>		<b>22,572,281</b>	<b>100.0</b>	<b>14,456,971</b>	<b>100.0</b>	<b>56.1</b>

### Notes:

- In 2021, in order to enhance operating efficiency, the Group restructured and adjusted its sales system and related organization structure to combine the original Southern region and South China region into the Southern region. Comparative figures have also been restated for the purpose of consistent disclosure.
- 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.
- The Southern region includes provinces, municipalities, autonomous regions and a special administrative region covering Yunnan, Guizhou, Sichuan, Jiangxi, Chongqing, Tibet, Shanghai, Zhejiang, Jiangsu, Hunan, Hubei, Anhui, Guangdong, Guangxi, Fujian, Hainan and Macau.

### Cost of Sales and Gross Profit

For the year ended 31 December 2021, the overall cost of sales of the Group amounted to RMB10,603,183,000 (2020: RMB7,362,627,000), and the overall gross profit margin was 53.0% (2020: 49.1%). During the year, new product discount rates improved in both online and offline channels, and sell-through ratio of new products continued to increase. The aforesaid factors drove the increase in gross profit margin of the Group, which increased by 3.9 percentage points for the year as compared to the corresponding period last year.

### Distribution Expenses

For the year ended 31 December 2021, the Group's overall distribution expenses amounted to RMB6,138,077,000 (2020: RMB4,424,718,000), representing a year-on-year increase of 38.7%; the distribution expenses accounted for 27.2% (2020: 30.6%) of the Group's total revenue with a year-on-year decrease of 3.4 percentage points.

During the year, along with the increase in revenue, rental, license fees, wages and bonuses of direct sales staff, investment in advertising and marketing, commission for the e-commerce channel and logistics expenses 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 despite the increase in the overall distribution expenses as compared to last year.

### Administrative Expenses

For the year ended 31 December 2021, the Group's overall administrative expenses amounted to RMB1,110,675,000 (2020: RMB805,058,000), accounting for 4.9% (2020: 5.6%) of the Group's total revenue with a year-on-year increase of 38.0%. 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. Meanwhile, as the overall growth rate of administrative expenses was lower than that of revenue, the percentage of administrative expenses to revenue declined.

### ***Share of Profit of Investments Accounted for Using the Equity Method***

For the year ended 31 December 2021, the Group's share of profit of investments accounted for using the equity method amounted to RMB159,222,000 (2020: RMB83,487,000).

### ***Significant Investment***

On 31 December 2020, the Group acquired (1) the entire share capital of the Target Company and (2) the rights of the Transferors in the loans extended to the Target Company and its subsidiary respectively. The above acquisition of the Target Shares and the Transferred Creditor's Rights was completed on 28 January 2021. The Target Company is an investment holding company and its principal asset is the entire equity interest in its subsidiary, which mainly owns certain investment properties located in the Greater Bay Area of the PRC with one of the office buildings as its principal asset.

The investment cost of such office building was RMB1,635,300,000. The Group adopted the cost method for subsequent measurement of investment properties. As of 31 December 2021, the carrying value of such office building was RMB1,588,276,000 after depreciation, representing a percentage of approximately 5.2% of the Group's total assets.

Following the acquisition of the Target Shares, the Group will continue to perform the original leases of such office building, and will gradually develop the office areas of the Group's southern headquarters with research and development as its main function based on the lease expiry profile and the Group's development plan.

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

For the year ended 31 December 2021, the Group's EBITDA amounted to RMB6,436,060,000 (2020: RMB3,292,272,000), representing a year-on-year increase of 95.5%. Benefiting from the growth in revenue and the adoption of proactive measures of controlling costs and expenses, the Group has achieved relatively satisfactory results performance.

Reconciliations of EBITDA to profit for the year are as follows:

	<b>2021</b>	2020
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Reconciliation of profit for the year to EBITDA:</b>		
<b>Profit for the year</b>	<b>4,010,888</b>	1,698,484
Income tax expense	<b>1,317,349</b>	549,381
Finance income	<b>(145,097)</b>	(34,658)
Finance expenses (including amortisation of discount on lease liabilities)	<b>112,458</b>	66,249
Depreciation on property, plant and equipment	<b>589,373</b>	533,902
Amortisation of land use rights and intangible assets	<b>40,868</b>	42,119
Depreciation on right-of-use assets	<b>461,172</b>	432,717
Depreciation on investment properties not under operating leases	<b>2,024</b>	4,078
Depreciation on investment properties under operating leases	<b>47,025</b>	—
<b>EBITDA</b>	<b><u>6,436,060</u></b>	<u>3,292,272</u>

### ***Finance Income/(Expenses) – Net***

For the year ended 31 December 2021, the Group's net finance income amounted to RMB32,639,000 (2020: net finance expenses of RMB31,591,000). The change in net finance income/(expenses) was mainly due to the increase in the average disposable capital of the Group for the year as compared to 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, which led to the year-on-year growth of interest income. In addition, the exchange rate fluctuations during the year incurred greater exchange losses and interest expenses recognised on lease liabilities increased as well, which partially offset the increase in interest income.

### ***Income Tax Expense***

For the year ended 31 December 2021, the income tax expense of the Group amounted to RMB1,317,349,000 (2020: RMB549,381,000) and the effective tax rate was 24.7% (2020: 24.4%). Currently, the Group's income tax expense is almost in line with the standard level.

### ***Overall Profitability Indicators***

During the year, the Group's sales revenue and gross profit margin increased significantly as compared to last year, while expense ratio decreased through its effective control over costs and expenses, thus the overall profitability indicators for the year ended 31 December 2021 improved significantly. During the year, the Group's profit attributable to equity holders amounted to RMB4,010,881,000 (2020: RMB1,698,484,000), representing a year-on-year increase of 136.1%. The margin of profit attributable to equity holders was 17.8% (2020: 11.7%). The return on equity attributable to equity holders was 26.9% (2020: 21.5%).

### ***Provision for Inventories***

The Group's policy in respect of provision for inventories for 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 that this policy can ensure appropriate provision for inventories made by the Group.

