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LI NING COMPANY LIMITED

李寧有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2331)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2022

FINANCIAL HIGHLIGHTS

- The impact of repeated outbreak of the COVID-19 pandemic and significant increase in raw material prices led to certain challenges to operating environment during the period:
 - Revenue still increased by 21.7% to RMB12,409 million
 - The net profit attributable to equity holders increased by 11.6% to RMB2,189 million, and the net profit margin decreased from 19.2% to 17.6%
 - Achieved net operating cash inflow of RMB1,583 million
 - Gross profit margin lowered by 5.9 percentage points to 50.0%
- Working capital remained at a healthy level:
 - The percentage of gross average working capital to revenue remained flat at 6%
 - Cash conversion cycle was 21 days, increased by 8 days year-on-year (among which 5 days were affected by the trade payables turnover days)

OPERATIONAL HIGHLIGHTS

- Operation improvement mitigated certain extent of the negative impact from the COVID-19.
- The retail sell-through for the overall platform increased by high-single-digit, including online and offline channels.
- Channel inventory increased by mid-forties, mainly due to business expansion, and the early layout planning made by the Company as planned to seize opportunities for continuous growth of business scale. The inventory turnover remained at a healthy level with continuous improvement in ageing structure.
- Offline channel new product sell-through increased by mid-teens:
 - Sell-through mix of new products increased by 6 percentage points
 - Sell-out rate: 6-month declined by approximately 7 percentage points, 3-month declined by approximately 9 percentage points

INTERIM RESULTS

The board of directors (the “Board”) of Li Ning Company Limited (the “Company” or “Li Ning Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2022, together with comparative figures of 2021, as follows:

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited As at 30 June 2022 RMB'000	Audited As at 31 December 2021 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		1,763,199	1,625,887
Right-of-use assets		1,597,786	1,332,765
Investment properties		1,828,115	1,850,045
Land use rights		160,680	162,579
Intangible assets		210,873	187,680
Deferred income tax assets		818,534	707,575
Other assets		805,148	775,531
Investments accounted for using the equity method		1,372,168	1,267,071
Investments measured at fair value through profit or loss		193,000	169,671
Other receivables		205,308	188,833
Long-term bank deposits		7,192,337	3,335,325
Total non-current assets		16,147,148	11,602,962
Current assets			
Inventories	4	1,976,266	1,772,803
Other assets – current portion		886,364	770,628
Trade receivables	5	1,071,303	902,857
Other receivables – current portion		70,799	78,744
Restricted bank deposits		1,101	1,061
Short-term bank deposits		330,000	400,862
Cash and cash equivalents		10,575,005	14,744,899
Total current assets		14,910,838	18,671,854
Total assets		31,057,986	30,274,816

	<i>Note</i>	Unaudited As at 30 June 2022 RMB'000	Audited As at 31 December 2021 RMB'000
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Ordinary shares		238,866	238,759
Share premium		12,651,213	12,637,277
Shares held for Restricted Share Award Scheme		(88,644)	(37,840)
Other reserves		1,350,299	1,241,767
Retained earnings		<u>8,016,171</u>	<u>7,021,583</u>
		22,167,905	21,101,546
Non-controlling interests in equity		<u>2,561</u>	<u>2,561</u>
Total equity		<u>22,170,466</u>	<u>21,104,107</u>
LIABILITIES			
Non-current liabilities			
License fees payable		23,848	20,996
Lease liabilities		1,174,907	956,475
Deferred income tax liabilities		423,801	426,873
Deferred income		<u>77,885</u>	<u>62,517</u>
Total non-current liabilities		<u>1,700,441</u>	<u>1,466,861</u>
Current liabilities			
Trade payables	6	1,809,842	1,599,282
Contract liabilities		353,934	345,835
Lease liabilities – current portion		466,439	366,968
Other payables and accruals		3,613,906	4,024,662
License fees payable – current portion		87,479	50,106
Current income tax liabilities		855,479	1,307,776
Derivative financial instruments – current portion		<u>–</u>	<u>9,219</u>
Total current liabilities		<u>7,187,079</u>	<u>7,703,848</u>
Total liabilities		<u>8,887,520</u>	<u>9,170,709</u>
Total equity and liabilities		<u><u>31,057,986</u></u>	<u><u>30,274,816</u></u>

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2022	2021
		RMB'000	RMB'000
Revenue	3	12,408,665	10,196,584
Cost of sales	7	<u>(6,207,890)</u>	<u>(4,497,520)</u>
Gross profit		6,200,775	5,699,064
Distribution expenses	7	(3,382,990)	(2,857,021)
Administrative expenses	7	(518,104)	(437,460)
Reversal of/(provision for) expected credit loss allowance for financial assets – net		7,341	(6,622)
Other income and other gains – net	8	<u>336,602</u>	<u>140,452</u>
Operating profit		2,643,624	2,538,413
Finance income	9	228,608	45,388
Finance expenses	9	<u>(54,877)</u>	<u>(37,925)</u>
Finance income – net	9	173,731	7,463
Share of profit of investments accounted for using the equity method		<u>101,646</u>	<u>79,571</u>
Profit before income tax		2,919,001	2,625,447
Income tax expense	10	<u>(729,693)</u>	<u>(663,224)</u>
Profit for the period		2,189,308	1,962,223
Profit is attributable to:			
Equity holders of the Company		2,189,308	1,962,223
Non-controlling interests		<u>–</u>	<u>–</u>
		<u>2,189,308</u>	<u>1,962,223</u>
Earnings per share for profit attributable to equity holders of the Company for the period (expressed in RMB cents per share)			
Basic earnings per share	11	<u>83.77</u>	<u>79.04</u>
Diluted earnings per share	11	<u>83.00</u>	<u>77.96</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit for the period	2,189,308	1,962,223
Other comprehensive loss:		
<i>Items that may be reclassified to profit or loss</i>		
Currency translation differences	<u>(2,870)</u>	<u>(1,568)</u>
Total comprehensive income for the period	<u>2,186,438</u>	<u>1,960,655</u>
Attributable to:		
Equity holders of the Company	2,186,438	1,960,655
Non-controlling interests	<u>—</u>	<u>—</u>
Total comprehensive income for the period	<u>2,186,438</u>	<u>1,960,655</u>

Notes:

1. General Information

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

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

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

This condensed consolidated interim financial information is presented in Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue by the Board on 11 August 2022.

This condensed consolidated interim financial information has not been audited.

2. Accounting policies

The accounting policies applied to the preparation of this condensed consolidated interim financial information are consistent with those applied in the annual financial statements for the year ended 31 December 2021, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings. A number of new or amended standards became applicable for the current reporting period. The Group did not change its accounting policies or make retrospective adjustments as a result of adopting these amended standards.

Impact of standards issued but not yet applied by the Group

Certain new accounting standards and interpretations have been published but are not mandatory for reporting period commencing 1 January 2022 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

3. Segment information and revenue

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

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

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

Revenue breakdown by product category:

	Unaudited Six months ended 30 June	
	2022	2021
	RMB’000	RMB’000
Footwear	6,758,808	4,594,177
Apparel	4,906,647	5,061,494
Equipment and accessories	743,210	540,913
Total	12,408,665	10,196,584

Revenue breakdown by sales channel:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
The PRC market		
Sales to franchised distributors	5,901,205	4,593,585
Sales from direct operation	2,786,983	2,516,282
Sales from e-commerce channel	3,534,298	2,964,960
Other regions	<u>186,179</u>	<u>121,757</u>
Total	<u>12,408,665</u>	<u>10,196,584</u>

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

The Group has a large number of customers. For the six months ended 30 June 2022 and 2021, no revenue derived from transactions with a single external customer represented 10% or more of the Group's total revenue.

4. Inventories

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Raw materials	17,755	16,374
Work in progress	27,107	17,493
Finished goods	<u>2,038,069</u>	<u>1,832,615</u>
	2,082,931	1,866,482
Less: provision for write-down of inventories to net realisable value	<u>(106,665)</u>	<u>(93,679)</u>
	<u>1,976,266</u>	<u>1,772,803</u>

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB6,059,912,000 for the six months ended 30 June 2022 (30 June 2021: RMB4,374,285,000). Inventory provision and the amount of reversal have been included in cost of sales in the interim condensed consolidated income statement for the six months ended 30 June 2022 and 2021.