As at 31 December 2021, the accumulated provision for inventories was RMB93,679,000 (31 December 2020: RMB113,133,000). During the year, due to the significant increase in sell-through, the Group increased its inventory balance while continued to optimize the inventory structure in order to meet the demand of channel orders and underpin the growth trend of sell-through of stores. Therefore, despite the increase in the original value of inventories as compared to the beginning of the year, the inventory ageing structure improved significantly and the provision for inventories declined.

### ***Expected Credit Loss Allowance***

The Group's policy in respect of provision of doubtful debts for 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 31 December 2021, the accumulated expected credit loss allowance was RMB216,190,000 (31 December 2020: RMB287,344,000), among which the accumulated expected credit loss allowance for trade receivables was RMB208,281,000 (31 December 2020: RMB280,437,000) and the accumulated expected credit loss allowance for other receivables was RMB7,909,000 (31 December 2020: RMB6,907,000). The trade receivables and other receivables written off during the year as uncollectible and the effect of change in exchange rate amounted to RMB55,472,000 (2020: RMB10,437,000). Despite the increase in the original value of trade receivables along with the business growth during the year, the ageing structure improved significantly, and therefore the expected credit loss allowance decreased as compared to the beginning of the year. The Group will continue to strengthen its cooperation with franchised distributors and focus on the continuous optimization of the ageing structure.

## *Liquidity and Financial Resource*

The Group's net cash generated from operating activities for the year ended 31 December 2021 amounted to RMB6,525,335,000 (2020: RMB2,763,336,000). As at 31 December 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 RMB14,744,899,000, representing a net increase of RMB7,557,860,000 as compared with the position as at 31 December 2020. Adding back the capital recorded as fixed-term deposits held at banks, cash balance amounted to RMB18,481,086,000, representing a net increase of RMB11,039,081,000 as compared to 31 December 2020. The increase was due to the following items:

<b>Item</b>	<b>Year ended 31 December 2021 RMB'000</b>
<b>Operating activities:</b>	
Net cash generated from operating activities	6,525,335
<b>Investing activities:</b>	
Net cash used in investing activities (including payment for short-term and long-term bank deposits)	(6,538,700)
<b>Financing activities:</b>	
Net proceeds from top-up placing and subscription of shares	8,571,787
Net cash used in other financing activities	(975,637)
Add: Exchange losses on cash and cash equivalents	<u>(24,925)</u>
<b>Net increase in cash and cash equivalents</b>	<u>7,557,860</u>
Add: Net increase in long-term and short-term bank deposits	<u>3,481,221</u>
<b>Net increase in cash balance</b>	<u><u>11,039,081</u></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. During the year, the Group completed the acquisition of the Target Shares and Transferred Creditor's Rights and settled the prepayment for its acquisition of a new building of Shanghai headquarters, which led to the drastic year-on-year increase in cash used in investing activities.

On 27 October 2021, the Company, a wholly owned subsidiary of Viva China Holdings Limited and the placing agents entered into the placing and subscription agreement, pursuant to which the parties jointly proceeded with the top-up placing of existing shares of the Company and the subscription of new shares of the Company under the general mandate, and agreed to the top-up placing and subscription of 120,000,000 shares of the Company at HK\$87.50 per share. On 3 November 2021, both parties completed this placing and subscription scheme. The net proceeds from the top-up placing of shares amounted to HK\$10,433,042,000 (equivalent to approximately RMB8,571,787,000). Please refer to the announcements of the Company dated 28 October 2021 and 3 November 2021 respectively for further details.

As at 31 December 2021, none of the net proceeds were used. The unutilised net proceeds from the top-up placing of shares are intended to be used as follows:

Intended use of net proceeds	Percentage of total net proceeds  (approximately)	Unutilised net proceeds as of 31 December 2021  (approximately RMB'000)	Expected timeframe for utilising the unutilised net proceeds*
Investment in newly launched product categories as well as future business investments when opportunity arises, including international business expansion	40%	3,428,715	Before 31 December 2026
Investment in reengineered infrastructure and further improvement of the supply chain system	30%	2,571,536	Before 31 December 2026
Development of the brand and IT system	20%	1,714,357	Before 31 December 2024
General working capital	10%	857,179	Before 31 December 2024
Total	<u>100%</u>	<u>8,571,787</u>	Before 31 December 2026

\* The net proceeds will be applied in the manner consistent with the use of proceeds as disclosed in the announcement of the Company dated 3 November 2021. The expected timeframe for utilising the unutilised net proceeds is subject to change based on the current and future development of market conditions and market opportunities made available to the Group.

As at 31 December 2021, the Group's banking facilities amounted to RMB2,770,000,000, without outstanding borrowings.

During the year, 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 year. Any significant exchange rate fluctuations of foreign currencies against Renminbi may have had financial impact on the Group.

#### ***Pledge of Assets***

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

#### ***Contingent Liabilities***

As at 31 December 2021, the Group had no significant contingent liabilities.

## BUSINESS REVIEW

In 2021, the globally volatile COVID-19 pandemic, despite its impact on the economy and people's livelihood, has motivated enterprises to actively seek transformation of operation modes. The Chinese government continued to strictly implement its pandemic prevention and control policies and the pandemic has been under better control compared to overseas countries, which has in turn facilitated the gradual recovery of the Chinese economy. During the year, the social and economic aggregates as well as productivity of China sustained an upward trend in general. The consumption sector was temporarily affected by the slowdown of the macroeconomy and the volatile pandemic in the second half of the year, however, the public awareness of health has increased and the consumption demand for sporting goods remained robust under the support and promotion of the relevant national policies. Against this backdrop, we continued to focus on LI-NING's experience value and optimized our marketing strategy based on the individual needs of consumers, thereby demonstrating stronger brand resilience while satisfying consumers' experience. Meanwhile, we actively enhanced product competitiveness by further promoting our brand image and consolidating the professional reputation of our brand, at the same time relentlessly exploring new fashion trends to keep abreast of market development. With the continuous strict implementation of its effective internal and external control measures during the year, the Group has efficiently managed its cost effectiveness and seized every potential opportunity for business development. Looking back to the performance in last year, the Group recorded a substantial revenue growth and further enhanced profitability with a robust growth momentum of the principal financial and operational indicators.

During the year, we continued to focus on implementing the strategy of "Single Brand, Multi-categories, Diversified Channels" to provide full support for and exemplify LI-NING's experience value. Meanwhile, we further pushed forward product optimization and upgrade and stressed on enhancing the retail operation capability, boosting channel efficiency and strengthening the supply chain management system. In terms of products, we placed emphasis on the development of the professional sports segment and put extra efforts in the research and development of sports technology to highlight the professional sports attributes of our products in an attempt to improve product performance continuously. On the other hand, we closely monitored the area of cultural creativity as well as popular and fashion trends. Fashionable elements and diversified trendy styles were incorporated into our professional sports products to provide consumers with a more comprehensive consumption experience and diversify our brand values by keeping up with the latest trends. For channel development, we continued to optimize the channel structure and developed diversified sales channels in an effort to enhance the sales efficiency of stores. We also accelerated the planning for new retail businesses and consolidated the advantages of the online and offline platforms to offer a more interactive and customized service experience for consumers with our best endeavors. In terms of supply chain, we perfected our supply chain management system with business development needs as our top priority and continuously developed our own supply chain system with cost-effectiveness and high reliability. In the meantime, we also focused on enhancing the elasticity and pushed forward the transformation of the supply chain system from a passive production mode to a proactive production mode with more flexibility.

### *Latest operational update for the fourth quarter of 2021*

For the fourth quarter ended 31 December 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-twenties growth on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a mid-twenties growth and wholesale (franchised distributors) channel registered a high-teens growth, while the e-commerce virtual stores business registered a high-twenties growth on a year-on-year basis.

For the fourth quarter ended 31 December 2021, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform increased by low-thirties on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a high-twenties growth, with both retail and wholesale channels increased by high-twenties, while the e-commerce virtual stores business registered a low-forties growth.

As at 31 December 2021, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 5,935, representing a net increase of 132 POS since the end of previous quarter and a net increase of 23 POS since the beginning of this year. Among the net increase of 23 POS, direct retail accounts for a net increase of 16 POS, and wholesale accounts for a net increase of 7 POS. As at 31 December 2021, the total number of LI-NING YOUNG POS in China amounted to 1,202, representing a net increase of 65 POS since the end of previous quarter and a net increase of 181 POS since the beginning of this year.

### **Promoting the “Single Brand, Multi-categories, Diversified Channels” strategy to enhance LI-NING’s experience value**

#### ***On-going development of the professional product system to build a technology-driven image for the brand***

During the year, we stayed focused on our five core categories, namely basketball, running, training, badminton and sports casual. Emphasizing new sports technology, we were committed to the research and development of professional products to enhance the sports features of the brand. We also built a new image of professional and fashionable sports products by delving into elements of both the Chinese culture and popular culture.

In terms of professional products, we continued to speed up the development of functional products and paid special attention to technology and material upgrades. We promoted the diverse applications of our products to reach consumers from all walks of life and further appealed to them to enhance their recognition of LI-NING as a professional brand, thereby unleashing its professional value.

- Running category continued to expand its offering of professional running shoes based on the multilevel demands of runners. With a focus on improving sports performance, the Boom series launched the “Feidian 2.0 Elite” (飛電2.0 Elite) to open up the carbon plate running shoes market. Meanwhile, the Rouge Rabbit series upgraded its product mix and introduced the “Rouge Rabbit 5 Pro” (赤兔5 Pro). To expand the market size of the running shoes segment, the new product applied the “LI-NING BOOM” (李寧䨻) technology in the midsole to enhance professional performance and reach the mass market. Utilizing the “LI-NING BOOM” (李寧䨻) technology, “Super Light 18th” (超輕18) adopted a special midsole design which catered not only to the needs of daily joggers for professional functions, but also the demands of fashionable consumers and commuters in general. As a result, it performed well and became a star product for the year.
- We continued to achieve breakthroughs in our basketball products categories and optimized our offering mix through on-going product upgrades. In view of the diverse needs of consumers, we combined technology, sports stars and story-packed themes in the court to develop more brilliant products for consumers out of the court. Apart from retaining the heritage design, the “Yushuai 15” (馭帥15) series adopted the “LI-NING BOOM” (李寧䨻) technology and earned consumers’ recognition for its functions and on-site performance. Leveraging the intensive collaboration with Fred VanVleet, the “Speed 8 Premium” (閃擊8 Premium) series mixed in the retro elements of his team and launched a special color option exclusive to the NBA star, which increased the value of the star-used edition basketball shoes for collectors and created a culture exclusive to LI-NING’s basketball shoes. Besides, we rolled out the “CJ1” series with C.J. McCollum’s signature on it. The new product applied the “LI-NING BOOM” (李寧䨻) technology on the entire foot and embedded carbon plate for the insole to give excellent rebound. Looking forward, we will offer more color options for the story themes of C.J. McCollum.

- Based on consumers’ needs and market trends, the badminton category classified its racket products and developed three new major series, namely the “Thunderstorm” (雷霆) series for attack-oriented players, the “Shadow” (鋒影) series for speed-oriented players and the “Halberd” (戰戟) for control-oriented players. Through the use of high-tech light and anti-shock materials, players can have a better grip when striking, which reduces the risks of sports injury. As the “Thunderstorm” (雷霆) and “Thundercloud” (雲霆) series gained momentum in the badminton shoes market, we proposed a better layout of functional areas on the soles and a more reasonable sole pattern design for better abrasion resistance and grip. To avoid sliding, we used low extension microfiber for the uppers. In terms of apparel products, we released the jersey for the national team and international sports stars at the Olympics Games during the year. Employing the most advanced quick-dry technology “AT DRY” and the SEAMLESS technique, we offered supreme professional products with professional and fashionable features for competition to world-class sports teams and stars.
- The training category strived to develop leading professional and stylish fitness products for Chinese consumers. We upgraded the “No Boundaries” (無界) training shoes series by adding new products equipped with the “LI-NING BOOM” (李寧轟) technology and the modular kinetic energy technology, which enhanced their professional features for indoor multipurpose fitness training. From the perspective of consumer experience, we continuously upgraded the materials with the “AT DRY” technology and enhanced the featured functions and technologies of products, so as to offer a better sport and product experience. Meanwhile, based on the latest development of women’s sports, we focused on the core items used in popular female sports. Under the women fitness series, we launched the “Rourou Pants” (揉柔褲) that was specially designed for yoga practice. The product adopted the new *INNOSOFT*<sup>TM</sup> fabric technology and eliminated all contact pressure with fabrics that were brushed on both sides. Furthermore, it was highly stretchy so that consumers could not even feel its presence.