5. Trade receivables

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Accounts receivable	1,260,443	1,111,138
Less: expected credit loss allowance for trade receivables	<u>(189,140)</u>	<u>(208,281)</u>
	<u>1,071,303</u>	<u>902,857</u>

Customers are normally granted credit terms within 90 days. As at 30 June 2022 and 31 December 2021, ageing analysis of trade receivables based on invoice date is as follows:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
0 – 30 days	901,196	681,627
31 – 60 days	24,454	206,901
61 – 90 days	124,039	35,130
91 – 180 days	67,034	21,697
Over 180 days	143,720	165,783
	<u>1,260,443</u>	<u>1,111,138</u>

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

	Unaudited Six months ended 30 June 2022 RMB'000	2021 RMB'000
As at 1 January	208,281	280,437
(Reversal of)/provision for expected credit loss allowance for trade receivables	(5,342)	9,925
Trade receivables written off during the period as uncollectible	(14,287)	(1,745)
Effect of change in exchange rate	488	(68)
	<u>189,140</u>	<u>288,549</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:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
0 – 30 days	1,579,436	1,557,849
31 – 60 days	182,849	23,275
61 – 90 days	13,057	5,769
91 – 180 days	6,929	1,065
181 – 365 days	24,701	7,094
Over 365 days	2,870	4,230
	<u>1,809,842</u>	<u>1,599,282</u>

7. Expenses by nature

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories recognised as expenses and included in cost of sales	6,059,912	4,374,285
Depreciation on property, plant and equipment (<i>Note a</i>)	344,493	279,027
Amortisation of land use rights and intangible assets	23,911	19,624
Depreciation on right-of-use assets	278,060	219,909
Advertising and marketing expenses	980,851	746,551
Commission and trade fair related expenses	383,480	307,744
Staff costs, including directors' emoluments (<i>Note a</i>)	910,632	838,660
Short-term lease rentals and variable lease payments not included in lease liabilities, and rental related expenses	413,166	347,289
Research and product development expenses (<i>Note a</i>)	239,096	187,549
Transportation and logistics expenses	435,269	376,240
Auditor's remuneration		
– Audit services	3,110	3,110
– Non-audit services	771	398
Management consulting expenses	42,090	38,099

Note:

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

8. Other income and other gains – net

	Unaudited	
	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants (<i>Note</i>)	160,748	64,652
Fair value gains on wealth management products measured at fair value through profit or loss	77,271	41,851
License fees income	68,404	26,258
Rental income	36,489	28,572
Depreciation on investment properties under operating leases	(29,639)	(21,054)
Fair value gains on investments measured at fair value through profit or loss	23,329	–
Fair value gains on derivative financial instruments measured at fair value through profit or loss	–	173
	<u>336,602</u>	<u>140,452</u>

Note:

Government grants were received from several local government authorities as a recognition of the Group's contribution towards the local economic development. Among the government grants recognised during the six months ended 30 June 2022, the entitlement of an aggregate amount of RMB148,316,000 (30 June 2021: RMB52,220,000) was unconditional and at the discretion of the relevant authorities, while the remaining amount of RMB12,432,000 (30 June 2021: RMB12,432,000) were credited to profit or loss from deferred income in accordance with the fulfillment of the respective conditions attaching to the government grants.

9. Finance income – net

	Unaudited Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Finance income		
Interest income on bank balances and deposits	149,104	44,916
Net foreign currency exchange gain	<u>79,504</u>	<u>472</u>
	<u>228,608</u>	<u>45,388</u>
Finance expenses		
Amortisation of discount – license fees payable	(1,182)	(1,300)
Amortisation of discount – lease liabilities	(44,117)	(29,375)
Others	<u>(9,578)</u>	<u>(7,250)</u>
	<u>(54,877)</u>	<u>(37,925)</u>
Finance income – net	<u><u>173,731</u></u>	<u><u>7,463</u></u>

10. Income tax expense

	Unaudited Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current income tax		
– Corporate income tax (<i>Note b</i>)	<u>843,724</u>	<u>730,393</u>
Deferred income tax	<u>(114,031)</u>	<u>(67,169)</u>
Income tax expense	<u><u>729,693</u></u>	<u><u>663,224</u></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 six months ended 30 June 2022, provision for the corporate income tax of Mainland China is calculated based on the statutory tax rate of 25% (2021: 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 (2021: 16.5%).

11. Earnings per share

Basic

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 period. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.

In April 2013, the Company completed the issuance of convertible securities. In January 2015, the Company completed the issuance of offer securities which included the issuance of both ordinary shares and convertible securities. The below market subscription price of these two events had effectively resulted in 250,000 ordinary shares (30 June 2021: 282,000 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 2021.

	Unaudited	
	Six months ended 30 June	
	2022	2021
Profit attributable to equity holders of the Company (<i>RMB'000</i>)	<u>2,189,308</u>	<u>1,962,223</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>2,613,474</u>	<u>2,482,621</u>
Basic earnings per share (<i>RMB cents</i>)	<u>83.77</u>	<u>79.04</u>

Diluted

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
Profit attributable to equity holders of the Company, used to determine diluted earnings per share (<i>RMB'000</i>)	<u>2,189,308</u>	<u>1,962,223</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>2,613,474</u>	<u>2,482,621</u>
Adjustment for the restricted shares (<i>in thousands</i>)	<u>4,622</u>	<u>10,034</u>
Adjustment for the share option schemes (<i>in thousands</i>)	<u>19,566</u>	<u>24,222</u>
Deemed weighted average number of shares for diluted earnings per share (<i>in thousands</i>)	<u>2,637,662</u>	<u>2,516,877</u>
Diluted earnings per share (<i>RMB cents</i>)	<u>83.00</u>	<u>77.96</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 (subsequently renamed as Li Ning 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	730,770
	<hr/>
Total purchase consideration	1,226,267
	<hr/> <hr/>

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

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

(i) Acquisition-related costs

Acquisition-related costs of RMB2,319,000 are included in administrative expenses in profit or loss for the six months ended 30 June 2021.

(ii) Revenue and profit contribution

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

(b) *Outflow of cash to acquire subsidiaries, net of cash acquired*

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
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)	11,369	153,978
Refundable consideration due from the Transferors	–	9,492
Less: Cash acquired	–	(47,587)
Prepayment for consideration for acquisition of subsidiaries	–	(47,904)
	11,369	1,294,246

13. Dividends

On 15 June 2022, the shareholders of the Company approved to declare 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. The final dividend was paid in June 2022.

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

The Board did not propose interim dividend for the six months ended 30 June 2022 (30 June 2021: nil).

DIVIDENDS

The Board resolved not to distribute any interim dividend for the six months ended 30 June 2022 (30 June 2021: nil).

The proposed 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 was declared payable and approved by the shareholders at the annual general meeting of the Company on 15 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

The key operating and financial performance indicators of the Group for the six months ended 30 June 2022 are set out below:

	Unaudited		
	Six months ended 30 June		Change (%)
	2022	2021	
Income statement items			
<i>(All amounts in RMB thousands unless otherwise stated)</i>			
Revenue	12,408,665	10,196,584	21.7
Gross profit	6,200,775	5,699,064	8.8
Operating profit	2,643,624	2,538,413	4.1
Earnings before interest, tax, depreciation and amortisation (EBITDA) (Note 1)	3,421,373	3,157,598	8.4
Profit attributable to equity holders (Note 2)	2,189,308	1,962,223	11.6
Basic earnings per share (RMB cents) (Note 3)	83.77	79.04	6.0
Key financial ratios			
Profitability ratios			
Gross profit margin (%)	50.0	55.9	
Operating profit margin (%)	21.3	24.9	
Effective tax rate (%)	25.0	25.3	
Margin of profit attributable to equity holders (%)	17.6	19.2	
Return on equity attributable to equity holders (%) (Note 4)	10.1	20.6	
Expenses to revenue ratios			
Staff costs (%)	7.3	8.2	
Advertising and marketing expenses (%)	7.9	7.3	
Research and product development expenses (%)	1.9	1.8	
Asset efficiency			
Average inventory turnover (days) (Note 5)	55	53	
Average trade receivables turnover (days) (Note 6)	14	13	
Average trade payables turnover (days) (Note 7)	48	53	
	30 June	31 December	
	2022	2021	
Debt-to-equity ratio (%) (Note 8)	40.1	43.5	
Net asset value per share (RMB cents) (Note 9)	848.55	807.85	

Notes:

1. The calculation of earnings before interest, tax, depreciation and amortisation (EBITDA) is based on profit for the period, excluding the sum of income tax expense, finance income – net, depreciation on property, plant and equipment, depreciation on investment properties under operating leases, amortisation of land use rights and intangible assets and depreciation on right-of-use assets.
 2. Including profit attributable to equity holders for the period from 1 January to 31 March 2022: RMB1,247,456,000.
 3. 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 period. Such weighted average number of shares outstanding shall be adjusted for events such as bonus issue and stock dividend.
 4. The calculation of return on equity attributable to equity holders is based on the profit attributable to equity holders of the Company for the period, divided by the average of opening and closing balances of capital and reserves attributable to equity holders of the Company of the period.
 5. The calculation of average inventory turnover (days) is based on the average of opening and closing inventory balances of the period, divided by cost of sales and multiplied by the total number of days in the period.
 6. The calculation of average trade receivables turnover (days) is based on the average of opening and closing balances of trade receivables of the period, divided by revenue and multiplied by the total number of days in the period.
 7. The calculation of average trade payables turnover (days) is based on the average of opening and closing balances of trade payables of the period, divided by total purchases and multiplied by the total number of days in the period.
 8. The calculation of debt-to-equity ratio is based on total liabilities divided by capital and reserves attributable to equity holders of the Company at the end of the period/year.
 9. The calculation of net asset value per share is based on the net asset value, divided by the number of shares in issue less shares held for Restricted Share Award Scheme at the end of the period/year.
- * *The aforesaid indicators provided by the Group may not necessarily be the same in terms of calculation methods as those provided by other issuers.*
- ** *The Group adopted the aforesaid non-GAAP financial indicators such as EBITDA, margin of profit attributable to equity holders, return on equity attributable to equity holders, staff costs/advertising and marketing expenses/research and product development expenses to revenue ratio, average inventory/trade receivables/trade payables turnover days, debt-to-equity ratio and net asset value per share because comparable companies in the industry in which the Group operates use the aforesaid common indicators as a supplementary measurement for results of operation, which are also widely used by investors to measure the results of operation of the comparable companies.*