In respect of sports fashion, we sought to seize opportunities ahead and attract consumers’ attention by tapping the market potential in the sports lifestyle segment. During the year, our product mix expanded steadily and catered to the needs of fashion consumers precisely in the mass market, thereby developing the core competitiveness of our sports lifestyle products.

- The WADE series apparel continued to adhere to take “Sports, Technology, Fashion” as its core DNA and highlighted its position as a basketball product brand. It further applied high-tech fabrics and high-end fashion elements while retaining its high-class fashionable sporty style. During the year, the Wade series partnered with the French artist DFT to launch the limited edition “WE ARE ONE”, so as to share our brand philosophy and high-end style through unique artistic designed look. Characterized by 3D cutting and the classic W-shaped structure line, the “Wade 003” series launched the Hero edition basketball pants for a more comfortable sports experience, thereby consolidating our professional brand image. We also rolled out a range of “Way of Wade 9” (韋德之道9) basketball shoes in different colors, which all gained attention in the market. By combining fashion elements and basketball culture, we continuously offered superior domestic basketball shoes to consumers.
- The “BADFIVE” street basketball series optimized its portfolio through on-going product enhancement and creativity. The limited city series reached a new height as it released limited editions for two new cities, Chongqing and Nanjing, namely the “Unstoppable Power of Chongqing” (霧都大勢) and the “Nanjing City” (江左風流) editions, which both became a sensation in the market since their debut. At the same time, we rolled out the “Changsha City 2.0” (惟楚有材2.0) series for Changsha. Tapping into the culture of the local Miao people in Hunan, we incorporated cultural elements into product development to impress our consumers. Apart from that, our new “Chang An Young n Rich” (長安少年) series had a crossover with popular rappers for a specially produced song, so as to bring excitement to consumers and reach the core audience by creative means.

- As for sports fashion series, we continued to maintain in-depth communication with young consumer groups by such ways as original IP story and product crossover, so as to comprehensively enhance the appeal of the LI-NING brand among young consumers and seize the opportunities in the emerging markets. During the year, in collaboration with CHINATOWN MARKET, a renowned lifestyle brand, we incorporated the creativity and expressiveness of popular US-styled trends into our urban outdoor outfits, adding a more distinctive attitude and character to our urban outdoor styles. Moreover, we continued to crossover with DISNEY and LINE FRIENDS and launch high-quality products, among which the crossover series of Lotso from Toy Story was presented by way of all-female story-pack, which further boosted the sales performance of our female products.
- As the fashion trendsetter of LI-Ning brand, the China LI-NING series continued to demonstrate the diversified possibilities of the integration of the Chinese culture and fashion trends and maintained interactions with young and fashionable consumers. On the basis of “Shadow” (絕影), our running shoes for the professional field, “Shadow CRC” (絕影CRC) was launched with a distinctive fashion attitude. The product design embodies the perfect blend of industrial style and the nature with stacked geometric shapes such as square, circle and triangle through various techniques on different materials, exhibiting the industrial aesthetics and functional features in an orderly manner. On the other hand, through the fashionable upgrade and analysis of the first generation of “Super Light” (超輕) running shoes, “Overload” (超載) made use of the popular element of vintage running shoes and adopted high-quality materials in every detail, thereby enhancing the trendiness of the product while preserving the style and shape of the original model.

***Promote diversified marketing resources layout in full swing with a focus on characteristics of professional and fashion categories***

With a focus on the characteristics of the professional functions and sports casual category, we continued to strengthen our comprehensive marketing resources layout. Continuous exposure of our professional products through sports stars and professional events as well as promotional efforts in tandem with hot gossips have further scaled up our consumer groups. Besides, we further diversified the marketing with entertainment modes for the sports casual category with strong emphasis placed on the favourite fashionable segments among young consumers. We carried out comprehensive cooperation with variety shows, media and artists and focused on resources from various large-scale platforms for multi-dimensional exposure of our products.

- In terms of professional basketball, we continued to tie up the marketing of CBA Finals with the champion jersey and expanded our consumer group through the innovative promotional model of product lucky draw. Meanwhile, we cooperated with broadcasting sponsors of CBA and hence successfully achieved our goal of converting customer flow into business volumes. As international leading basketball resources continuously being added to the pipeline, we have established the apparel product line of professional basketball under the star player series, through which we constantly launched storyline-based, sensational and professional star player shoes and apparel package with fashionable lifestyle elements to complement the sales of shoes products, resulting in overwhelming response among basketball fans and various consumer groups. At the same time, we consolidated our marketing resources and realized network-wide marketing and multi-categories sales at stores of the star player series through the multi-categories channel, thereby creating synergy among resources, channels and business operation.