Revenue

The Group's revenue for the six months ended 30 June 2022 amounted to RMB12,408,665,000, representing an increase of 21.7% as compared to the corresponding period of 2021. During the period, despite the repeated yet sporadic outbreak of domestic pandemic, the awareness of national fitness has been stimulated continuously. Both the Internet + fitness model leveraging technological strengths and the home fitness model have become the new norm. Coupled with the government's efforts in promoting full coverage of community public fitness facilities in an orderly manner, the sports industry has embraced new development opportunities while adapting to the general environment amid the pandemic. Continuing to refine LI-NING's experience value, the Group pushed forward the strategy of "Single Brand, Multi-categories, Diversified Channels", expanded high-quality profitable stores, and strengthened the synergy between its online and offline business, thereby promoting the healthy growth of revenue from all channels: (1) due to the impact of the pandemic in Shanghai, Shenzhen and other major cities during the period, the operation of the direct operation channel, which is mainly located in urban areas, was affected and the pace of revenue growth has slowed down with a year-on-year growth rate of 10.8%; (2) while actively developing the livestreaming sector business of the e-commerce channel, the Group has reinforced more efficient and precise promotion and advertisement placement, thereby maintaining a sound online business landscape with a stable growth of 19.2% in revenue; and (3) the Group has strengthened the business integration and channel management of the franchised distributors, contributing to an increase in orders from franchised distributors. Meanwhile, with the recovery from the pandemic in late second quarter, the Group also launched new products to the channels to facilitate the recovery of sell-through as soon as possible. As a result of above, the Group recorded a 28.5% increase in revenue from sales to franchised distributors which demonstrated these distributors' confidence in the recovery from the pandemic and their continued optimism about the future market.

Revenue breakdown by product category

	Six months ended 30 June				Revenue Change (%)
	2022	% of total revenue	2021	% of total revenue	
	RMB'000		RMB'000		
Footwear	6,758,808	54.5	4,594,177	45.1	47.1
Apparel	4,906,647	39.5	5,061,494	49.6	(3.1)
Equipment and accessories	743,210	6.0	540,913	5.3	37.4
Total	12,408,665	100.0	10,196,584	100.0	21.7

Revenue breakdown (in %) by sales channel

	Six months ended 30 June		Change (%)
	2022	2021	
	% of revenue	% of revenue	
PRC market			
Sales to franchised distributors	47.5	45.0	2.5
Sales from direct operation	22.5	24.7	(2.2)
Sales from e-commerce channel	28.5	29.1	(0.6)
International markets	1.5	1.2	0.3
Total	100.0	100.0	-

Revenue breakdown by geographical location

	Note	Six months ended 30 June				Revenue Change (%)
		2022	% of revenue	2021	% of revenue	
		RMB'000		RMB'000		
PRC market						
Northern region	2	5,788,648	46.7	4,966,189	48.7	16.6
Southern region	3	6,433,838	51.8	5,108,638	50.1	25.9
International markets		186,179	1.5	121,757	1.2	52.9
Total		12,408,665	100.0	10,196,584	100.0	21.7

Notes:

1. In the second half of 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.
2. 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.
3. 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 six months ended 30 June 2022, the overall cost of sales of the Group amounted to RMB6,207,890,000 (2021: RMB4,497,520,000), and the overall gross profit margin was 50.0% (2021: 55.9%). During the period, in the face of the repeated yet sporadic outbreak of the pandemic, the Group increased the retail discount rates; the revenue contribution of direct operation and e-commerce channels with higher gross profit margin declined; and raw material prices and labor costs have also risen, resulting in the increase of purchase costs. Meanwhile, the provision for inventories increased due to the increase in the original value of inventories. All the aforesaid factors had an adverse impact on the gross profit margin for the period.

Distribution Expenses

For the six months ended 30 June 2022, the Group's overall distribution expenses amounted to RMB3,382,990,000 (2021: RMB2,857,021,000), accounting for 27.3% (2021: 28.0%) of the Group's total revenue.

The distribution expenses of the Group increased by 18.4% as compared to the corresponding period last year, and its percentage to revenue fell by 0.7 percentage points. Along with the increase in revenue, rental, wages and bonuses of direct sales staff, commission for the e-commerce channel and logistics expenses that related to revenue recorded increases to varying degrees, while the advertising and marketing expenses also increased. Nonetheless, their overall growth rate was lower than that of revenue. Thus, the percentage of distribution expenses to revenue declined.

Administrative Expenses

For the six months ended 30 June 2022, the Group's overall administrative expenses amounted to RMB518,104,000 (2021: RMB437,460,000), accounting for 4.2% (2021: 4.3%) of the Group's total revenue with a year-on-year decrease of 0.1 percentage point. Administrative expenses mainly comprised staff costs, management consulting fees, office rental, depreciation and amortisation charges, technological development fees, taxes and other miscellaneous daily expenses.

The increase in administrative expenses is mainly attributable to the increase in the corresponding amortisation charges as a result of the awarded shares granted to the management based on the results performance last year as well as the growth of research and product development expenses.

Share of Profit of Investments Accounted for Using the Equity Method

For the six months ended 30 June 2022, the Group's share of profit of investments accounted for using the equity method amounted to RMB101,646,000 (2021: RMB79,571,000).

Significant Investment

As of 30 June 2022, the significant investment of the Group is an office building located in the Greater Bay Area of the PRC held by Li Ning Communications (Hong Kong) Limited (formerly known as Matsunichi Communications (Hong Kong) Limited, a wholly owned subsidiary acquired by the Company on 28 January 2021 (the “Acquisition”)) through its subsidiary.

The office building was accounted for as investment properties with an investment cost of RMB1,635,300,000 upon completion of the Acquisition. The Group adopted the cost method for subsequent measurement of investment properties. As of 30 June 2022, the carrying value of such office building was RMB1,563,020,000 (31 December 2021: RMB1,588,276,000) after depreciation, representing a percentage of approximately 5.0% (31 December 2021: 5.2%) of the Group’s total assets.

Following the Acquisition, the Group had continued and 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 six months ended 30 June 2022, the Group’s EBITDA amounted to RMB3,421,373,000 (2021: RMB3,157,598,000), representing a year-on-year increase of 8.4%.

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

	Six months ended 30 June	
	2022	2021
	RMB’000	RMB’000
Reconciliation of profit for the period to EBITDA:		
Profit for the period	2,189,308	1,962,223
Income tax expense	729,693	663,224
Finance income	(228,608)	(45,388)
Finance expenses (including amortisation of discount on lease liabilities)	54,877	37,925
Depreciation on property, plant and equipment	344,493	279,027
Amortisation of land use rights and intangible assets	23,911	19,624
Depreciation on right-of-use assets	278,060	219,909
Depreciation on investment properties under operating leases	29,639	21,054
EBITDA	<u>3,421,373</u>	<u>3,157,598</u>

Finance Income – Net

For the six months ended 30 June 2022, the Group’s net finance income amounted to RMB173,731,000 (2021: RMB7,463,000). The increase in net finance income was due to, on one hand, the increase in the average disposable capital of the Group for the period as compared to the corresponding period last year, as well as the adjustment of the Group’s currency investment portfolio where more funds were deposited in the form of fixed term deposits for more stable returns and led to the year-on-year growth of interest income. On the other hand, the change in exchange rate and the year-on-year increase in the average balance of fixed deposits denominated in HK\$ during the period have resulted in an increase in foreign exchange gains.

Income Tax Expense

For the six months ended 30 June 2022, the income tax expense of the Group amounted to RMB729,693,000 (2021: RMB663,224,000) and the effective tax rate was 25.0% (2021: 25.3%). Currently, the Group's income tax expense is in line with the standard level.

Overall Profitability Indicators

The recurrence of the pandemic during the period has posed huge challenges on the Group's business, hence the overall profitability indicators have decreased. During the period, the Group's profit attributable to equity holders amounted to RMB2,189,308,000 (2021: RMB1,962,223,000), representing a year-on-year increase of 11.6%. The margin of profit attributable to equity holders was 17.6% (2021: 19.2%). Return on equity attributable to equity holders was 10.1% (2021: 20.6%). The decrease in return on equity attributable to equity holders was mainly attributable to the effect of the top-up placing implemented in November 2021.