- In regards to the basketball culture, riding on the trend of popular culture and street basketball, the “BADFIVE” series precisely captured and analyzed the street basketball culture, and continued to integrate the special culture of various Chinese cities with the basketball culture. We have established a number of thematic IP such as “Too Young To Stay” (少不入川) and “Unstoppable Power of Chongqing” (霧都大勢) and created the BADFIVE street basketball culture with the joint efforts of the “3+1” Street Basketball Event, all of which has successfully demonstrated the charm of the basketball culture to a wider population of young and fashionable consumers. In addition, we launched “Rookie” (新秀Rookie), our brand new casual footwear featuring basketball culture, to extend the basketball culture beyond the basketball court, enriching the application scenarios of the consumers. Looking forward, the “Rookie” (新秀) series will launch in parallel with the theme of the current season in an effort to develop casual footwear featuring basketball culture of Li Ning brand on an ongoing basis.
- For our running products, we have formulated marketing strategies that were more in line with our long-cycle products and organized the “Yueying 100-Day” (越影100天) Half-Marathon Training Camp, during which we have implemented a 100-day professional training system, formed a coaching team and provided equipment to support the transformation of beginners from scratch to success. Nearly 70% of the runners wearing “Yueying” (越影) running shoes have eventually passed the training and challenges and completed the half-marathon successfully. We created opportunities to provide product experience, at the same time producing substantial promotion materials and content to enhance the professional features of our brand and prove the functional features of the running shoes, hence further strengthening the position of “Yueying” (越影) running shoes among beginners.
- As to our badminton products, capitalizing on various competitions, such as the Olympic Games, the Chinese National Games and World Tournament, we increased exposure through material production, online marketing events, promotion on collaborative platforms and through channels in lower-tier cities with the focus on our key products, namely “Thunderstorm” (雷霆), “Shadow” (鋒影) and “Ambush” (突襲). In terms of sports resources, we collaborated with the national badminton teams of Singapore and Australia, at the same time signing up with domestic and international top-notch players, such as Chen Long (諶龍), Zhang Nan (張楠) and Loh Kean Yew (駱建佑), with a view to improving the development of LI-NING’s badminton players team.
- In respect of sports fashion, we continued to further explore platforms where target consumer groups gather, such as Xiaohongshu (小紅書) and Dewu (得物), and increased 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 launched the series of “LI-NING X Toy Story” with a crossover storyline featured Lotso. Meanwhile, we realized multi-scenario exposure by promoting on online platform matrix where female consumers gather with contents themed autumn and winter fashion, adorable fashion styles and pop-up store visit with Lotso. Furthermore, we carried out marketing campaigns among different groups of consumers for our crossover series with Steven Harrington, organized offline campaigns integrating pop culture and lifestyle in collaboration with The Shouter, a trendy home furnishing buyer shop, and cooperated with sneaker media and fashion opinion leaders for individual product recommendations, thereby driving up the sales of products of the entire series.
- For marketing campaigns with entertainment, our brand announced the signing up with Xiao Zhan (肖戰), a young actor and singer, to be the global spokesperson for LI-NING’s fashionable sports products during the year to jointly explore and create more possibilities in sports fashion sector. Leveraging years of extensive experiences in professional sports sector and in-depth insights into the lifestyle of the current young generation, the influence of LI-NING brand in sports fashion sector became increasingly prominent. In addition, the presentation of sports fashion and unique analysis of Chinese cultural elements have become a distinctive label of LI-LING. In the future, by joining hands with high-quality spokespersons, our brand will ignite the passion for sports fashion among consumers from more perspectives and in a more diversified manner.

## *Expedite improvement of quality of market coverage through continuous optimization of channel efficiency*

In 2021, the Company remained focused on optimizing the structure and efficiency of channels and facilitated the communication and cooperation with high-quality retailers, which optimized the efficiency of retail channel and enhance the quality of market coverage. During the year, the Company continued to optimize the development and expansion of 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 year, the Company continued to enhance the visual image of its stores, and expedited the development of the 8th generation image store, at the same time phasing out old image stores such as the 6th generation ones. As of 31 December 2021, the percentage of 8th generation image stores has increased to over 40%. In the future, the Company will continue to accelerate the innovation and development of store image. Meanwhile, it will devote more efforts in member and omni-channel development, so as to boost business growth through online and offline synergy.

As at 31 December 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 7,137, representing a net increase of 204 POS as compared to 31 December 2020. The number of distributors was 65 (including sales channels of China LI-NING stores), which is the same as that of 31 December 2020. The number of POS breakdown as at 31 December 2021 is as follows:

<b>LI-NING Brand</b>	<b>31 December 2021</b>	31 December 2020	<b>Change</b>
Franchised	<b>4,770</b>	4,763	0.1%
Directly-operated retail	<b>1,165</b>	1,149	1.4%
LI-NING YOUNG	<b>1,202</b>	1,021	17.7%
<b>Total</b>	<b>7,137</b>	<b>6,933</b>	<b>2.9%</b>

## **Number of LI-NING Brand POS by geographical location**

<b>Regions</b>	<b>31 December 2021</b>			<b>31 December 2020</b>			<b>Change</b>
	<b>LI-NING Core Brand</b>	<b>LI-NING YOUNG</b>	<b>Total</b>	<b>LI-NING Core Brand</b>	<b>LI-NING YOUNG</b>	<b>Total</b>	
Northern Region (Note 2)	<b>3,034</b>	<b>756</b>	<b>3,790</b>	2,989	678	3,667	3.4%
Southern Region (Note 3)	<b>2,901</b>	<b>446</b>	<b>3,347</b>	2,923	343	3,266	2.5%
<b>Total</b>	<b>5,935</b>	<b>1,202</b>	<b>7,137</b>	<b>5,912</b>	<b>1,021</b>	<b>6,933</b>	<b>2.9%</b>

### *Notes:*

- In 2021, in order to enhance operating efficiency, the Group restructured and adjusted its sales system and related organization structure to combine the original Southern region and South China region into the Southern region. Comparative figures have also been restated for the purpose of consistent disclosure.
- 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.
- The Southern region includes provinces, municipalities, autonomous regions and a special administrative region covering Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi, Hubei, Hunan, Chongqing, Sichuan, Yunnan, Guizhou, Tibet, Guangdong, Guangxi, Fujian, Hainan and Macau.

***Improve product management mechanism and optimize inventory structure to boost the driving force for professional sports products***

In 2021, due to the dual influence of the temporary favorable external environment and uncertainty of the pandemic, the demand of customers fluctuated significantly, hence the Company enhanced the requirement on the preciseness of product management on a continuous basis.

- The product management department continued to optimize product planning and push forward pre-sale plans, while raising the standard of product management and further refining management of promotion, product and sales planning. At the same time, it adopted an inventory management model that would enhance the depth of core products and prevent out-of-stock or short-in-size, in order to supply best quality products to various stores and substantially improve product operation efficiency.
- The Company established an inventory management mechanism by setting a monthly goal based on the type of stores, with a view to selling out core products in various stores and attaining efficient inventory turnover in respect of the major products. Meanwhile, the percentage of inventory of obsolete products was further lowered by accelerating the destocking of the inventories, which in turn further optimized the inventory ageing structure. Looking forward, on the premise that a manageable level of total inventory and a reasonable inventory ageing structure is assured, the Company will further enhance the efficiency of inventory operation in order to “do business in a sensible manner with the most effective inventory management”.
- With a focus on functional products, the Company further developed and improved the footwear product matrix with “LI-NING BOOM” (李寧轟) technology as the core. This product matrix has drawn widespread attention and established presence in the market, which increased the percentage of footwear sales and acted as a strong driving force for the professional products of the LI-NING brand.

***Develop single-store operation model to promote the implementation of retail operation standards***

In 2021, the Company focused on the exploration of highly-efficient and profitable single-store operation model and further developed the store business in a bid to facilitate the realization of standardized, professional and simplified operation of retail stores.

- The Company continued to explore operation model for big stores. The Company has put into practice the overall operation model for big stores based on the three directions of “establishing platform for headquarters”, “enhancing operation efficiency of stores” and “developing standardized retail operation system”. It expedited the establishment of flagship stores to validate the capability of the headquarters’ functions of supporting the stores as well as the applicability of stores’ operation system and business model. Furthermore, the Company strengthened the headquarters’ functions and the business capability of retail stores with practical experience, hence laying a foundation for its nationwide large-scale replication.
- The Company promoted the establishment of sports marketing business system to facilitate further development of retail stores in local markets. By appointing professional sports consultants for basketball, running and fitness at its major stores in core cities in the PRC, the Company has targeted various cities and carried out large-scale events to bring sports experience, with a view to enhancing the recognition of LI-NING brand’s image of professional sports among consumers. Looking forward, the Company will continue to improve the sports experience of the customers through in-depth interaction with consumers at stores by leveraging sports resources.

- The Company comprehensively upgraded LI-NING’s retail operation manual to promote the development of standardized retail operation system. In the future, the Company will realize the implementation of retail operation standards at stores in accordance with the retail operation manual empowered by retail capability with the support of management tools, at the same time guiding the stores in realizing highly-efficient and precise store operation management.
- Based on the retail operation system platform, the Company continued to improve the execution of tasks and fostered a fully transparent business closed-loop of retail management, which comprised processes of “giving and receiving business instructions, implementation at stores and confirmation of results”. Meanwhile, the remote store inspection function has been adopted in certain core areas and stores, thereby enabling the headquarters to make more prompt responses to the changing situations at stores.
- The Company has established a retail talent system for sustainable development and specified the job descriptions and standards of business capability for retail personnel of all levels based on the capability model of retail talents. The Company has also developed the empowerment model and tools to cultivate core retail talents and enhanced the training culture in this respect, while continued to upgrade the abilities of retail talents in organic development. In the future, the Company will gradually prepare ways for talents of store functions to grow and develop with headquarters’ functions so as to broaden the career paths of employees.

***Accelerate the transformation of the logistic network and promote the digitalized operation model***

In 2021, the Company continued to improve the logistics service system by promoting the transformation of the logistic network towards the regional central warehouse model. Meanwhile, the Company attempted to enhance the efficiency of its logistic service system through informatization and digitalization of logistic management, so as to provide strong logistic support for its retail management.

- The Company continued to further optimize the logistics network to enhance our service capability and quality in key sales regions, as a result of which the timeliness of delivery from warehouses to stores has seen improvement and the average time required for product delivery to stores has been shortened. Looking forward, the Company will persistently promote the transformation towards the regional central warehouse model and further shorten the time required for product delivery to stores, allowing consumers to experience the products of LI NING Company more conveniently and rapidly.
- In order to ensure the timely launch of products as planned, the Company has increased the proportion of direct delivery of products at stores, thereby reducing the transportation time of products from factories to stores and thus optimizing the speed of product delivery. With the gradual establishment of regional central warehouses, the proportion of direct delivery of products at stores will further increase in the future.
- The Company has embarked upon the development of a logistic management platform with a view to realizing comprehensive order tracking. Intensified efforts have also been made in the development of logistic digitalization as well as rapid and simultaneous sharing of logistic information so as to ensure transparency throughout the logistic information chain. In particular, some of the core logistic functional modules have already been put into operation.
- The Company launched the warehouse automation project to enhance the operation capability in respect of logistic retail-oriented sorting. It will also accelerate the transformation towards the retail-oriented logistic model to provide more efficient logistic services for stores. Looking forward, the Company will realize automatic sorting and promote the mechanized and automated operation model of warehouses to significantly improve the efficiency of warehouse operation.

### *Continuous execution of Omni-channel strategy to optimize operation modes of e-commerce*

In 2021, the e-commerce of Li Ning Company recorded excellent results in all aspects. Following the e-commerce's core strategies, the team has been conducting consumer behavior insight and education to maintain highly efficient operation, ensure stable sustainable growth and create core competitiveness of the brand at the same time. For online channels, traditional e-commerce platforms delivered consistent outstanding performance, while the livestreaming sector and the WeChat business landscape have also registered significant growth.

During the year, being committed to exploring new breakthroughs in creativity, the e-commerce of Li Ning Company continued to roll out a series of marketing campaigns by way of, among others, e-commerce festival, product launch and fashion week. Meanwhile, complementing the key marketing strategy of the Group, the e-commerce launched its marketing activities and devoted more efforts to promote functional products on livestreaming platforms such as Douyin (抖音), boosting the consumer penetration and education in regards to the products relating to "LI-NING BOOM" (李宁雷). The e-commerce business sector has gradually developed the closed-loop online operation mode of "precise access to consumer community, content education, increase in traffic at stores, consumers' comment and feedback".

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 persistence with original design. This crossover between ancient Chinese culture and trendy sports products aims to share the supreme aesthetics of Chinese civilization with the broader consumer community.

In respect of Omni-channel and member development, directly-operated retail stores have substantially been connected to the Omni-channel business system. Meanwhile, in respect of inter-connected members, the connection between online and offline distribution scenarios of members has also been basically accomplished. During the year, the membership system attracted millions of in-store visits resulting in additional revenue growth. In respect of consumer behavior insight among the members, the membership department continued to optimize the consumer analysis system and improved the consumer experience analysis system into a more powerful one in the area of consumer experience of products and services.

Looking forward, the e-commerce division will continue to gain behavior insights from the target consumer groups, thereby creating its core competitiveness in aspects such as consumer education and creativity. Meanwhile, we will continue to monitor the online business landscape, consumer experience standards, distribution of goods, price management and strategic synergy. We will put in more resources into the focused areas comprising general e-commerce strategy and business landscape governance. We will pursue optimization of the e-commerce business landscape as the strategic focus of its structural management in a bid to promote healthy and sustainable growth of the e-commerce business.