Provision for Inventories

The Group's policy in respect of provision for inventories for the first half of 2022 was the same as that in 2021. Inventories of the Group are stated at the cost or net realisable value, whichever is lower. In the event that net realisable value falls below cost, the difference is taken as provision for inventories. The Group considers this policy to be adequate in ensuring appropriate provision for inventories is made by the Group.

As at 30 June 2022, the accumulated provision for inventories was RMB106,665,000 (31 December 2021: RMB93,679,000). During the period, the original value of inventory increased from the beginning of the year. Therefore, the balance of provision for inventories also increased. The Group will continue to exercise control over the inventory ageing structure and inventory turnover rate so as to maintain the same at a reasonable level.

Expected Credit Loss Allowance

The Group's policy in respect of expected credit loss allowance for the first half of 2022 was the same as that in 2021. The expected credit loss allowance was recorded at an amount equal to the lifetime expected credit losses of the trade receivables that do not contain a significant financing component, and 12 months expected credit losses or lifetime expected credit losses of other receivables, depending on whether there has been a significant increase in credit risk since initial recognition.

As at 30 June 2022, the accumulated expected credit loss allowance was RMB199,365,000 (31 December 2021: RMB216,190,000), among which the accumulated expected credit loss allowance for trade receivables was RMB189,140,000 (31 December 2021: RMB208,281,000) and the accumulated expected credit loss allowance for other receivables was RMB10,225,000 (31 December 2021: RMB7,909,000). The trade receivables and other receivables written off during the six months ended 30 June 2022 as uncollectible amounted to RMB14,293,000 (2021: RMB1,745,000). During the period, the original value of receivables rose with the growth of revenue, however, with the improvement in ageing structure, the expected credit loss allowance decreased slightly.

Liquidity and Financial Resource

The Group's net cash generated from operating activities for the six months ended 30 June 2022 amounted to RMB1,583,232,000 (2021: RMB3,324,543,000). As at 30 June 2022, 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 RMB10,575,005,000, representing a net decrease of RMB4,169,894,000, as compared with the position as at 31 December 2021. Adding back the amount recorded as fixed-term deposits held at banks, cash balance amounted to RMB18,097,342,000, which represented a net decrease of RMB383,744,000 as compared to 31 December 2021. The decrease was due to the following items:

	Unaudited Six months ended 30 June 2022 RMB'000
Item	
Operating activities:	
Net cash generated from operating activities	1,583,232
Investing activities:	
Net cash used in investing activities (including placement and redemption of short-term and long-term bank deposits)	(4,315,024)
Financing activities:	
Net cash used in financing activities	(1,524,094)
Add: Exchange gains on cash and cash equivalents	<u>85,992</u>
Net decrease in cash and cash equivalents	(4,169,894)
Add: Net increase in short-term and long-term bank deposits	<u>3,786,150</u>
Net decrease in cash balance	<u>(383,744)</u>

During the period, the rise of raw material prices and labor costs led to the significant increase of purchase costs. Also, the Group shortened the payment cycle to help suppliers accelerate turnover of capital and improve production and operational efficiency. The aforesaid factors resulted in a significant decrease of net cash generated from operating activities. Nevertheless, the Group maintained sufficient funds reserves, and the operation of funds was in line with expectations and at a healthy level. The Group will continue to place extra emphasis on its cash flow management to ensure stable development of the Company in the long run.

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.

For the six months ended 30 June 2022, RMB725,452,000 of the net proceeds have been used. As at 30 June 2022, RMB7,846,335,000 were unutilised. 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 at 31 December 2021 (approximately RMB'000)	Amount used during the six months ended 30 June 2022 (approximately RMB'000)	Unutilised net proceeds as at 30 June 2022 (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	293,241	3,135,474	Before 31 December 2026
Investment in reengineered infrastructure and further improvement of the supply chain system	30%	2,571,536	139,487	2,432,049	Before 31 December 2026
Development of the brand and IT system	20%	1,714,357	146,068	1,568,289	Before 31 December 2024
General working capital	10%	857,179	146,656	710,523	Before 31 December 2024
Total	100%	8,571,787	725,452	7,846,335	Before 31 December 2026

* The net proceeds have been 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 30 June 2022, the Group's banking facilities amounted to RMB4,970,000,000, without outstanding borrowings.

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

Foreign Exchange Risk

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

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

Pledge of Assets

As at 30 June 2022 and 31 December 2021, the Group had no pledged assets.

Contingent Liabilities

As at 30 June 2022, the Group had no significant contingent liabilities.

BUSINESS REVIEW

During the first half of 2022, the spread of the COVID-19 variant triggered a new wave of pandemic outbreak, which imposed economic and social impacts on various regions. Coupled with soaring cost of raw materials and the disruptions to the supply chain, the macroeconomic environment was confronted with increased uncertainties. However, owing to the active implementation of pandemic prevention and control measures by the Chinese government, China's economy sustained overall stability and achieved high-quality development. In the first half of the year, the pressure brought by the pandemic on the consumption sector was far beyond expectation, yet the impact was temporary. The economy witnessed gradual recovery since May and the long-term positive fundamentals of China's economy remained unchanged. With the improvement in the pandemic prevention and control situation and the emerging results of the consumption promotion policies, the consumption market has rebounded gradually. In addition, with the support of government policies relating to national fitness, the public awareness of health has increased significantly, which is conducive to promoting sports consumption, and hence the market outlook for consumption of sports products remained optimistic. The successful Beijing Winter Olympics hosted in the beginning of 2022 further fueled the passion of the public for sports games. During the period, we continued to step up our efforts in building LI-NING's experience value by upgrading marketing strategies and enhancing brand influence, with a view to catering to the evolving needs of consumers and offering them more diversified sports products and consumption experience. We continued to enhance product competitiveness, reinforce our professional image and promote brand recognition. Staying in tune with the times, we also kept abreast of market trend and consumer preference, in order to further delve into the fashionable element of sportswear. Meanwhile, the Group strengthened cost and efficiency management, aiming to grasp business development opportunities while coping with the pandemic. In the first half of the year, with a steady growth in revenue, the fundamentals of the Group remained solid and resilient.

During the period, adhering to the strategy of "Single Brand, Multi-categories, Diversified Channels", we continued to optimize LI-NING's experience value. We continued to improve our product layout and enhanced both retail operation capability and channel efficiency, thereby perfecting the supply chain management system. In terms of products, we strengthened the development of the professional sports segment and devoted great efforts in the research and development of sports technology based on the professional sports attributes of our products so as to improve product performance and optimize our product matrix. On the other hand, we kept abreast of the trend of sports fashion and culture to provide consumers with a more diversified consumption experience and enhance our brand value. For channel development, we continued to expand quality channels and optimize our channel layout in order to enhance the operation efficiency of stores. Meanwhile, we continued to push forward the development of new retail businesses and integrated the advantages of the online and offline platforms, striving to offer a more interactive consumption experience and more customized services to the public. In terms of supply chain, we placed business development needs as our top priority consistently and established a sound supply chain management system, aiming to develop our own supply chain system with cost-effectiveness and reliability. We also actively pushed forward the transformation of the supply chain system from a passive production mode to a proactive production mode with more flexibility, hence enhancing the elasticity of the supply chain.

Latest operational update for the second quarter of 2022

For the second quarter ended 30 June 2022, 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-teens decline on a year-on-year basis. In terms of channels, retail (direct operation) channel registered a high-teens decline and wholesale (franchised distributors) channel registered a high-teens decline, while the e-commerce virtual stores business registered a low-single-digit increase on a year-on-year basis.

For the second quarter ended 30 June 2022, the retail sell-through of LI-NING POS (excluding LI-NING YOUNG) for the overall platform registered a high-single-digit decrease on a year-on-year basis. In terms of channels, offline channel (including retail and wholesale) registered a high-single-digit decrease, with both retail and wholesale channels decreased by high-single-digit, while the e-commerce virtual stores business registered a mid-single-digit increase.

As at 30 June 2022, the total number of LI-NING POS (excluding LI-NING YOUNG) in China amounted to 5,937, representing a net increase of 65 POS since the end of previous quarter and a net increase of 2 POS since the beginning of this year. Among the net increase of 2 POS, direct retail accounts for a net increase of 100 POS, and wholesale accounts for a net decrease of 98 POS.

As at 30 June 2022, the total number of LI-NING YOUNG POS in China amounted to 1,175, representing a net increase of 40 POS since the end of previous quarter and a net decrease of 27 POS since the beginning of this year.

Implement the strategy of “Single Brand, Multi-categories, Diversified Channels” to upgrade LI-NING’s experience value

Continue to develop the layout of functional product systems and strengthen the technology-driven image for the brand

During the period, we continued to put greater efforts in the development of our five core categories, namely basketball, running, fitness, badminton and sports casual. Focusing on innovative sports technology, we continued to expedite the development of functional product layout to demonstrate the sports DNA of the brand. In addition, through delving into elements of both the Chinese culture and sports culture, we have created a new image of professional and fashionable sports products.