### *Continuing to consolidate resources from supply chain to promote safe supply and enhance rapid responses*

In 2021, based on the "value supply chain" management model which remained the centre of the supply chain system, the Company carried out the supply-chain related operations oriented with its products. Promoting the strategy of "reducing wastage and improving efficiency" with business partners to achieve higher productivity and product competitiveness, the Company adopted end-consumer satisfaction as the final indicator of the supply chain value. Meanwhile, striving to consolidate resources from the supply chain, the Company further accelerated the transition from "passive production" to "proactive production" in a bid to strengthen agile supply and rapid response ability, improve dynamic management, strengthen planning, production capacity management, resource regulation and control and risk management continuously and develop a precise, flexible, efficient and safe supply chain management system.

- The Company continued to focus on the promotion and adoption of R&D technology to pursue technology-driven business growth. With a focus on the characteristics of different product categories, it engaged in R&D projects in multiple aspects and incorporated its own technology into the products to enhance the functional features of products, at the same time planning its own technology platform with a view to strengthening communication with consumers on the functional features of products. During the year, in order to enhance the professional features, functional features, novelty and uniqueness of products, we actively promoted further cooperation with the leading suppliers in terms of R&D, capitalized on their resources advantages to push forward the R&D of functional materials, provided different classes of professional sports products for the market, and continuously enhanced the proportion of professional products with the support of technology. Furthermore, continuing to promote the development of R&D and innovation capabilities, we optimized the management and assessment mechanism for R&D projects, created a culture of encouraging innovation among team members, and introduced high-calibre talents in R&D and innovation. These efforts firmly paved the way for the output of innovative products. Meanwhile, we actively planned and built R&D bases to develop the core R&D and testing capabilities of our brand.
- The Company collectively coordinated and managed supply chain resources to encourage quality resource sharing among various departments, product categories and brands, which laid a foundation for bulk purchasing and centralised management. Striving to restructure supply resources, it developed a dynamic system to retain high-quality suppliers and eliminate underperforming ones. It also continued to increase cooperation with good suppliers to ensure the flexibility, efficiency and preciseness of supply chain resources. Meanwhile, it put greater efforts to enhance the efficiency and standardization of the process from development to output, thereby significantly increasing the digitalization level and overall efficiency of the supply chain. With a rational distribution of major suppliers in various regions, the Company leveraged its advantages of integrated resources to enhance production and fully secured a safe supply and resource allocation. Besides, in view of seeking focused supply for certain specified product categories, the Company developed a unique management system for high-end products with an emphasis on precise planning and craftsmanship standards, while formulating highly demanding product standards and quality control systems. In addition, it put more efforts in improving and developing the internal capability to increase the quality control capability of various product lines.
- The Company continued to push forward the transition of the supply chain from “passive production” to “proactive production”. To drive the business growth, the Company formulated the order planning of quick replenishment of products, which orchestrated merchandise, production and sales planning to form an effective interaction mechanism, thereby promptly responding with the movements in demand by production and supply. The Company 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 growth with top-quality supply chain resources.
- In respect of cost management, given the increase in the costs of raw material and labour attributed to external macroeconomic factors, the Company maintained stringent cost planning and adopted cost control measures in each area throughout the entire production process from the development stage to market launch of products. By expanding the integrated cooperation with major suppliers, the Company promoted the optimization of material integration, scalable procurement and processing efficiency, with a view to driving the optimization and upgrade of cost structure with concerted efforts and ensuring stable supply and effective cost and price control. Meanwhile, in an effort to undertake social responsibilities, 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 of the supply chain. 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 R&D knowledge, as well as enhanced the supplier management and optimization of their capability, thus achieving win-win cooperation towards the common goal of improving product quality in a strict manner.

## NEW BUSINESS

### LI-NING YOUNG

In 2021, LI-NING YOUNG set clear business development goals and operation plans for the future and established a future-oriented business model for kidswear. It positioned itself to be “the fashionable professional sports kidswear brand originated from China” and continuously optimised the business model to drive brand growth.

- In respect of products, the Group continued to increase the investment in the category of professional sports products for kids in order to establish a distinct positioning and to complete the review of its technology for professional products. During the year, the Group launched the first professional basketball shoes series that integrates the “LI-NING BOOM” (李寧響) technology, which enhanced its technology attributes in line with the marketing efforts, and in turn further boosted the proportion and competitiveness of the professional sports products. For apparel products, the Group focused on the characteristics and the functional features of different sports to build its reputation as a professional sports brand and enhance the brand image of professional sports products. Based on the concept of trendy sports for kids, the design of the lifestyle sports products was inspired by the Chinese elements, further highlighting the style of trendy series embodying the unique features of LI-NING YOUNG.
- For channel development, we accelerated the opening and development of big stores and benchmark stores to further optimize the channel structure. Our key business goals focused on boosting the efficiency of stores rapidly, expanding flagship stores providing goods of the entire series, integrating creativity, products, technologies, Chinese culture, IP crossover with sports and children fun filled shopping experience and promoting sustainable growth of store efficiency. We implemented the Omni-channel strategy, expanded new retail channels actively and adapted to external changes to explore new sales channels and business opportunities.
- For brand marketing, we conducted integrated marketing based on key products, key events and the timing of such events. We created the star-featured product images by means of, among others, brand videos, public relations, social media promotion, KOL promotion and analysis of product technologies. Leveraging the catwalk show campaigns of Li Ning brand to showcase fashionable kidswear products, coupled with resources such as visual marketing and social media, we developed the product and brand influence with the aid of such integrated communication effects. In addition, we have improved the all-media matrix and developed an integrated marketing and sales platform comprising public relations, search and all-social matrix (Weibo, WeChat, Douyin (抖音), Xiaohongshu (小紅書), bilibili (嗶哩嗶哩)).

As of 31 December 2021, LI-NING YOUNG business covered 30 provinces, municipalities and autonomous regions with a total of 1,202 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 2021, in order to promote the accomplishment of the business strategies of the Company, the human resources department continued to increase the efficiency of the organisational structure, establish the talent supply chain system, further promote the strategy for hand-picked elites and improve the incentive sharing mechanism, thereby developing Li Ning's featured corporate culture.