In terms of professional products, we continued to enhance the technological research and development and focus on product technology upgrades. Striving to make breakthroughs in technological exploration so as to further appeal to consumers, we constantly consolidated the professional attributes of LI-NING brand to foster brand reputation.

- Running category continued to expand its product matrix of professional running shoes with a focus on the technological research and development and improvement in shoes’ performance. Employing the innovative “BOOM FIBER” (䨇絲) technology for the entire series, the high-end racing shoes “Feidian” (飛電) was the first-of-its-kind to achieve innovation breakthroughs in exploring the technologies for the uppers. Apart from helping top athletes to improve their sports performance, the product also significantly raised the professional standard for LI-NING’s racing products, thereby successfully building a technology-driven image for the brand. With the “LI-NING BOOM” (李寧䨇) technology, “Super Light 19th” (超輕19) adopted differentiated midsole designs 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 became the best seller in the running shoes market during the first half of the year.
- We continued to achieve breakthroughs in our basketball products categories and consolidated our reputation as a professional brand in the industry. The “Yushuai — BOOM” (馭帥—䨇) series continued to launch color options for new story themes in a bid to expand the market for high-end basketball shoes and further consolidate the brand’s market position as a top-notch product. Retaining the excellent reputation of the All City series for on-site performance, “All City 10” (全城10) upgraded the midsole configuration of the “LI-NING BOOM” (李寧䨇) on the entire foot to further boost its on-site performance. The product has become the most popular on-site combat basketball shoes in terms of sales performance in the first half of the year by adopting the classic cotton candy color of the WADE series. Besides, the “Sonic 10” (音速10) continued to launch color options for the All-Star sponsored edition, which was exposed at the CBA All-Star photoshoot stage. The “LI-NING BOOM” (李寧䨇) technology was applied in the “Sonic” (音速) series for the first time, allowing more consumers to experience our professional basketball shoes products.

- We continued to upgrade our badminton category in terms of the professionalism of equipment, shoes and apparel products. During the period, key racket products such as “Thunderstorm 90 Dragon MAX” (雷霆90龍MAX), “Thunderstorm 90 Tiger MAX” (雷霆90虎MAX) for attack-oriented players and “Shadow 700” (鋒影700) for speed-oriented players achieved record performance and gained high recognition from the market. We launched the badminton shoes “Blast PRO” (疾風PRO), which used a large-area 3D-shaped carbon fiber plate on the shoe body to improve the overall stability. To avoid sliding, we used high-intensity twisted fabric for the uppers, which also increased the softness and breathability. In terms of apparel products, we released the jersey “Infinity Charm” (致力無限), which applied 3D fluted machine-processed fabric to accelerate dissipation of moisture, ensure breathability and provide a quick-dry, cool and refreshing sports experience. The jersey was worn by a number of international champion stars during competitions and helped enhance their on-court performance, hence gaining good reputation from consumers and creating the technology-based image of the brand and its professional influence for sports products.
- The fitness category continued to be oriented with functions and technologies with a view to improving sports experience and youthful design. During the period, we launched “AIR FIBER”, a creative air fiber fabric technology that offers high-quality, elastic and simple functional design. From the perspective of consumer experience, we have newly upgraded our technology and fabrics based on the LI-NING AT technology platform to enhance the functional and technological attributes of products. We also launched our brand new quick-dry technology “AT DRY ULTRA”, the quick-dry performance of which significantly outperformed the national standards, thus providing consumers with a more comfortable sports experience. Furthermore, we have expedited the development of women fitness product mix with “Qiaoqiao Pants” (翹俏褲) as our key offerings for fitness scenarios. “Qiaoqiao Pants” (翹俏褲) adopted the new INNOLOCK™ shape-enhancing fabric technology to provide support for the body with a stronger sense of wrapping, thereby optimizing the contour lines while ensuring flexibility during exercises on the basis of kinesiology and ergonomics.

In respect of sports casual, we continued to develop functional products with sports fashion attributes, Chinese cultural elements as well as sports DNA of LI-NING brand in a bid to appeal to young consumers and increase our brand value on a continuous basis.

- Apart from retaining the fashionable and avant-garde design, the WADE series continued to explore the balance between fashion and professionalism. Sales of both original and infinity editions of “Way of Wade 9” (韋德之道9) under the Way of Wade series continued during the first half of the year. Since the release of the special color edition “Coming Home” (回家) at the beginning of the year, the 9th generation of the Way of Wade series has finally come to a successful end with the launch of the latest edition “Goldrush” (逐輝). We also rolled out the “Way of Wade 10” (韋德十年) series with a focus on “professionalism, technology and fashion”, demonstrating Wade’s sportsmanship towards basketball career in the product design. Meanwhile, with the stylish NBA player D’Angelo Russell as the product spokesperson, our international brand image featuring youth and basketball culture was further strengthened, which helped to inspire more young consumers and enhance the loyalty of our existing customers.
- By integrating fashion trends with the culture of street basketball, we launched themed story packs for our “BADFIVE” street basketball series, aiming to promote a street basketball fashion style for all scenarios on and off the basketball court and consolidate the image of “BADFIVE” as a streetwear series among young consumers. In every season, we launched color-options’ story packs of “BADFIVE 2” (反伍2) outdoor basketball shoes which were integrated with the apparel of the current season in order to offer more mix-and-match ideas. In respect of “Rookie” (新秀Rookie), our footwear product featuring basketball culture, apparel collections with matching color tone as well as the PE edition customized for the NBA stars were released, with a view to creating footwear product incorporated with exclusive basketball elements and culture, thereby satisfying the needs of consumers for daily fashion styling. Being inspired by the tale of “Borrowing Arrows from Your Enemy” (草船借箭) in the Chinese culture, we combined the “Deception is fair in war” (兵不厭詐) series with April Fools’ Day to convey a basketball fun story of “putting the defender on skates” (晃倒對手) on the street basketball court.

- For sports casual series, we strived to explore the fashion trend and culture of sports, catering to consumers’ needs in their daily lives while developing unique advantages of our products by creating storylines featuring our distinctive brand DNA. Embodying the ceremonies in relation to the Chinese New Year, the “Rich Everyday” (日進斗金) series demonstrated the fashion style exclusively for the Year of the Tiger and the joy of the Chinese New Year through incorporating elements of “Lucky Tiger” (招財虎) and “ethnic pattern” into the design. For female sports casual series, we launched various products under the Sakura series which showcased the beauty of cherry blossoms in full bloom by incorporating elements of cherry blossoms and pet patterns, so as to echo with female consumers leveraging the fashionable product design. During the period, inspired by the rock art in the Altay Mountains, Xinjiang, LI-NING brand launched its first snowboarding series, namely “Snowfield Exploration” (覓境雪行), which incorporated design elements such as snow lotus from Tianshan and ethnic jacquard, exhibiting the charm of the traditional Chinese culture. In addition, we applied more advanced and professional wind- and water-proof breathable fabric “Gore-Tex” in a bid to bring skiing enthusiasts comfortable and pleasant sports experience.
- China LI-NING continued to demonstrate the diversified possibilities of the integration of the Chinese culture and sports fashion trends, which maintained interactions with young and fashionable consumers. Practicability of products was closely integrated with fashion trends by leveraging the technology platform. During the period, the Company entered into collaboration with the non-fungible token (NFT) number #4102 of the Bored Ape Yacht Club to integrate the concept of popular virtual products in the blockchain and NFT sector with products in physical industry and real products, based on which we created the “Bored Ape Fashionable Sports Club” (無聊猿潮流運動俱樂部) product series and drew a great deal of attention from the industry. Furthermore, we launched the thematic series of “Imagine the Impossible” (意想天開) for Spring/Summer 2022. Based on the characteristics of the lifestyle of Miao people, the product design adopted the art design concept stemming from the nature of tracing the origin, setting another example of unfolding the Chinese culture in sports fashion.

Continuously promote comprehensive marketing matrix with strong emphasis on the professional and sports casual attributes of products

With a focus on the characteristics of the professional functions and sports casual category, we continued to push forward our comprehensive marketing resources layout. Continuous exposure of our professional products through sports stars and professional competitions as well as promotion in tandem with hot gossips have further expanded 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 aspects among young consumers. We collaborated with variety shows, media and artists comprehensively and engaged the committed resources from various major platforms for multi-dimensional exposure of our products.

- In terms of basketball, leveraging the reputation among consumers built up last year, the performance of the “BADFIVE 2” (反伍2) series continued to grow. Each season, we launched integrated color options based on the feature story of the current season. During the period, NBA star Fred VanVleet made the debut of our “BADFIVE” series basketball shoes on the NBA court, exposing our products to worldwide basketball fans. Besides, we launched the integrated shoes, apparel and accessories package under the “Deception is fair in war” (兵不厭詐) series, which incorporated Chinese culture stories with the product design. Through creative collaboration with “Bottled Joy” (嘖嘖桶), a leading sports water bottle brand, we developed fashionable basketball products under “Deception is fair in war” with a view to enhancing the values created from the purchase of professional basketball products by consumers.
- For our running products, our “Super Light 19th” perfectly integrated the insights of new runners with its product functions. We carried out the long-cycle promotion plan throughout the year under the promotional theme of “Just Wanna Run” (忍不住想跑). Greater efforts have been devoted in the development of super-light products with multiple professional elements adopted. Meanwhile, the goal-setting challenge campaign was held at retail stores to pave way for building initial reputation. We also collaborated with hundreds of running groups across the country to foster full-scale experience and result of word-of-mouth marketing of the “Super Light 19th” running shoes by directly reaching out to the core runner population.

The “Shadow Series” (絕影系列) remained focused on its professional functions and continued to create a new image of professional and fashionable running shoes. In collaboration with the Soulland brand, we successfully established our presence in large shopping malls and expanded into innovative channels, which sparked huge popularity amongst fashionistas. In the meantime, we further explored the inner world of runners while running, which attributed to our successful access to the fashion and handmade figure sectors and hence created extensive promotional contents, thereby expanding the target groups of our professional running shoes continuously.

- As to our badminton products, we continued to adhere to focusing on professionalism. With the promotional theme of “We match better with you” (羽你更合拍), we promoted the products on self-media platforms such as WeChat, Weibo and Douyin (抖音), and then synchronously on platforms including industry media and public channels so as to continuously enhance brand awareness among consumers. During the period, the brand collaborated with Goh Jin Wei (吳堇溦), who won the BWF World Junior Championships and the girl’s singles title at the Youth Olympic Games, and Loh Kean Yew (駱建佑), who won the men’s singles title at the BWF World Championships, in order to continue expanding the team of Li Ning badminton sponsorship resources. Under intensive cooperation with certain vertical platforms and further development of KOL operation, we launched online campaigns and successfully created a number of hot-selling products, which boosted the brand reputation and recognition of our products among customers.
- For women fitness, we communicated our new brand attitude, “For Me, Anything Is Possible” (我，一切皆有可能), to customers. Featuring Elaine Zhong (鐘楚曦) as our brand spokesperson, street dancer Wang Run (王潤), surfer Monica and rock climber Silang (四狼) in a short video series, we conveyed the brand attitude of valuing women’s power to general consumers, swiftly empowered this product category with a self-confident, self-respect, beautiful and powerful image of women fitness. Through collaboration with stadiums, instructors, teachers and KOLs of yoga, cross-fit and professional choreography, we promoted the reputation of professional women fitness products, reached out to certain vertical sports groups and consolidated the professional image of women fitness product category.
- For the sports casual, we continued to push forward the “Rich Everyday” (日進斗金) series and further promoted the Chinese cultural connotation in the series products. Through integrating entertainment with sports marketing resources, we enhanced the consumer experience on the culture embedded in the products. Oriented with traditional Chinese festivals, culture and our brand history, we further expanded our exposure leveraging the social media platforms actively used by the target groups. At the same time, we also seized opportunities arising from festivals such as Valentine’s Day and Dragon Boat Festival to create marketing buzz. In addition, we increased the market recognition of our products by way of creative still life and dissemination through the media.
- For marketing campaigns with entertainment, we integrated them with product promotion to create more abundant promotional elements so as to further develop fan economy. We engaged Xiao Zhan (肖戰), our product spokesperson, to shoot promotional video series “Rich Everyday” in order to increase the share of voice and sales of the same product. In addition, we expanded collaboration with more artists in different areas. With a focus on fashionable aspects which young consumers adore, we collaborated with the rapper, Vava (毛衍七), during the period to exhibit the brand’s fashion style in the rap community and to explore the infinite possibilities of street culture. With the theme of “boring is not boring”, China LI-NING’s “Bored Ape” series launched a time-bound pop-up event in Sanlitun (三里屯), Beijing, and invited Bored Ape #4102 to be the temporary manager of the pop-up store. Combining elements such as youth culture, extreme sports and fashion, the event created surreal experience for consumers.

Promote the upgrade of channel image with a focus on expansion and optimization of channels so as to improve customers' shopping experience

During the first half of 2022, the Company remained focused on optimizing the channel structure and enhancing the channel efficiency, while increasing the quality of market coverage and stores by reducing the number of stores with low efficiency. During the period, the Company launched big stores with high efficiency including flagship stores and benchmark stores on a continuous basis, while optimizing the store structure by accelerating the closure of low-efficiency and small stores. The Company continuously put greater effort in expanding channels, such as shopping malls and outlets, through facilitating the establishment of big stores and optimizing store layout. In response to the uncertainties brought by the pandemic, the Company developed a mechanism for communication and negotiation with commercial entities and groups with an aim to optimize channel costs.

During the period, the Company continued to enhance the visual image of its stores and focused on facilitating the development of the 8th generation image store, at the same time renovating and upgrading the old image stores. As of 30 June 2022, the percentage of 8th generation image stores has increased to more than 50%.

As of 30 June 2022, 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 7,112, representing a net decrease of 25 POS as compared to 31 December 2021. The number of distributors was 54 (including sales channels of China LI-NING stores), representing a net decrease of 11 as compared to that of 31 December 2021. The number of POS breakdown as of 30 June 2022 is as follows:

	30 June 2022	31 December 2021	Change
LI-NING Brand			
Franchised	4,672	4,770	-2.1%
Directly-operated retail	1,265	1,165	8.6%
LI-NING YOUNG	1,175	1,202	-2.2%
Total	<u>7,112</u>	<u>7,137</u>	-0.4%

Number of LI-NING Brand POS by geographical location

Regions	30 June 2022			31 December 2021			Change
	LI-NING Core Brand	LI-NING YOUNG	Total	LI-NING Core Brand	LI-NING YOUNG	Total	
Northern Region <i>(Note 1)</i>	3,075	720	3,795	3,034	756	3,790	0.1%
Southern Region <i>(Note 2)</i>	2,862	455	3,317	2,901	446	3,347	-0.9%
Total	<u>5,937</u>	<u>1,175</u>	<u>7,112</u>	<u>5,935</u>	<u>1,202</u>	<u>7,137</u>	-0.4%

Notes:

1. The Northern region includes provinces, municipalities and autonomous regions covering Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Shandong, Henan, Heilongjiang, Jilin, Liaoning, Shaanxi, Ningxia, Qinghai, Gansu and Xinjiang.
2. The Southern region includes provinces, municipalities, 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.

Continue to improve product management mechanism and strengthen the management of the total inventory to expand professional sports product matrix

During the first half of 2022, the product management department continued to optimize customers' shopping experience. With key products as the core, the Company enhanced the operation efficiency through improving inventory level and lowering the probability of being out-of-stock or short-in-size.

- Continuously pushing forward product planning and optimizing the operating mechanism with the synergy of “merchandise planning”, “promotion and marketing planning” and “consignment site planning”, it enhanced the precision sales and achieved maximum efficiency of core products. With a focus on story packs, the Company enhanced the mechanism of assigning regular tasks to stores, specified the requirements for the consignment sites to follow and perform, and continued to enhance the standard of consignment sites.
- Oriented with the targets of annual business volume and inventory control, the Company established the management mechanism for the monthly target inventory and monitored the implementation of the mechanism on a weekly basis so as to analyze the soundness of inventory, identify inventory risks, formulate and implement inventory control strategies. At the same time, based on the quarterly and annual target inventory ageing structure, the Company accelerated destocking of old inventories, ensured the target proportion of new inventories and further optimized the inventory ageing structure. Besides, it implemented channel inventory management and control effectively and increased inventory operation efficiency, thereby fulfilling the vision of “doing business best with more reasonable inventories”.
- The Company continued to focus on the research and development of functional products. With professional running and professional basketball products as the core, it expanded the product matrix of its core technology platform “LI-NING BOOM” (李宁䨻) and ensured the depth of the product matrix in order to prevent from being short-in-color and short-in-size. Focusing on showcasing the professional product matrix of the core technology platform, the Company carried out display and promotion of overall matching outfits with professional shoes and apparel products in order to foster product attraction at stores.

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

During the first half of 2022, the Company remained focused on the exploration of a profitable single-store operation model and further developed the headquarters' functions and the store business. Leveraging the channel planning which aligned with the needs of future business development, the implementation of the execution standards at stores was expedited.

- The Company continued to enhance operation efficiency of big stores. Based on the three directions of “establishing platform for headquarters”, “enhancing operation efficiency of stores” and “developing standardized retail operation system”, the Company has promoted the implementation of the overall operation model for big stores. During the period, the Company accelerated the establishment of national model stores and put into practice the operation model for big stores. Through the operational management of and empowerment to its core big stores, the Company further polished and perfected the existing management mechanism and business model. Looking forward, the Company will expedite the nationwide replication of the business model of model stores in big stores and new big stores to be opened in the future in a bid to simultaneously improve the business efficiency and operation efficiency of retail stores.