- Regarding organisational development, the Company continued to optimize the organisational structure and increase the efficiency by strengthening its organisational capacity and continuous innovation of mechanism. The Company has established the retail business units to further enhance its retail operation capability and increase the operational efficiency of retail front. In addition, it has implemented the strategic goal of transformation of wholesale operation model into retail operation model, accelerated the development of Omni-channel to promote digitalized transformation of the Company and continued to enhance the organizational breakdown of product categories in a bid to explore and strengthen the strategic and new categories.
- In terms of talent management, the Company continued to optimize the talent supply chain management system and the dual career development paths for employees to ensure introduction of core and key talents and development of talent teams. It has put greater efforts in the nurturing of management trainees and 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. The Company also established a learning organization to enable it to possess more open learning abilities.
- In terms of remuneration and benefits, in order to realise performance growth stemmed from capability improvement, the Company has incorporated the strengthening of organizational capabilities into its business evaluation system. The Company continued to optimize the incentive sharing system to enhance its market competitiveness in respect of remuneration. As such, incentive resources have been redirected towards staff in core positions that are able to drive performance growth and enhance organizational capabilities, while focusing on increasing its market competitiveness in terms of remunerations relating to retail stores.
- Regarding culture and staff relationship, the Company motivated organizational and employees' vitality, further developed the core values and sense of integrity of the Company, improved staff satisfaction and engagement and increase their sense of honor and mission in a bid to perform the corporate social responsibilities.

In the future, the Company will continue to enhance its organisational efficiency and improve the development of talent teams as well as the incentive sharing system. The Company will effectively manage the investments in human resources, while continuing to strengthen its organisational capacity and competencies of employees, which underpin the business growth of the Company.

As at 31 December 2021, the Group had 4,019 employees (31 December 2020: 3,625 employees), among which 3,838 employees were at the Group's headquarters and retail subsidiaries (31 December 2020: 3,466 employees), and 181 employees were at other subsidiaries (31 December 2020: 159 employees).

## OUTLOOK

Heading into 2022, we will consistently adhere to the strategic direction of “Single Brand, Multi-categories, Diversified Channels” to strengthen our business development and enhance our retail operation capability with a view to realizing LI-NING’s experience value in all aspects and hence promoting the continuous growth of the Company’s results:

- In respect of products, we will continue to focus on exploring aspects such as product functions and technological innovation, and further analyze the popular trends and sports culture to provide consumers with diversified consumption experience, which will thereby reinforce customer loyalty to our LI-NING brand and enhance our brand influence;
- In respect of channel development, with the main focus on improving the operation efficiency, we will further accelerate the establishment of big stores with high efficiency and enhance the synergistic operation of the omni-channel by upgrading the diversified channel network, so as to further optimize the efficiency of our channels;
- In respect of retail operation and supply chain, we will enhance the standards of store operation and store management ability on the focused basis of optimizing both product and consumer experience with a view to expediting the changes in retail concepts. In addition, we will continue to consolidate and optimize the supply chain system to enhance our capabilities in terms of 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 big data and information technology to continuously strengthen our comprehensive marketing layout through digitalized approaches to reach consumers at different levels. While concentrating on the actual demands of consumers, we will convey our brand value in combination with the fashion trends and continue to increase popularity of our brand among the public;
- In respect of new business, enhancing single store profitability and store efficiency will remain as our major development goal. We will make prudent use of our resources to explore business opportunities and market potential in order to foster new opportunities for profit growth in the long run.

The continuous growth of the Chinese economy and national consumption in recent years has provided a strong impetus for the development of sports goods industry. With constant self-breakthroughs and advancements, the sports industry has expanded beyond the professional field and became widely accepted by the general public in a more diversified, refined and commercialized manner. We strongly believe that the sports industry has a promising outlook with enormous potential for development. As one of the leading enterprises in the professional sports sector in China, the Group will keep abreast of the development trend of the industry, continue to seize new opportunities and embrace challenges. Under the strong support of the national policies, we will proactively explore business opportunities and market potential in a bid to establish a more professional, unique and fashionable image for LI-NING brand, and bring the spirit of “Anything is Possible” into real practice.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

Neither the Company or any of its subsidiaries purchased, sold or redeemed any of its shares during the year ended 31 December 2021.

## **CORPORATE GOVERNANCE**

The Company is committed to upholding a high standard of corporate governance by continued review and enhancement of its corporate governance practices, which enables the Company to keep abreast of the corporate governance level oriented to its business needs in a timely and effective manner. During the year ended 31 December 2021, the Company has complied with the code provisions of the Corporate Governance Code (“CG Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”), except for the following deviation with considered reason as explained below.

According to code provision C.2.1 of the CG Code, 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 year of 2021, Mr. Li Ning, the Executive Chairman and Joint Chief Executive Officer (“Joint CEO”), and Mr. Kosaka Takeshi, the Executive Director and Joint CEO, jointly assumed the role of chief executive officer of the Company during the year. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles were undertaken by Mr. Li Ning during the year. 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.

Separately, on 18 January 2021, the Board was informed by Ms. Wang Ya Fei, an independent non-executive director of the Company, that she had disposed 3,243 shares of the Company on that date. Such dealings in shares did not comply with the model code as set out in Appendix 10 to the Listing Rules since (i) the black-out period of the Company for the purpose of publication of 2020 annual results announcement of the Group 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 Executive Chairman or designated director of the Company.

Details of the corporate governance practices of the Company will be set out in the Corporate Governance Report contained in the 2021 annual report of the Company.

## **AUDIT COMMITTEE**

The Audit Committee of the Company, consisting of three independent non-executive directors of the Company, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed auditing, internal control and financial reporting matters, including the review of the annual results for the year ended 31 December 2021.

## ANNUAL GENERAL MEETING

The AGM of the Company will be held at 11:00 am on Wednesday, 15 June 2022.

The notice of the AGM will be despatched to the shareholders of the Company together with the 2021 annual report of the Company on or around 12 April 2022 and published on the website of the Company (<http://ir.lining.com>) and the “HKExnews” website of The Stock Exchange of Hong Kong Limited ([www.hkexnews.hk](http://www.hkexnews.hk)).

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

Hong Kong, 17 March 2022

*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.*