- By fostering close cooperation of its retail operation with the retail market, the Company further expanded the market influence of LI-NING’s professional sports products leveraging the sports advisors at its stores. Besides, with the sports marketing campaigns rolled out in core cities in the PRC, the Company has increased the popularity of the professional sports products under the LI-NING brand in the market. During the period, in tandem with the promotion of newly completed flagship stores across the country, the Company implemented the normalized operation mechanism for sports marketing in core stores and business districts with a view to enhancing the professional attributes and operation efficiency of its brand. Meanwhile, the Company further improved consumers’ sports experience through sports marketing, and pushed forward the development of its retail end business through the implementation of its sports resources at stores while continuing to improve the sports experience of the customers.
- Adhering to the upgraded LI-NING Retail Operation Manual, the Company completed the first round of training in relation to the retail manual. It also established an internal supervision mechanism in line with the management requirement of the operation standards. In the second half of the year, the Company will strengthen the training and application of the manual at retail stores, and verify the result of implementing the related standards and improvement in operation of retail stores through the internal supervision mechanism. Besides, the Company will drive the cooperation between the headquarters and retail stores for business improvement, while reinforcing the implementation of operation standards at stores. With ongoing improvement in implementation standards and management mechanism, the Company will foster a business environment with dynamic retail operation standards.
- Capitalizing on the continuous optimization of the retail operation system platform, the Company continued to improve its capabilities in management of retail business. During the period, the retail operation department cooperated with the headquarters and retail management department to reinforce the implementation of promotional events at retail stores, and build a closed-loop business improvement mechanism as well as a business management mechanism that is “product-oriented with a focus on retail operation synergy”. In the future, the Company will continue to optimize the business management mechanism, aiming to further leverage the driving force of the retail operation platform and realize consistent growth of operating efficiency at stores.
- Based on the retail talent system for sustainable development, the Company placed emphasis on nurturing of retail talents. With synergistic cooperation between the employee training department and human resources department, the Company formulated the City CEO Cultivation Scheme, in a bid to establish a regional operation model centering on core cities, at the same time cultivating retail operation talents to develop expanded workforce for the transformation of retail.

Continue to further optimize the logistics network, enhance logistics informatization and improve logistics service capability and quality

In the first half of 2022, the Company continued to propel the reform of logistics network, accelerate the establishment and scalable development of regional central warehouses, and push forward the development of digitalized logistics system, with a view to enhancing the operating efficiency of logistics system and providing strong logistics support for retail management.

- The Company continued to propel the reform of logistics network. Following the establishment of the East China Central Warehouse last year, the Company commenced the development of central warehouses in North China, Central China and South China, as well as merging of regional warehouses during the period. In the second half of the year, the Company will continue to push ahead the merging of regional warehouses in the remaining regions and is set to build a regional central warehouse that covers retail and wholesale businesses on a nationwide scale.

- The Company continued to increase the proportion of direct delivery of products at stores, as a result of which the transportation time of products from factories to stores was substantially reduced. In particular, the proportion of direct delivery of the East China Central Warehouse witnessed a remarkable improvement. Driven by the establishment and scalable development of regional central warehouses, the proportion of direct delivery will further increase in the future. In addition, the proportion of direct delivery of products at wholesale stores will also ramp-up gradually, thereby optimizing the delivery speed of products through different channels.
- Stepping up its effort in enhancing logistics informatization, the Company launched a logistic management platform, through which it gradually enhanced the accuracy of product-related logistics information. Looking ahead, more information-based modules will be added to ensure an improvement in transparency of orders throughout the logistic information chain. During the period, upon the successful testing of the Automation POC (Proof of Concept) Project in the East China Central Warehouse, the East China Warehouse was put into full operation in June, which is conducive to improving services at the retail level and the efficiency of logistics operation. In the second half of the year, the Company will gradually promote automation in other regional central warehouses so as to rapidly enhance the overall efficiency of logistics operation.

Continue to optimize the Omni-channel strategy and boost operation efficiency with the use of digitalized systems

In the first half of 2022, the e-commerce industry faced huge challenges under the dual impact of pressure from the high base last year and the repeated yet sporadic outbreak of pandemic this year. Amidst the weak consumption environment, the e-commerce of Li Ning Company still managed to achieve excellent performance in the first half of the year, outperforming its plan at the beginning of the year. Benefitted from the early preparations and deployment by the team, as well as the long-established digitalized operation, the e-commerce office of Li Ning Company in Shanghai had not experienced prolonged suspension of operation and production in the first half of the year, and ensured steady and orderly progress of various operation activities with its best endeavors. During the period, the e-commerce of Li Ning Company focused on facilitating further development of functional products, which has in turn driven significant improvement in the efficiency of professional products.

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, the Company made steady and orderly progress in the development, restructuring and optimization of the membership and Omni-channel systems. The turnover from cross-channel transactions through diversion of registered members online to offline transactions almost doubled from that of the previous year, resulting in further 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 into the second half of the year, the e-commerce of Li Ning Company will do its utmost to adjust and resume its retail operations in the post-pandemic era. Consistent efforts will be made to attract core consumers' attention and further build up the membership and omni-channel business ecosystem in a bid to enhance the operation efficiency of the e-commerce platform and ensure sustainable growth of the e-commerce business.

Optimize supply chain resources and strengthen product quality control continuously to improve supply chain capabilities in all aspects

In the first half of 2022, the Company continued to strengthen the product quality control over its supply chain with a focus on providing consumers with high-quality products and improving users' experience and satisfaction. During the period, the Company established a more secure, reliable and synergistic regional supply system with flexible deployment and abundant production capacity, which has enhanced its resilience against supply risks. Meanwhile, the Company continued to standardize and optimize the supply chain management processes and models with an emphasis on high-quality supplier resources, and pushed forward the development of the "value supply chain" with higher efficiency with an aim to produce and provide end-consumers with high-quality products.

- Engaged in research and development of innovative technology to drive business growth and increase the sales proportion of functional products, aiming to offer industry-leading functional materials to the professional sports sector. With strong emphasis on the research, development and application of technological products with champion traits, the Company focused on the five core areas of running, basketball, fitness, indoor sports and women's sports, and strengthened the cooperation with quality supply resources and professional research institutions to upgrade and iterate on its core materials.
- Continued to establish and optimize the supplier matrix and production capacity layout, with a view to promoting safe regional supply and enhancing the risk resistance capability of the supply chain. Consistent efforts have also been devoted to consolidate the supply management, as well as enhance regional deployment and ancillary construction to support business development in the future. The Company has also strengthened the collaboration with core suppliers to lock-in the production capacity of major suppliers, and dynamically adjusted the production plan according to the market environment.
- Consolidated quality supply resources and instilled the relevant products and professional technologies into the brand system with tightened product quality control. The Company has strengthened the strategic cooperation with external parties to further build up its product competitiveness. The enhanced product quality standards have been implemented throughout the quality chain to regulate workflows and optimize procedures, and were rolled out to the entire work chain progressively. With the clear strategic goal of ensuring quality and in pursuit of zero-defect products, the Company has also strengthened its quality management and control in order to ramp up the professional production capabilities of suppliers for their advantageous products.
- Established the value supply chain by adhering to the principle of reducing wastage and optimizing cost on a continuous basis. Through the establishment of the "strategic cost" system, the Company has expanded the application of the bulk purchasing model. Meanwhile, by paying close attention to market trends and setting up the response mechanism, the Company has effectively controlled the rising cost and hence improved the price-performance ratio. In addition, the Company continued to push forward scale production and reinforce the transition from "passive production" to "proactive production", with an aim to keeping production costs under control in tandem with product optimization. With the development of digitalized system and optimization of production processes, the Company has increased the use of digital analysis to expedite the decision-making process.
- Continued to strengthen the development of corporate social responsibility along the supply chain, whereby the use of forced labor is prohibited in the operation of suppliers, and proactive measures have been adopted to eliminate risks in relation to forced labor in the supply chain. The Company will enhance its due diligence investigation to determine whether forced labor practices exist in the supply chain, and evaluate the suppliers' performance regarding corporate social responsibility, including anti-forced labor measures, annually by way of questionnaire and internal and external audits. Where an instance of forced labor by any supplier comes to light, the Company adopts a zero-tolerance policy and has the right to terminate the cooperation relationship or suspend the introduction procedure of the supplier until the completion of the relevant rectification measures and upon confirmation by the Company.

NEW BUSINESS

LI-NING YOUNG

In the first half of 2022, LI-NING YOUNG continued to position itself as “the fashionable professional sports kidswear brand originated from China” and progress towards a professional sports brand with a focus on upgrading the product technology, stepping up its efforts in research and development, as well as building up the professional product matrix for kidswear. The Group also further enhanced product and channel efficiency and continuously promoted business growth on the basis of the digitalized system.

- In respect of products, the Group optimized the professional product matrix for kidswear by establishing a product matrix with professional basketball and physical training as its core. It also joined hands with the technology research and development department to upgrade product fabrics based on the characteristics of various teenagers’ sports events, at the same time increasing the investment in the production of professional sports apparels, footwears, equipment and accessories. Besides, the Group expanded the application of technological platform for children sports products and launched professional products such as the teenager version of “Super Light 19th” (超輕19) and “All City 10” (全城10) that integrate the “LI-NING BOOM” (李寧轟) technology. Looking forward, the Group will continue to increase the proportion and optimize the matrix of professional products by establishing classic models for its professional products and enhancing the technology attributes, so as to further highlight its brand image as a professional sports brand for children.
- In respect of product management, the Group continued to improve its product operation efficiency and optimize the management over product procurement to match closely with the assortment model. It has also strengthened the business structure comprising self-operation and distributors, as well as raised the proportion of its core products. In order to enhance the product operation capability of distributors, the Group formulated business strategies on a monthly basis and implemented refined product management under the concerted efforts of the distributors with product operation standards and regulations in place. Moreover, the Group adopted dynamic management over inventory level and structure to closely monitor the inventory of various channels and optimized the order management model to ensure a healthy inventory level.
- For channel development, we continued to increase the proportion of stores in high-tier markets, optimize the types of stores and consolidate the resources of low-efficiency stores. More efforts have been devoted to the development of direct operation business and channels, consolidation of distributors’ resources and optimization of channel structure. Furthermore, the Group pushed forward the development of high-efficiency stores and model stores with store efficiency enhancement as the main business focus. It has also perfected the digitalized system to strengthen its management capability of retail stores. In order to gradually improve the quality of distributors and establish distributor teams that are able to meet the development needs of the Li Ning brand in the future, the Group has optimized the distributor matrix and established the distributor evaluation system.
- For marketing, with an emphasis on professional sports products and Chinese cultural element, we focused on promoting the teenager version of the professional running shoes “Super Light 19th” (超輕19), organized a Lunar New Year campaign with the theme of “Year of the Tiger” (如虎添翼) and launched a crossover story-packed theme of “Nian Nian You Yu” (年年有魚) featuring the mysterious oracle script during the period. We not only endeavored to advocate the Chinese culture, but also strived to establish the image of a professional sports brand. In the second half of the year, devoting continuous effort in the integration of professional sports categories and Chinese cultural element, we will promote our professional basketball shoes series, such as “Yushuai” (馭帥) and “Shooting Star” (球轉星移), and will further introduce apparel products that are infused with Chinese cultural features. Looking ahead, the Company will continue to develop the business in campuses by supporting the regular competitions held by the Ministry of Education and pushing forward proposals of competitions in various regions, at the same time holding different sports events, such as football summer camps, football winter camps and junior and high school league games.

As of 30 June 2022, LI-NING YOUNG business covered 31 provinces, municipalities and autonomous regions with a total of 1,175 stores. Looking forward, we will continue to intensely develop our kidswear business. Leveraging the LI-NING brand, we will enhance the marketing efforts of the kidswear brand, take a product-focused approach to upgrade core product technology and design, and advance the exploration of market demands and product categorization. Consistent efforts will be devoted to channel expansion, retail operations and supply chain resources, so as to develop LI-NING YOUNG into a leading professional sportswear brand for kids in China.

HUMAN RESOURCES

In the first half of 2022, based on the business strategies of the Company, the human resources department continued to develop the internal operation system and foster a four-in-one management model that covered organization, talent, incentive and culture.

- Regarding organisational development, the Company continued to optimize organisational structure, boost efficiency and enhance synergy by strengthening organisational capacity and allocating human resources. Through establishing a product matrix management model, the Company further improved the capabilities of sales headquarters in coordinating various functions and upgraded the organizational structure of the wholesale business headquarters. The Company also implemented organizational integration in respect of LI-NING YOUNG, with a view to achieving organizational optimization based on IT digital transformation.
- In terms of talent management, adhering to the principle of building teams of hand-picked elites, the Company controlled the number and quality of employees upon recruitment, explored and recruited talents for key positions to drive business transformation on a continuous basis. The Company conducted a targeted review on the succession pipeline of talents with an emphasis on promoting talent transformation of key wholesale and retail staff, at the same time continuing to explore young talents and nurture outstanding talents with high potential.
- In terms of remuneration and performance management, the Company continued to enhance its market competitiveness in terms of remuneration based on the philosophy of value allocation. The Company continued to implement the incentive sharing system and motivate the organizational vitality by setting challenging targets so as to enhance the efficiency of human resources on an ongoing basis.
- Regarding culture and staff relationship, the Company further developed its core values and code of conduct as part of its consistent efforts to foster a trustful, self-disciplined, open, transparent and fair working environment. Cooperation with business partners shall be founded on the fundamental principles of maintaining a high standard of corporate social responsibility, which reflected the Company's pursuit of contributing to the society. The regulations related to staff management have also been improved in a bid to create a fair and harmonious working atmosphere. Meanwhile, the Company implemented the concept of anti-forced labour practice throughout the industrial chain of Li Ning Group and constantly optimized the welfare system, so as to improve staff satisfaction and engagement and increase their sense of honor and mission.

In the future, the Company will continue to enhance its organisational efficiency, improve the talent supply chain system and optimize 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 30 June 2022, the Group had 4,591 employees (31 December 2021: 4,019 employees), among which 4,399 employees were at the Group's headquarters and retail subsidiaries (31 December 2021: 3,838 employees), and 192 employees were at other subsidiaries (31 December 2021: 181 employees).

OUTLOOK

In the second half of 2022, continuing to pursue the strategy of “Single Brand, Multi-categories, Diversified Channels”, we will push forward the business development, enhance retail operation capability, further promote LI-NING’s experience value and the sustainable growth of the Company’s results constantly:

- In respect of products, we will continue to put greater efforts in research and development on the product functions and technological innovation. We will provide customers with more professional and functional sports products integrated with fashionable elements, which will better showcase sports fashion and culture, provide consumers with diversified consumption experience, improve customer loyalty to LI-NING brand and expand our brand influence;
- In respect of channel development, we will improve operation efficiency in full swing, continue to seek expansion of shopping mall channels and big stores with high efficiency, expeditiously achieve the synergistic operation of the omni-channel by developing diversified channel network, further enhancing the efficiency of our channels;
- In respect of retail operation and supply chain, focusing on both product and consumption experience, the Company will improve the standards of store operation and store management ability to drive the transformation of retail modes. The supply chain system will be further consolidated and optimized to boost our capabilities in terms of our own supply chain management and the application of technology and expertise resulted from the research and development;
- In respect of marketing, we will leverage big data and information technology to strengthen our marketing layout through digitalized technology in order to reach a wider range of consumer groups at different levels. Based on consumer demands, we will introduce fashionable elements into our professional products so as to increase the product appeal and brand awareness;
- In respect of new business, focusing on enhancing single store profitability and store efficiency, we will utilize resources flexibly, explore business opportunities and market potential in order to boost the sustainable business growth of the Company.

With China’s steady economic growth in the long run, the consumption market has been expanding, while the pace of consumption upgrade has been accelerating. Coupled with the national policies supporting sports and promoting the public awareness of physical fitness, the sports product industry has been developing rapidly. Based on its own advantages, the sports industry will seek further breakthroughs to create a new landscape of professional sports through its diversified and refined development. We strongly believe that the sports market 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 pace of the industry’s development, and seize market opportunities for proactive exploration and innovation. We will pursue the business philosophy of “Anything is Possible” in a bid to establish a more professional, fashionable and unique image for LI-NING brand.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its shares during the six months ended 30 June 2022.

EVENTS AFTER THE REPORTING PERIOD

The Group does not have any significant event requiring disclosure under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) that has taken place subsequent to 30 June 2022 and up to the date of this announcement.

CORPORATE GOVERNANCE

For the period from 1 January 2022 to 30 June 2022, the Company has complied with all the code provisions of the Corporate Governance Code (“CG Code”) contained in Appendix 14 to the Listing Rules with the exception of code provision C.2.1 of the CG Code.

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 six months ended 30 June 2022, Mr. Li Ning, the Executive Chairman and Joint Chief Executive Officer (“Joint CEO”) of the Company, and Mr. Kosaka Takeshi, the Executive Director and Joint CEO, jointly assumed the role of chief executive officer of the Company. Therefore, there was no separation of the roles of the chairman and the chief executive as both roles were undertaken by Mr. Li Ning during the period. 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 each other in performing the roles of the Joint CEOs, and create synergy effect which is in the interest of the Company and the shareholders as a whole.

The Company has adopted the “Model Code for Securities Transactions by Directors of Listed Issuers” (“Model Code”) contained in Appendix 10 to the Listing Rules regarding securities transactions by the directors and reminded directors of the Company regularly of their obligations under the Model Code. Following specific enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2022.

The audit committee of the Company, consisting of three independent non-executive directors, has reviewed the accounting principles and practices adopted by the Group, and has also reviewed the auditing, risk management, internal control and financial reporting matters, including the review of the interim results for the six months ended 30 June 2022.

The Company’s external auditor, PricewaterhouseCoopers, has performed a review of the Group’s interim financial information for the six months ended 30 June 2022 in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. Based on their review, PricewaterhouseCoopers confirmed that nothing has come to their attention that causes them to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

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

Hong Kong, 11 August 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.